

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 586 final

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STEEL

(Request for the Council's assent to the establishment of a
system of production quotas for the steel industry)

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INTRODUCTION

Since June, particularly at the Council meeting in July, the Commission has been warning the Council about the deterioration of the situation in the iron and steel industry.

Three sets of factors have affected the European iron and steel industry in recent months :

- (i) demand has dropped alarmingly since the end of the second quarter;
- (ii) the corresponding drop in production and prices has led to a deterioration in the firms' financial situation;
- (iii) the crisis measures introduced in 1977 pursuant to Article 57 are no longer operative, at least in the immediate future.

Unless Community action is taken, the situation will continue to worsen to a point where certain firms would soon be threatened and employment would soon be jeopardized throughout the sector above and beyond what is required by restructuring.

The Commission therefore finds that the conditions for applying Article 58 are satisfied and it must, as a result, ask for the Council's assent to the establishment of a system of production quotas for the steel industry.

This decision must be taken urgently, firstly to ensure that supply is to some extent adjusted to the demand on the market and, secondly, to support producers' efforts to re-establish the conditions in which the crisis measures can once again operate.

If measures of this type are to succeed, they need to be simple, quick, vigorous and shortlived. They will undoubtedly have to achieve their objectives by 30 June 1981.

I. Deterioration of the economic and social situation in the European steel industry

Demand for steel has dropped sharply since the beginning of the summer, leading to an overall drop in production varying from product to product. The rates of utilization have consequently dropped to the lowest levels ever recorded in the Community. This trend has been accompanied by an increasingly marked failure to keep to delivery programmes. The outcome has been an alarming fall in prices which, together with the sharp increase in production costs, has led to a deterioration in the firms' financial situation.

(a) Reduction in demand

There has been a reduction in demand on both the Community and world markets.

The reduction in demand on the internal market is due to the downturn in the economy.

According to the Commission's monthly business survey, the production forecasts for the main steel-using sectors show a distinct downward trend.

The following table indicates the extent to which the unfavourable replies concerning future production outweigh the favourable ones.

	April	May	June	July
Structural steelwork	- 4	- 6	- 3	- 13
Mechanical engineering	+ 4	- 2	- 9	- 14
Electrical engineering	+11	- 1	- 6	- 11
Motor vehicles and parts	0	- 6	- 12	- 34

Further evidence of the reduction in demand is provided by the rapid growth in the stocks of steel. Comparison between the supply of steel and the utilization thereof shows an increase in stocks of more than 3 million tonnes in the first six months of 1980 (this quantity is now having an adverse effect on the whole steel market).

There has been a substantial drop in demand on the world market because of the economic downturn in a large number of steel-importing countries. This reduction in demand on the world market has been increasingly intensified by the almost total disappearance of purchases by developing countries because of the financial difficulties caused by the increased energy prices. This trend is reflected in the new orders recorded by the Community steel industry both from the other Community countries and from non-member countries.

The following table compares the current situation with the corresponding months for 1979, which was itself a fairly poor year.

Orders recorded

	From the EEC	From non-member countries	Total
May	-14.3%	-15.1%	-14.5%
June	-13.6%	-11.1%	-13.0%
July	-18.5%	- 8.5%	-16.3%

The reduction in demand for flat products was particularly pronounced; for some time there has also been a sharp drop in demand for long products. This trend is reflected in the Community's crude steel production; in June it was slightly higher than in 1979; there was a drop of 7% in

July and of about 12% in August, compared with the same months in 1979. The drop for September can be estimated at more than 14%.

(b) Drop in the rates of utilization

The steel industry's survey of crude steel production programmes shows reductions in the fourth quarter of 1980 in a large number of undertakings of more than 20% in comparison with the fourth quarter of 1979.

This decline affects ^{absolutely} all undertakings located in the traditional steel areas.

This drop in production has led to a subsequent reduction in the rates of utilization. The rate of utilization - still as high as 70% in the first quarter of 1980 - fell to about 58% after the summer holidays.

The more pronounced drop expected in the fourth quarter will lead to a subsequent drop in this rate of utilization. In some undertakings the rate of utilization is already lower than 50%. However, in other undertakings, there has been some increase in production.

