Taking Stock: The History of European Steel Crisis Policy

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1. Introduction

The coal and steel industries came under the EU treaty in 2002, when the treaty of the European Coal and Steel Community (ECSC) expired. Since the founding of the ECSC in 1951, the European steel industry has experienced three crises in overproduction. While the first steel crisis in the sixties was a short intermezzo the second and third crisis led to a massive production decrease together with higher unemployment. Extensive political and economic measures have been undertaken by the EC-Commission in an attempt to master the crises of the steel industry. These measures have ranged from prescriptive regulations to quotas in production, and have been reinforced by measures in foreign-trade policy. Individual member states have attempted to independently bolster the competitiveness of their steel industries by subsidising them. In the last crisis in the nineties the Commission attempted to reduce the overcapacities with industrial policy, but was unsuccessful.

This paper questions why the industrial policy pursued by the Commission failed by analysing the commission's policy with a focus on the third steel crisis. Building upon a brief representation of the special institutional characteristics and goals of the ECSC in the first part, the second section gives a short description of the second steel crisis. The third part shows the actions and reactions of the political decision-makers

[1] Among other sources, the author refers here to experiences gained while working as a research intern at the EU Commission in Brussels. The views expressed are solely those of the author.

and their economic effects in the third steel crisis. Section four evaluates the Commission's policy in that last crisis while we evaluate in part V the EU policy as a whole and draw the final conclusions. After all, the steel policy is a good example of the problems emerging with the harmonisation of the different European industrial interests, as represented by the member states, lobbyists and enterprises.

2. The particular goals set by the ECSC as a part of the EU

The motivation behind the establishment of the ECSC was quite a different one from that behind the EC, which was first and foremost the creation of a common market and a customs union.[2] Giving up national sovereignty was, in fact, one purpose behind the ECSC treaty, but only a necessary evil in the realisation of the common market and customs union under the EC treaty.[3] Because of this deliberate sovereignty loss, the Commission as supranational executive had much more authority under the ECSC treaty[4] than under the EC treaty[5]. Authority and specific responsibilities were explicitly given to the Commission under the ECSC including clear instructions as to which conditions, and with which instruments, the Commission was able to intervene, in contrast to the EU treaty (formerly the EC treaty). In addition, the EU treaty is a framework treaty, meaning that it should

[2] "Die härteste Auseinandersetzung innerhalb der deutschen Delegation ging wohl darum, daß ich, belehrt durch die Erfahrungen mit der Montanunion, auf eine direkte Weisung Erhards hin das Verhältnis von Kommission und Ministerrat umkehrte. Der Ministerrat wurde zum eigentlichen Entscheidungsorgan der Gemeinschaft gemacht, während die Kommission eine vorbereitende, vorschlagende Funktion haben sollte." (The most intense discussions between the German delegations were about the fact that I reversed the relation between the Commission and Council of Ministers on the basis of my experience with the Montanunion and on a direct order from Erhard.) *Müller-Armack, Alfred,* (1971), pp.117. See also *Harbrecht, Wolfgang,* (1984), p. 28.
[3] See *Dicke, Hugo* (1987), p. 60.
[4] It was authorized according to Article 80 of the ECSC treaty, for example, to offer member states payments out of the ECSC budget in order to enforce its decisions, even in the case of states in violation. In the case of resisting companies it was able to offer payments to companies (Article 91) and/or demand a fine (Article 47).
[5] See *EC-Commission* (1991), p. 7.

be developed further through the Commission and subsequent agreement of the Council of Ministers.

The underlying goal of economic policy behind the ECSC treaty was laid down in the general introductory regulations of Article 2 and 5. These two articles were continually referred to in important passages of the treaty[6], and the Commission refers to the goals therein in its industrial policy interventions.[7] The most important goals of the treaty are summarised in the following paragraphs, and scrutinised for their economic implications. Article 2, §2 of the ECSC treaty stated:

> "The Community shall 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."

This article presented the Commission with conflicting goals; on the one hand it had to provide for the most rational economic distribution of resources, yet on the other hand it had to prevent disruptions in employment. Such disruption is unavoidable however, when resources are to be distributed by an economically rational - and thus efficient - means during structural change. The resources have to be transferred from the old structures to the new, which is why labour has to be laid off in the old economic sectors. The second part of the article was a proposal for an interventionist industrial policy. Article 5 of the treaty expressly prescribed an intervention in the European steel market for the Commission:

> "The Community shall carry out its task in accordance with this Treaty, with a limited measure of intervention. To this end the Community shall place financial resources at the disposal of undertakings for their investment and bear part of the cost of readaption; ensure the

[6] See, for example, Article 58, § 2 and Article 60 § 1.

