

# European Community



European Community Information Service  
350 Sparks Street, suite 1110, Ottawa, Ontario K1R 7S8

## BACKGROUND NOTE

### TACKLING EUROPE'S STEEL CRISIS

Europe's steel industry has been seriously hit by the current economic crisis. Between 1974 and 1978, some 100,000 people lost their jobs, more than 100,000 found themselves on short-time, and steel production fell 20 per cent. Despite these cutbacks, the future does not look rosy for the remaining 700,000 workers in the steel industry, or those employed in related industries.

The steel crisis is not confined to Europe. It is worldwide. It was brought about by the economic recession, which reduced consumption, and by over-capacity, the result of heavy investment during the years of economic growth. This was particularly true in Japan, where production multiplied seven-fold between 1960 and 1975. Over the same period, output in the European Community doubled and remained stable in the United States.

Today the world is producing too much steel, and competition has sent prices tumbling. Traditional steel producers in Europe are now operating at a disadvantage, compared with newer producers in other areas who benefit from new plant, lower wage costs and, sometimes, easier access to natural resources, all of which give them a stronger position in the market.

#### Why steel is a Community concern

The economic crisis affects all of the nine Community countries since each has its own steel industry. This industry occupies a central role in the national economy of all countries, except Denmark and Ireland. The Community can and must play a leading role in finding a solution to the industry's problems:

- first of all because that is its agreed role: the Treaty of Paris signed in 1951 gave birth to the European Coal and Steel Community (ECSC). Removed from the traditional rivalry of nations vying for European supremacy, steel came under common control. The rapid expansion of coal and steel trade within the "Six" \* - an increase of 129 per cent over the first five years of the ECSC - contributed greatly to the economic recovery in Europe. The mechanisms introduced with the creation of the ECSC, and 27 years of experience in joint decision-making and cooperation, should help the European steel industries face up to the crisis;
- secondly, because the reorganization forced on the industry by the current structural difficulties cannot be undertaken effectively if European industries act independently. All of them sell their wares on the same market. Any forecasts or national plans which do not take into account the existence of a Common Market and the policies of the other partners will end up making the crisis even worse. No country can save its steel industry single-handed. Reorganization work will only be acceptable if the difficulties, costs and sacrifices are equitably distributed.

../2

Davignon Plan

The European Community's solution is the two-stage "Davignon Plan", named after Viscount Etienne Davignon, the Commissioner responsible for industrial affairs. By lowering domestic production and imports, the Plan is intended to restore balance and prevent ruinous competition in the steel sector.

In the short term the Plan aims to make European steel companies profitable again. Minimum prices have been set and quotas have been assigned to firms. Non-EC countries have agreed to limit exports to the EC, and EC anti-dumping procedures have been streamlined.

Longer term measures seek to make the industry more competitive. This involves the allocation of EC funds to reduce overcapacity, modernize plant, regroup and diversify companies, and to help retrain workers. Moreover, the Commission is negotiating within the Organization for Economic Cooperation and Development (OECD), of which Canada is a member, to try to coordinate its steel policies with those of other steel-producing industrialized nations.

\*\*\*\*\*

\* Six countries originally negotiated the Paris Treaty setting up the ECSC: Belgium, France, Germany, Italy, Luxembourg and the Netherlands.

-----