A divergent trend in utilization rates on a market on which the production required to cover requirements is dropping results in a large number of undertakings having to make sacrifices greater than those which would result from a fair burden-sharing policy. Of course, fair burden-sharing presupposes that the restructuring measures can be taken into account and that the actual situation of the undertakings is not falsified by public aids which do not comply with the aid code.

In the United States, where the rate of utilization has also fallen to a level of around 50%, a recovery has started by reason of a certain improvement in the internal economy. The rate of utilization of the Japanese steel mills remains at a satisfactory level of around 75%.

(c) Employment consequences

The drop in employment has resulted in a rapid increase in short-time working. The information received from a number of firms, especially those located in regions where considerable restructuring is already taking place, shows that short-time working has increased significantly.

The persistent worsening of the financial situation is forcing firms to depart from their long-term job-management programmes and to initiate early redundancies.

The present disorder makes it impossible to work out a consistent policy. As a result, Community steelworkers are again uncertain of their future, though the objective of restructuring is to recreate stability in the industry. In this context, the various conversion efforts needed cannot be implemented as effectively as is required.

(d) Consequences as regards firms' financial situation

With regard to prices, there was a certain amount of stability at the beginning of 1980. Since then, the situation has worsened, although fairly slowly to start with. The fall in demand mentioned above and the failure to keep to the delivery programmes have caused a fall in prices; in September this fall was roughly 13% on average compared with prices at the beginning of the year.

Actual prices for sheet show a reduction of DM 250* in comparison with the guidance prices, for coils DM 140, for concrete reinforcing bars DM 100 and for merchant bars DM 120.

On the other hand most of the factors of production / have also increased in price; this is particularly true of ores, coke, certain alloys, labour and overheads. The average rate of increase in costs throughout the Community is 20% for iron ore, 30% for fuel oil and more than 10% for electricity. The result is that production costs have gone up on average by about 5% in the Community since the start of 1980,

*Figures are expressed in DM, as is the custom on the steel market.

taking into account the rise in fixed costs due to the reduction in utilization rates.

The fall in prices and the increase in costs has meant that the financial situation of steel firms has changed considerably. At the beginning of the year, firms of average competitiveness were able to cover production costs with the prices they charged for steel products, but, now steel firms are losing an average of DM 100 to 120 per tonne, losses are already exceeding the depreciation costs and no longer allow all the variable costs to be covered.

This deterioration in the financial situation is so serious that the steel firms are once again obliged to make use of their own reserves in order to survive - if they had any reserves left after the first crisis period. Where reserves are already completely used up, indebtedness is forcing the firms either to cut down, or abandon altogether, their efforts at making the adjustments required in order to survive. In particular, they are being forced to prune, or even abandon, their investment programmes. The latest investment survey shows that expenditure per tonne of capacity at constant prices fell in 1979 to 5.6 EUA compared with 12 EUA for the previous five years. In 1980, the drop has been sharper still. Information received from firms shows that, in 1980, expenditure per tonne is going to be much lower than the results recorded for 1979.

This trend runs counter to the purpose of restructuring which, in a whole series of firms, has been interrupted by the financial situation. The Community's steel firms are in a situation in which it is impossible to achieve the objectives set under Article 3 of the Treaty: prices no longer cover depreciation or improvements in working conditions.

Pursuant to the general obligations which Article 3 imposes on the Commission, in particular to ensure the maintenance of conditions which will encourage firms to expand and improve their production potential, the Commission finds that the Community steel industry has been confronted with a period of manifest crisis since summer 1980.

II. The unsuitability at present of the crisis measures used hitherto

Under its general steel policy the Commission drew up delivery programmes, from January 1977 on, for some ECSC products in respect of which firms entered into voluntary commitments.

These programmes were accepted, at the start of the operation, by producers in the Community representing more than 90% of steel production, and the reduction in supply brought about by the programmes helped to stabilize the market situation and spread the sacrifices fairly between firms.