[7] See Davignon, Etienne, (1980), p. 508.

establishment, maintenance and observance of normal competitive conditions and exert direct influence upon production or upon the market only when circumstances so require ..."

3. The second steel crisis

The European steel industry has experienced three crises of overproduction since the founding of the ECSC in 1951. The second crisis, lasting from the end of the seventies to the mid- eighties, was the longest and the worst. From 1978 to 1988 alone, 327,141 jobs were lost[8]. At the beginning of the crisis, the Commission attempted to convince the European steel enterprises to voluntarily reduce capacity by applying indirect measures[9]. The union EUROFER was founded as a result of these measures to provide representation for the enterprises on a European level. Its task as a structural crisis cartel was to co-ordinate the enterprises' voluntary reduction[10]. EUROFER established minimum prices and delivery quotas. These limits were voluntary, however, which meant that the enterprises had no negative consequences to fear if they chose not to abide by them. It came as no surprise that the cartel was unable to solve the over-capacity problem. Due to an intensified price war and massive transgressions in the voluntary sale limitations, the cartel collapsed.[11] This was also the case for the production guidelines released quarterly by the Commission: the enterprises did not follow the production recommendations, but rather tried to maximise steel distribution at the cost of their competitors. Finally, in 1977, the EC-Commission decided to close the free market in the steel industry and intervene directly within the framework of the

[8] Without Spain, Portugal, and Greece. See Amt für Veröffentlichungen of the EU(1990) p. 24. For the first and second steel crisis Mény, Yves and Wright, Vincent (1987); Moore, Michal O. (1998) and Conrad, Christian (1997), pp. 74.

[9] "In this crisis, the Commission is counting on a solidarity among the enterprises that will lead then to adjust their production and deliveries according to these objectives and to enter into appropriate individual obligations with the Commission " (author's translation). *Bulletin der EG* 1976 (Nov.), p. 17.

[10] See *Oberender, P.* (1985), p. 238.

[11] See Schaal, P. (1985), p. 41; and F.A.Z, 26 Nov. 1992, No. 275, p. 15.

so-called Davignon Plan[12]. This plan included minimum prices for steel and import restrictions. In 1980 this industrial policy intervention was expanded, based on Article 58 of the ECSC treaty, and included a production quota according to the principle of proportional sacrifices. In 1988 the demand for steel increased, and the market recovered. As a result, the quota system was scrapped and the subsidies and import limitations were reduced.[13]

4. The third overproduction crisis

4.1. A new crisis demands a revised crisis management. In 1990 the Commission announced a new goal; that of "increasing the liberalisation of economic policy with much less intervention from the Commission and an environment determined by competition..."[14] The demand for steel fell in the same year, however, which prompted the Commission to change its prognosis. From 1989, when the positive price movement changed for the worse, until the end of 1992 prices decreased by an average of about 20%. The profits of European steel producers fell between 1989 and 1991 by an average of probably 65%. The EU Commission's opening of markets to East European countries was supposed to make their transition easier, but it ended by just adding another pressure to prices in already poor steel markets. The steel imports to the EU from Eastern Europe increased by 34% between 1991 and 1992. The European steel producers demanded the intervention of the Commission in mid-1992 because of their weak market situation. They pointed to the ECSC treaty in which the Commission had a special responsibility for the steel industry and had access to extensive instruments for market intervention. Specifically, the steel producers demanded the following:[15]

- An increase in market transparency by statistical supervision and

[12] The plan was so named because the measures were suggested by Davignon, who became Commissioner after Simonet.

[13] See Wienert, H. (1989), pp.101-102.

[14] See *EC-Commission* (1990), p. 10.

[15] See *EC-Commission* (1992a); Conrad, Christian, A. (1994a); Conrad, Christian, A. (1997), p. 132; Dudley, Geoffrey and Richardson, Jeremy (1999), p. 241 and Hitris, Theo (1998), p. 316.

documentation. The Commission should aggregate the production and delivery data of the individual companies in order to be able to estimate future supply.

- Help with restructuring, according to Article 56 of the ECSC treaty.

- More protection from competition abroad, especially from Eastern Europe.

- Co-ordination and support of mergers so that production costs could be reduced through specialisation and synergy effects.

