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State of advance of work in respect of the General Objectives Steel and the restructuring of the Community steel industry - Information for the preparation of the Council of 27 June 1978

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State of Advance of Work

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The Commission attaches great importance to the definition of the new General Objectives Steel 1980, 1985 and 1990 in so far as they ought to constitute, as specified at the Council of 22 December 1977, the general framework within which the restructuring of the Community steel industry will be delineated.

A first draft of these Objectives was prepared during April; it primarily covers the determination of the steel demand and the adaptation of production plant to the latter in quantity terms. The other chapters - namely those on restructuring, the improvement of competitiveness, the labour requirements and the problem of finance - cannot be validly treated until after the discussion of the basic orientations.

The Commission is presently consulting the various interested parties on this draft. To date the Government experts and the steel industry representatives have been requested to give their opinions on it. The trade unionists, consumers and merchants will be consulted before the end of June.

The discussions which have taken place up to now have resulted in a substantial degree of agreement on the medium-term development of the demand for steel products. The Commission and the steel industry, conscious of the inauspicious outcome on the market of the existence of excessive stocks in relation to the forecast level of economic activity, are of the opinion that the evaluation of demand for steel products should correspond to normal market requirements. In other words the Community steel industry should avoid the introduction in its forecasts of production capacity the coverage of peak demands of short duration which essentially result from the build-up of speculative stocks.

Thus the internal demand for steel has been determined on the basis of two possible scenarios on the average development in steel consumption - namely an assumption of moderate economic growth corresponding to the lower limit and an assumption of a more favourable economic growth which can be distinguished from the former by a higher rate of development of national product and a structure of the latter which is better adapted to ensure a steady growth in steel consumption (larger share of gross fixed capital formation and of the consumption of consumer durables in the national product).

The balance of Community external trade for the forthcoming years takes into account a better adaption of the Community steel industry to the conditions of international competition.

The first results indicate that the record level of production in 1974 will only be reached (in the case of favourable economic development) for most products in 1985.

From these estimates, even though they are provisional, we can disengage the order of magnitude of the rationalization measures. On this subject it is important to note that the Commission and the steel industry are conscious that a sufficient profitability of the companies demands a rigorous adaptation of supply to demand. However, the problem remains in due course to define the modalities to achieve this aim.

Thus for crude steel and on the basis of a favourable economic development, the production capacity existing in 1978 exceeds by more than 25 million the capacity necessary to cover the requirements in 1983 (an excess of capacity of around 13%).

At the level of rolled products, the comparison of capacities existing in 1978 and estimated requirements for 1983 shows up to the present time significant excesses of capacities for almost all of the long products and, among the flat products, mjaor overcapacities in heavy and medium plate. For the rolling mills in total, the surplus is about 25 million tonnes or about 15% of capacity.

Thus the problem of the restructuring policy to be followed by the Community steel industry is only one of the readaptation of plant to the conditions of international competitiveness. It demands also a major effort to balance supply and demand, a necessary condition for the re-establishment of a satisfactory profitability of the Community producers.

The steel industry has already made a number of adjustments in the last few years which have meant that actual capacity in 1978 works out 10 million tonnes lower (202 million tonnes as against 212 million) than forecasts three years ago had indicated. In view of the foregoing, a further cutback of some 25 million tonnes of crude steel appears to be needed right away. How this is to be effected (shutdowns without replacement, putting plant on ice, &c.) will need to be determined after discussion among all parties concerned.

With this in prospect, the Commission in mid-May embarked on a series of bilateral discussions with all the steel enterprises in the Community, in order to establish from their medium-term programmes the impact of intended closures and investments on the development of production capacity, on the productivity of the Community steel industry and on levels of personnel employed. The Commission's main object in these talks, which will be continuing in the weeks ahead, is to ensure consistency between the various individual intetions and the General Objectives for Steel.

But although several expressions of intention to cut back capacity were voiced at the talks, the trends that emerged were still highly disquieting, notwithstanding the substantial rationalizations contemplated or decided on in some major Community steel-producing areas.

Thus excess capacity in longs is in some cases meaning the switching of investment programmes to the rationalization and expansion of flats and special-steels capacity, likely to result in merely shifting the problems of overcapacity.

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Moreover, enterprises are for the most part linking their rationalization drive to the principle of counterbalancing, which does often make it possible to prune some surplus capacity through more efficient utilization of plant, but in the final analysis yields a decidedly insufficient cutback overall.

Drastic cutbacks without replacement, and the scrapping of expansion schemes currently planned by the enterprises, therefore remain essential.

On the basis of the corpus of material it has assembled to date and of its ongoing discussions with the enterprises, the Commission will first endeavour to consider with the Member States' Governments, product complementarities between Community enterprises, with a view to achieving by appropriate means, including exchanges of schedules, in due observance of the ECSC Treaty rules, the most competitive production from the highest-performance plant.

The restructuring policy, involving as it basically does cutbacks in crude-steel capacity, must take account of regional and national social situations, and not jeopardize the operation of the most competitive plant. For the system to work, il will be necessary that all concerned, the Governments and Member States and the steel enterprises, should adhere to it and that the workers' representatives should be consulted. The Commission for its part will deploy the armoury at its disposal, namely its opinions on investment projects, the regulation of aid and the ECSC investment assistance policy.

The Commission is especially alive to the fact that for a restructuring policy to succeed there will need to be launched at the same time a reconversion policy of creating all possible alternative employment. It can hardly, however, give any sufficiently clear indication now as to the number of jobs which will be affected: not until the main line of approach of the restructuring process are known. In this connection it will draw up for the two sides of ECSC industry an analysis of the social repercussions of the steel crisis and the Community facilities available for tackling them.