It has become increasingly apparent, however, that, as the crisis deepened, the programmes tended to be adhered to less and less. The table below shows the extent to which they have been exceeded over the last few quarters, especially in the case of flat products.

		D %	F %	I %	Benelux %	UK %
Long products (beams, merchant bars, wire rod)	III/79	+18	- 3	- 7	- 1	+ 2
	IV/79	- 4	+ 6	+11	+ 4	-
	I/80	+ 7	+ 2	+30	+16	-67*
	II/80	+ 4	+ 5	+27	+ 4	+10
Flat products (hot rolled steels, heavy steel plate)	III/79	+ 8	- 2	- 5	+ 3	- 5
	IV/79	- 6	+18	+ 2	+21	+13
	I/80	+10	+ 9	+ 6	+23	-83*
	II/80	+13	+ 4	+16	+25	- 3

* Affected by the strike.

The Commission has tried several times to improve discipline, and the measures applied have produced results temporarily. But at the same time, confidence between steel producers has deteriorated to such an extent that the delivery programmes have been departed from to an increasing extent.

In July 1980, two major producers refused to commit themselves to carrying out the delivery programme which the Commission proposed. This led other producers to adopt the same attitude.

From the beginning of the third quarter of 1980 firms ceased to accept any commitment vis-à-vis the Commission. To prevent the situation from worsening, the Commission took urgent steps designed to obtain a coordinated reduction of 10% in the production of crude steel in the second half of 1980 compared with the second half of 1979. The discussions which the Commission held with producers on this point were encouraging to start with, but in August, and more clearly still in September, a number of firms showed that they were unwilling to take the implementing measures needed to comply with the Commission's instructions. Its subsequent attempts, up to and including Friday, 3 October, have led the Commission to conclude, with regret, that Community steel producers are no longer able to accept voluntary discipline, mainly because there is no confidence among themselves. The resulting uncertainty makes it impossible for firms to draw up reasonable production programmes.

For the time being, therefore, the Commission is unable to influence the market situation through a voluntary coordination procedure.

As regards prices, the Commission undertook to publish, from May 1977, guidance and minimum prices for certain steel products. These measures had a definite effect over a fairly lengthy period. However, from the checks which it carried out in firms, the Commission has to concede that the price rules have been increasingly ignored.

The cyclical crisis in the steel industry has caused a price fall of unwarranted size, because producers have abandoned the discipline which they showed previously.

Most recently, in view of the producers' inability to counter the abrupt drop in demand with a reasonable pricing policy, the Commission and the producers together have examined the possibility of introducing a voluntary system of production quotas for several types of product and for crude steel.

It was then that the large majority of heads of steel undertakings clearly gave the Commission to understand that, because their recent and repeated efforts to re-establish between them the climate of confidence necessary to ensure the success of voluntary measures had failed, they now felt that no institution other than the Community was in a position to impose the measures they felt to be indispensable for restoring order.

The Commission is therefore obliged to note that, in view of the producers' position, the spirit of the provisions of Article 57 of the Treaty is for the moment no longer operative.

III. Introduction of a production quota system

The Community must immediately take action under the powers assigned by the Treaty of Paris with regard to the European steel industry.

Such action cannot be limited to organizing the market but must include a substantial measure of social relief because of the effects which the crisis will have on employment.

On the other hand, any action considered must take effect on the market as quickly as possible; as this is a crisis measure it must by definition be of short duration and not extend beyond 30 June 1981.

Finally, it must also fit into a context of continuing the steel policy pursued so far while at the same time reinforcing that policy where necessary.

The system under consideration is based on a number of principles:

- production quotas must be equitable but should have a sufficiently marked effect to ensure that production is adjusted to demand in a coordinated manner;
- equitable sharing of the quotas will be ensured by the non-discriminatory application of standard rates of reduction to all undertakings;
- the quota system must also allow for monitoring capable of detecting cases of excess production and provide for immediate and dissuading sanctions.

Although partly based on binding measures, the system calls for cooperation between enterprises at marketing level: for the main products, the production quotas set by the Commission must be reflected in voluntary delivery quotas. The delivery programmes fixed by the producers will be the decisive factor in speeding up a return to equilibrium in the various markets and in determining what decisions the Commission has to take with regard to production.