A structural crisis cartel was also supposed to make it possible to share the financial burden internally between companies reducing their capacity and those keeping it. It was suggested to the Commission that it co-ordinate the distribution of production within the cartel, as it did at the beginning of the eighties in the structural crisis cartel of EUROFER. The Commission was to estimate the likely European profit according to product, which the companies then wanted to share out amongst themselves. The concept of sharing the internal financial burden was proposed by the president of the German Economic Steel Union, Vondran: the companies that profited from other companies closing because of the increased market price should compensate for the costs of shutting down.[16]

In contrast to the companies, the Commission saw the oversupply on the European market as a mainly structural matter. It assessed the over-capacity of European steel production at 31-42 million tons per year of raw steel and the over-capacity of hot-rolled steel at 19-26 million tons per year.[17] It rejected the suggestion of a structural crisis cartel with reference to the ECSC competition regulations and made clear that it would not intervene directly in the market, but would intervene indirectly by way of measures provided in the ECSC treaty. However, it came back to the suggestion of sharing an internal financial burden in its restructuring concept of 1993. The Vondran suggestion could not be realised in its original form, since the companies demanded a guarantee that their capacity utilisation would be increased as a consequence of other companies reducing their capacity,

[16] See Hennes, Markus, Reichert, Peter, Buchwald, Horst (1993), p. 106.

[17] See *EC-Commission* (1992b), pp. 3 and *EC-Commission* (1992c), p. 97.

and were not prepared to pay in advance. The Commission therefore offered to finance compensation in the form of loans according to Article 53. The up-front money offered by the Commission was to be paid back as soon as the companies retaining their capacity had profited from the reduction in supply, at the latest by June 2002 (a pre-financing concept).[18] As an additional incentive to shut down capacity and to make the reduction in jobs less painful with social help, the Commission offered companies the opportunity to share the cost of financing such a programme. Together with the help offered by member states, a total of 900 million ECU was planned for the social compensation costs of the restructuring concept. Sources from structural and social funds were also available. The money was supposed to be used to finance early retirement and retraining programmes. The actual sums were dependent on later proof that the capacity reductions agreed upon were actually delivered.[19] The Commission sent a representative to gather the closure offers from the companies (Braun Mission).[20] Both offers of the Commission were welcomed by the steel industry. Buoyed by the positive reaction of the companies the Commission pushed forward the date set for the capacity reductions from 1995 to 1994 and told Braun to collect the final reduction commitments by September 1993.

The suggestion of the Commission to coordinate and enforce capacity reductions by way of binding contracts during the second crisis was meant to solve the dilemma[21] that had been produced by the reductions. One was basically dealing with a so-called 'public good' with the closures from over capacity of a market, which is identified by the gain for each producer from the plan's realisation without shutting anyone out. In other words, the producers that did not take part in the financing of the capacity closures profited from the increased market price resulting from the oversupply being successfully dealt with just as much as those who were actively financed, which is why they had no incentive to cooperate.

[18] See *EC-Commission* (1994b).

[19] See *EC-Commission* (1992b), pp. 7

[20] Named after the Commission's envoy Fernand Braun.

[21] Such a dilemma is called in Public Choice Theory "the prisoner's dilemma". For the expression "prisoner´s dilemma" see Brennan, G. and Buchanan, James (1985), p. 3.

Further components of the Commission's restructuring programme were the connection between capacity reductions and the approval of subventions that were not covered by the support code and an increase in market transparency through statistical monitoring. Besides the EU sharing the social costs of reducing capacity, the Commission supported mergers and production co-operation with specialisation and synergy effects, just as was suggested by the companies within the limits of the ECSC restrictions on competition. It wanted to support both reduction in capacity and cost in such a way that they would contribute to an increase in competitiveness. Customs contingencies were decided upon for sensitive products with the Czech Republic, Slovakia and Poland from 1993 to 1995 in order to increase protection from outside competition. Restrictions on imports from the CIS (Commonwealth of Independent States) were also imposed.[22] These additional measures were meant to improve the profits of the companies in the short term. The increase in the number of anti-dumping procedures involving steel producers in 1990 can be explained by the strategy of market insulation and global oversupply. The increased protection from foreign imports caused an increase in price; that for long and flat products increased by 8 -15% between January and April 1993, and the price for bars of steel by 20%. The import restriction placed upon goods from the CIS and East European countries cause a decrease of 28.7% in imports from that region between 1992-1993.[23]

