european community
BACKGROUND INFORMATION
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BACKGROUND NOTE

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EUROPEAN STEEL UNDER STRESS

I G Metall, the German steelworkers' union, announces before its annual meeting that 50,000 jobs are in danger...The Cockerill steel mill, in Liege, Belgium, urges workers to retire at 55 with full benefits instead of at the normal retirement age of 65...European steel experts predict that forced layoffs within the European Community's steel industry will continue indefinitely at 3,000 per month.

Just as in the United States, newspapers in Europe carry reports virtually daily of yet another steel mill closure, yet another reduction in hours for steel workers. The steel crisis, as President Carter emphasized in a recent press conference, is world-wide; the blame for the American crisis cannot be laid at the feet of foreign steel producers.

Over the past three years, for example, European net steel exports have decreased by more than 50 per cent. Within the past 15 months, on the other hand, the rate of penetration of foreign steel into Europe has made a rapid climb to 40 per cent.

Unlike the American steel market, which had a boom year in early 1976, the European steel crisis has dragged on for two years. Now U.S. manufacturers are also suffering, but the European situation is even more critical.

"We're going into a phase of accelerated dismissals now," a Community official said. "For nearly two years, companies have kept workers on for maintenance jobs, or to overhaul equipment, but there's a limit to the amount of maintenance you can do. There were 741,000 workers in the steel industry at the beginning of 1977...now there are 725,000. That's a loss of 15,000 in nine months,and the layoffs are expected to go on, at 3,000 per month."

An I G Metall spokesman said just prior to the German metalworkers' union annual meeting earlier this month that steel industry jobs in that country -- the economic "locomotive" of the Common Market -- were now at the lowest level since 1961. Since the beginning of the year, 10,000 steel workers had been laid off in Germany, he said, and an additional 30,000 are on short-time work.

By the end of 1977, predicted a European Community official, up to 5 per cent of the labor force will have left the steel industry. Etienne Davignon, the European Community's industrial affairs commissioner, who is responsible for the steel program, foresees a loss of 150,000 jobs -- 20 per cent of the steel work force -- before the crisis can be resolved.

The economy in Community countries has made a slow comeback from the 1974-75 recession (the rate of EC growth is now at 3 per cent in real terms) and stimulus programs have been announced in France, Germany and Britain, but the European steel industry remains deep in depression. At the end of April, new orders booked were below the levels recorded in the same period of the preceding year and far below the orders achieved during the boom year 1974. Crude steel production, which had been estimated in June to reach 34.8 million metric tons for late 1977, was within recent weeks revised downward to 32 million metric tons. Raw steel production by the Community amounted in August this year to 9.37 million metric tons, compared to 10.53 million metric tons in the same month last year. That represents a decline of 11 per cent.

Capacity utilization in European steel mills is now at about 60 per cent on the average, compared to about 78 per cent in U.S. steel mills. A reliable comparison is difficult, however, since there is no uniform international definition of capacity utilization. In any case, many European blast furnaces that were closed down two years ago are not expected to open again.

A common market in steel was first established by the Treaty of Paris that formed the European Coal and Steel Community in 1952. The aims, as stated in the treaty, were to: "progressively bring about conditions which will of themselves ensure the most rational distribution of production at the highest possible level of productivity, while safeguarding continuity of employment and taking care not to provoke fundamental and persistent disturbances in the economies of member states."

The treaty further calls for the Community to "periodically lay down general objectives for modernization, long-term planning of manufacture and expansion of productive capacity." To follow these aims, the Community, under the direction of Commissioner Davignon, is now seeking to help restructure the steel industry for greater efficiency and better utilization of equipment. The primary objective is to align industrial capacity to the market demand. To this end, more statistical data has been gathered so that future market trends can be determined. Old plants have been closed, mergers have been arranged and loans have been given for modernizing marginal facilities. Workers who lose their jobs are retrained and helped to relocate in another industry.

An example of the Community steel policy in action is the Rodange-Athus case. Rodange-Athus, employing 4,600, is a privately owned Luxembourg steel producer that has plants in Belgium and in Luxembourg. The Belgian operation, with an old blast furnace and a mill for steel bars -- for which the market has fallen drastically -- was threatened with closure. Commissioner Davignon stepped in to assist in the formation of an umbrella company. Four thousand affected workers will be retrained at government expense or be assigned to public works jobs for a period up to 30 months with the financial backing of the Belgian and Luxembourg governments and the European Commission.

Community-financed retraining for workers who lost their jobs through restructuring of the steel industry is similar to the adjustment assistance aid to American steel workers that is a part of the U.S. Trade Act of 1974. In the Community, however, Commission steel experts seek to determine in advance what closures or cutbacks may be necessary and to alleviate the social upheaval by concurrent retraining and relocation of workers and industries. In 1976, for example, 726.32 million EUA (1 EUA = about $1.16) in loans was disbursed for modernization and restructure and 63.13 million EUA for industrial reconversion. According to the annual financial report of the ECSC, the industrial reconversion expenditures led to the creation of more than 4,700 jobs outside the coal and steel industry.

To finance this assistance the ECSC gets annual levies on European coal and steel production. The annual assessment since 1961 has been .29 per cent of sales. With the decrease in steel production, however, the amount received through the levies has also decreased.

The ECSC also borrows on the capital market and relends to steel producers for modernization projects on credit terms not significantly different from those available to U.S. steel companies in the United States.

There is a concensus between the U.S. administration and the European Commission that "beggar thy neighbor" policies will not solve the steel crisis, EC Commissioner Davignon, in recent statements to the press, has repeatedly urged a world-wide structural solution. U.S. Special Trade Representative Robert Strauss has also called for a permanent international group "to monitor developments in the steel industry and facilitate cooperation among governments."

Both have rejected what Commissioner Davignon describes as "protectionist attitudes" and "quantitative restrictions." Commercial measures alone, according to Davignon, are not sufficient -- industrial policy and the problems of employment must also be considered.

Asked at a recent press conference about the dangers of building steel cartels, Davignon said that he does not perceive more centralized control as avoiding the pressures of the market. "There is a right path between absurd laissez-faire and inefficient overregulation," he said. The EC commissioner said he trusted neither a too-strict control of industrial activities, nor a sanitation of the steel industry that would not include a strategy of definite objectives for restructuring and reconversion.