If the Commission succeeds by this means in laying the foundation for solidarity based on equitable sharing and therefore likely to lead to a successful voluntary system, it will immediately lift the obligatory production quotas. The Commission will also terminate the measure if the market situation improves to the extent that there no longer exists a manifest crisis.

These considerations led the Commission to envisage the following methods of application, which may be supplemented and fined down before the final decision is taken "on the basis of studies made jointly with undertakings and associations of undertakings", as prescribed in Article 58.

(a) Product categories

The Commission is preparing production quotas for four categories of rolled product:

1. Coil and strip rolled on special mills.
2. Heavy plate and universal plate.
3. Heavy sections (railway equipment, sheet piling, broad-flanged beams, other beams and other sections).
4. Light sections (coiled wire rod, concrete reinforcing bars and other merchant bars).

This covers about 90% of all rolled products.

To these quotas for rolled products the Commission is adding one for total crude steel production. This covers the steel needed for manufacturing the four groups of products as well as the 10% of products not covered by these groups. It should be noted that the production quotas cover all qualities of steel, i.e. ordinary steels, high carbon steels and alloy steels.

On the other hand, the possibility of excluding heavy plate used for the manufacture of large-diameter welded pipes for pipeline construction is being considered.

The production quotas will be delivered on the market taking into account the ratio between each undertaking's sales on the ECSC market and its export sales during the reference period. Excess supplies to the internal market will be regarded as exceeding production quotas.

(b) Categories of undertaking

The measure concerns all steel undertakings with a gross steel production of over 1 000 tonnes per month, i.e. all manufacturers of steel products covered by the Treaty of Paris except very small companies whose production is really marginal. It does not cover companies producing only liquid steel for casting.

The quotas will be applied to all the undertakings or groups of undertakings which are 'concentrated' within the meaning of Article 66(2).

(c) Reference basis

The reference basis selected must be a sufficiently long and recent period: long to enable each undertaking to produce reference data which are not unduly affected by accidents of a technical nature or by strikes and recent in order to reflect the present technical structure of the production apparatus and the pattern of demand.

The Commission therefore considers that, given the present state of progress of its work, i.e. before completion of the studies provided for in Article 58(2), the reference period should be the 36 months between July 1977 and June 1980.

Within this period, the individual reference basis for each undertaking will be the 12 months in which it has achieved the highest output. For a given undertaking this means, for example, that of the 3 months of January which occur within the 36-month period, the January with the highest output is recorded. The same principle applies to all the other months of the year.

The individual reference period is therefore made up of a series of non-consecutive months which reflect the best output figures recorded in the total 36-month period.

By selecting the months with the best output figures, the undertakings are given the fullest safeguard that the individual reference period will not reflect circumstances which are unduly adverse from their point of view. However, the reference period for an undertaking is the same for all its products.

(d) Rate of reduction

The rates of reduction are designed to reflect the reduction in demand whilst ensuring a steady flow of supplies. At the same time, the rates of reduction are intended to ensure that "burden sharing" takes place between the undertakings.

Pending completion of the studies provided for in Article 58(2), the Commission has made an initial provisional estimate of the rates of reduction, broken down according to product category: the studies carried out to date indicate that the rate of reduction in the fourth quarter of 1980, compared with the fourth quarter of 1979, will be as follows:

Category 1	:	16 - 20%
Category 2	:	13 - 17%
Category 3	:	14 - 18%
Category 4	:	14 - 18%

It should be pointed out that the statistics on orders received by the steel industry also reveal that consumers in the Community have cut by 18% to 19% their orders for the steel products covered by the Treaty. The proposed rates of reduction therefore mirror the purchasing intentions of Community users.

In the coming days, the Commission will undertake a number of supplementary studies in conjunction with the various consumers and dealers. These consultations will serve to make it clear that the objective being pursued is not to create an artificial shortage on the market but to allow supply to match demand.

Consultations will also continue with the producers and the unions to determine more precisely the rates of reduction appropriate to each product category. The Commission has taken the necessary steps to convene an extraordinary meeting of the ECSC Consultative Committee.

