

# EUROPEAN BACKGROUND INFORMATION COMMUNITY

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BACKGROUND NOTE

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## EC STEEL INDUSTRY SUFFERS FROM RECESSION

The European Community's steel industry has been one of the economic sectors hardest hit by the current worldwide economic crisis. The general economic decline now crippling some industries has led to reduced demand, falling prices, and unemployment in the vital steel sector. Crude steel production in the Community plummeted a dramatic 13 per cent in the first six months of 1975 from the same period last year -- from 78,394,000 to 68,172,000 metric tons -- and is still falling sharply.

Demand has fallen for nearly every type of processed steel. Whereas in the past year only the automobile and construction industries drastically cut their steel orders, steel demand has now fallen in the mechanical engineering, constructional steel works, sheet metal working and electrical engineering industries as well as in primary transformation sectors. Real consumption of steel fell almost 9 per cent in the first months of 1975, compared with consumption levels a year ago, and EC steel consumers don't expect any improvement in the situation in the near future.

Consumers and merchants are trying to run down steel stocks -- and will not reorder until these stocks are lowered. The tendency to run down stocks is intensified by the expectation of still greater steel price declines. To restore the balance between real steel consumption and steel production in the Community market, stocks should be lowered by 2.3 million metric tons of crude steel, according to EC Commission estimates.

Holders of stocks of highly finished steel products are also running down their stocks. Major steel importing countries, subject to the same economic stresses as is the Community, are also reducing their stocks and, consequently, their steel orders.

Prices have dropped as demand for steel has declined. Export prices recorded this April were 40-to-60 per cent lower than in April 1974. Prices in the internal market are down 25-to-30 per cent from last year and are still falling. The relatively smaller decline of prices on the internal market is due to the fact that during the earlier upswing, internal prices did not rise as sharply as export prices.

Steel workers, casualties of the slack in demand, have been subject to Community-wide reductions in working hours and increasing layoffs. Their numbers are swelling the ever-growing unemployment rolls in the Community.

EC Commission Acts in Steel Sector

A 15 per cent drop in steel production is predicted for the period June through September this year -- 42.80 million metric tons will be produced against 50.55 million at the same time last year. This prediction was made in the Commission's recently published "Forward Program for Steel," a series of quarterly, nonmandatory guidelines for steel production in the member states, to help firms tailor production to demand, both for the Community and for export markets. The guidelines, drawn up in consultation with representatives of steel producers, trade unions, steel consumers, trading interests, and government representatives, supply information on short-term trends in the iron and steel market.

If the guidelines are followed, balance between steel consumption and production should be restored to the Community market by ending the reduction of steel stocks. Otherwise, no quick solution is foreseen for the Community's steel woes.

Commission Takes Common Measures

In further efforts to rectify the imbalance in the steel sector, the Commission is keeping a sharp eye on steel price trends and information. It is also checking on steel firms more frequently to insure that all provisions of the EC Treaty on steel are being observed and is closely watching EC steel imports and their impact on prices.

In view of the critical situation in the steel sector, the influx of lower priced steel imports from nonmember countries is a matter of growing concern. To avoid conflict in this area, the Community and its steel trading partners are keeping each other informed of developments in their respective steel markets. At the recent EC-Japan biannual consultations in Tokyo, for example, both parties agreed that, as long as the present difficulties on the world steel market persist, they should avoid any action which would be to their mutual disadvantage. However, no restraint agreement between the two was concluded.

Complications caused by third country imports are also increased by the alignment of prices provided for in the EC rules on steel prices. Under these rules, EC firms may bring their prices down to the lowest level offered by firms outside the Community. With falling prices already a problem, competition from lower priced imports would not help the situation.

The overall economic recession and its impact on the industrialized countries demands cooperative endeavors to promote a recovery. The Community hopes that its measures in the steel sector will alleviate that market's difficulties and will avoid further aggravation of an already serious situation.

ANNEX

Percentage Change in EC steel Production for the First Half  
of 1975 (from the same time last year)

Germany	- 17.5
France	- 16.2
Italy	- 2.9
Netherlands	- 11.0
Belgium	- 21.6
Luxembourg	- 20.3
United Kingdom	- 18.0
Ireland	- 19.4
Denmark	+ 4.2