The rates of reduction for crude steel are calculated on the basis of the average of the rates of reduction for the various product categories, weighted by the output in these categories. The production of crude steel will therefore be related to the quotas for rolled products provided that an identical average rate is applied to the few products which are not covered by the four abovementioned categories.

It should be noted that each undertaking is allocated a uniform rate of reduction for the same category, thereby ensuring that the requisite burden-sharing is applied to each product category.

The production quotas for the quarter in question will be obtained by applying the reduction rates to the actual production in the corresponding quarter of the reference period.

The Commission, however, believes that in practice there should be a degree of elasticity in the quotas, and thus a margin, say of 3%, should be given to allow undertakings, if necessary, to increase one category by reducing the others.

Undertakings will be allowed to exchange or sell quotas between themselves but only with the Commission's prior approval.

Timetable

Considerable work has yet to be carried out before the data can be computerized, including testing of the computer system itself.

It is hence impossible at this stage accurately to determine reference periods for all the steel undertakings in the Community. Thus it is not possible at this moment in time to give precise numerical data.

It will also take some time to complete the studies in collaboration with the undertakings and associations of undertakings provided for by the Treaty.

The Commission will hold an extraordinary consultation with the Consultative Committee on 13 October in accordance with Article 58 and will endeavour to finalize the system as soon as possible after that date,

The quota system for the fourth quarter of this year will thus take effect on 1 November at the latest but a number of preparatory operations (e.g. training of inspectors) will have already begun by 15 October.

Because of the risk of speculation the October production figures for each firm will be included in the quota for the fourth quarter. Undertakings will thus be called upon by a communication to be published immediately in the Official Journal to reduce their crude steel production by 15% of their monthly average for the fourth quarter of 1979.

IV. Monitoring of measures taken pursuant to Article 58 of the ECSC Treaty

The difficulties encountered in the application of the previous contingency system were clearly due to a large extent to the fact that the inadequacy of monitoring and its application created scepticism, mistrust and, eventually, indiscipline among those participating in the system.

It is hence essential that both internal and external Community measures be tightened up before a system of production quotas is introduced.

1. Internal monitoring of production

The number of firms to be given quotas is put at 350. They must send daily and weekly production records to the Commission by telex. In addition, a summary of production and deliveries is to be provided on a monthly basis. These documents will be used as follows:

(a) Utilization of weekly and monthly production figures

These figures will have to be centralized by the Statistical Office and put on computer in order to monitor the position of each firm in relation to its quota on a monthly basis, and to carry out the monthly and quarterly audit required to determine whether any production quotas have been exceeded or whether there have been any shortfalls in production.

(b) Utilization of daily production telexes

Works and production units will be required to send this information to the Commission each day. Their accuracy will usually be checked on the spot. The technical and accounting documents listed in Commission Decision 74/618/ECSC of 4 December 1974 must hence be checked:

- (1) the cast record book duly numbered and dated
- (2) invoices relating to the consumption of electricity, gas, fuel oil and oxygen
- (3) the manpower log book.

Stock movements and deliveries must, however, also be monitored. Approval is hence sought to extend Decision 74/618/ECSC to include records relating to the production of mills and finishing shops and the use of raw materials in the documents to be checked.

(c) Utilization of monthly delivery telexes

(d) Penalties

The penalties provided for by Articles 47 and 58 of the ECSC Treaty will be swiftly applied as follows:

- (i) Article 47: if it is discovered that the daily production records are inaccurate, fines amounting to a maximum of 1% of the firm's annual turnover will be imposed;
- (ii) Article 58: if quotas are exceeded a fine of 75 ECU will be imposed for each tonne of excess.

The fines must be paid within fifteen days from the date on which the undertaking receives the individual penalty decision.

2. Monitoring of imports

The system of measures described above to improve the market obviously presupposes that the necessary precautions will be taken with regard to imports.

Since the external system which was introduced early this year seems to be working fairly well, there does not appear to be any reason to expect any major problems in the immediate future.

The following measures should, however, be taken immediately.

- The publication of
- (a) / new basis prices for iron and steel imports from non-Community countries. The calculation of these new prices is almost completed and they can be introduced as soon as the new system of monitoring internal production enters into force.

(b) with regard to the arrangements made for the year 1980, the Commission and the Member States will have to ensure that they are enforced more strictly until the end of the year.

Although monitoring on the basis of licences / has been introduced by a recommendation which is binding on the Member States, it has been observed that certain Member States do not respect the deadlines laid down for the forwarding of information. During 1980, observance of the rules on indirect imports has slackened in most Member States.

Finally, with regard to the observance of the pricing rules - which directly affects import volume both in respect of the basis price and in the framework of any arrangements which have been made, the Commission will address a Recommendation to the Member States asking the national authorities to carry out checks on the Community importers.

(c) for 1981, the Commission will ask the Council to give it a mandate to negotiate new arrangements sufficiently early for the danger of the recurrence of the periods of uncertainty which have marked the start of previous years to be avoided.

Apart from an undoubted reduction in quantities in view of the falling-off in consumption within the Community, these arrangements may well be similar in general to those concluded for 1980.

* * *

The measures which the Commission has proposed in Chapters III and IV will only apply automatically during the period under consideration; this period will not, in any event, extend beyond 30 June 1981.

GREECE

As from 1 January 1981, the Greek steel industry will be bound by the same rules as are the steel industries of the Nine once a manifest crisis has been declared. Accordingly, once the Council's assent has been given, the Commission will immediately begin consultations with Greece; the Commission will also invite Greek manufacturers, trade unions and consumers to give their opinions on the measures to be taken, using procedures similar to those provided for in Article 58(2).

V. Possible measures on prices

At this point it would also be advisable to give some guidance on prices. The logical objective would be to secure by mid-1981 a level of prices corresponding to the guide prices published on 31 December 1979 plus an increase of at least 4%, mainly to cover the increase in production costs.

A precondition of price measures however is the restoration of those conditions of order and discipline without which this policy cannot succeed.

The Commission is in touch with the steel industry to secure an early return to the usual market conditions but is not at the moment in a position to fix new guide prices.

One of the first measures to be carried out by the steel industry is the revision of price lists which in many cases are clearly above the guide prices and still further above the market prices. In a great many cases, the current list prices are totally unrealistic and are no longer a valid basis for sellers to respect the rules of the ECSC Treaty or for the Commission to formulate new measures for raising prices.

Nevertheless the Commission reserves the right to fix target prices again once the basic conditions for the success of such have been met.

VI. The need for extensive additional measures of a social nature

The Commission is fully aware of the magnitude of the task which it is taking on in proposing to take new measures to promote the recovery of the Community steel market and to restore to it the minimum amount of order necessary for firms to survive, for employment levels to be maintained and for restructuring to continue.

It has calculated the risks that this approach involves and accepts them in full awareness of what it is doing.

It would, however, find it unacceptable if, when workers again have to bear the brunt of measures of the reorganization of the European steel industry, the Council is unable to provide it with the budgetary and other resources it requires to cope with the many additional social measures which this action will impose.

The difficulties once again facing the steel industry could well cause many workers to lose their jobs, particularly in single-industry regions.

In the past when the economic climate was more favourable, workers forced to leave the steel industry found it not too difficult to find alternative employment in other sectors or regions. A vital role was played by the "conventional" measures provided for in Article 56(2)(b) of the ECSC Treaty and developed in later years.

Now economic growth leaves much to be desired, short-term - and even

medium-term - economic prospects are no longer favourable, the Community already has nearly eight million unemployed and it takes time to create new economic activities; many conditions have to be fulfilled to complete the process and to find a viable alternative, particularly in regions with a mono-industrial structure.

In these circumstances, we must not only devise and implement new measures, as the Commission has already proposed, but also provide for sufficient financial resources so that the conventional measures can be applied fully. There is no denying the fact that large-scale redundancies and short-time working may seriously affect the economic and social climate and even cause severe social conflict, with deleterious effects on the restructuring of the steel industry and on society as a whole.