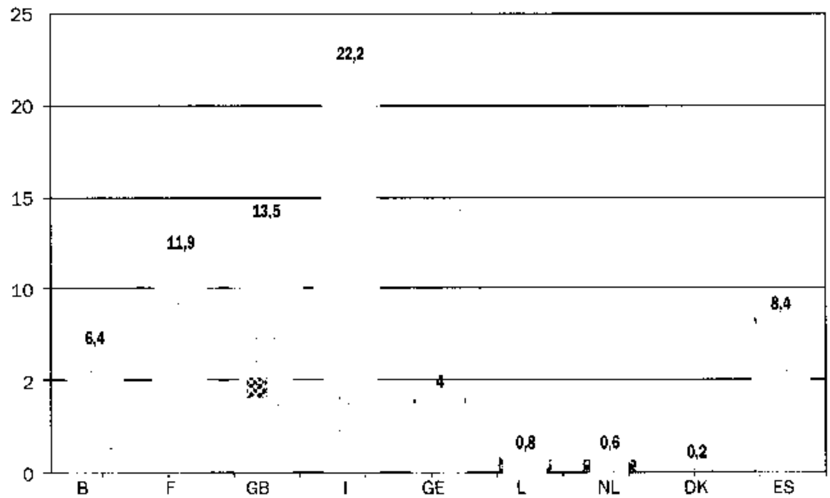
4.2. National subsidies as a crisis remedy. Only the Italian public company ILVA remained from the previous list of recipients for subventions during the second steel crisis, needing financial aid once again. The privatised successor to the British Steel Corporation, British Steel Plc and Usinor-Sacilor showed only minimal losses during the third steel crisis, in comparison with the public companies, perhaps because they had invested their subventions from the eighties in modernisation and production.[24]

[22] See *EC-Commission* (1994b), p. 6

[23] See EUROSTAT (1994).

[24] See Conrad, Christian, A. (1994); Conrad, Christian, A. (1997), pp. 132; Dudley, Geoffrey and Richardson, Jeremy (1999), pp. 241 and Hitris, Theo (1998), p. 316.

CHART 1: The national subsidies in the European steel industry from 1975 to 1993 *(billions Euro)*



Source: Berthold, Norbert (1994), p. 65.

The subsidization during the second steel crisis was probably the biggest distortion of European competition. Even though we have no exact scientific proof of the effects of the unequal subsidies some developments are quite impressive. If we compare the leading European steel companies of 1980 with 1999 we can see that the subsidized companies and the state companies survived in contrast to the private, unsubsidized companies, which were mostly German.[25] In 1977 there were five German companies with 28.1 m. tons amongst the 30 largest crude-steel producers. In 1999 there was only the merged Thyssen-Krupp left with 16,.1 m. tons. The French companies increased their production after the merger of Usinor-Sacilor from 15 m. tons to 22.2 m. tons, whereas the Italian companies managed to achieve a place amongst the largest producers for the first time after the subsidy-round of the eighties. By contrast the share of the German steel producers in the European steel

[25] See Evers, Jens (2001), S. 205 and Conrad, Christian A. (1997), pp. 122, 136, 139 and 176. British Steel lost its position amongst the largest producers after it was privatised.

production decreased from 46.7% in 1960 to 28.5% in 1993 (see table 1, 2 and 3 in the annex).

In the third steel crisis, the Commission refused subvention applications until the member states complied with the necessary standards and accepted commitments to close down capacity prescribed by the Commission, or agreed to a far-reaching privatisation of their companies.[26] Because the companies failed to make binding closure offers by September 1993, the Council of Ministers was unable to take a decision on the original plans to pre-finance according to Article 53. The Commission pushed the deadline for final offers of commitments to 1 January 1994. It was also impossible to process the subvention applications, since many member states had not given the Commission the required restructuring plan.

In the meanwhile, many member states had applied to the Commission for subventions on behalf of their companies. An honest search for real solutions was not a determining feature of the actions of member states before the Council of Ministers` decision on the subsidies. On the contrary Italy did not even wait for approval from the Commission, but gave subventions in advance. The states wanting to subsidise their steel industries used every means possible to win the approval of other member states, despite the prohibition on national subsidies stated in Article 4c of the ECCS treaty. According to Article 95 of the treaty, a unanimous decision is required by the Council of Ministers to approve an exception. In 1994 Great Britain, The Netherlands and Portugal demanded that all subsidy applications be voted on simultaneously (a 'package deal')[27]. One result of this voting tactic was that no subsidy application could be decided upon until all applications were in.[28] The German economics minister Mr Rexrodt supported their demand and made it clear that he would only agree to the subsidy applications for the Italian steel company ILVA and the Spanish firm CSI if the Council of Ministers approved the subsidy applications from the German organisation EKO-STAHL[29]. Italy also clearly

[26] See *EC-Commission* (1993), pp.301

[27] See W.A. (Without Author) (1994), p. 6.

[28] ILVA, CSI, EKO-STAHL and partially SIDENOR.

[29] See W.A. (1993), p. 15.

expressed the way it planned to vote: it would only agree to the coal subsidies in the Council of Ministers if the Council also approved the subsidies for ILVA ('log rolling')[30]. In the end all applications were approved by consensus in the Council of Ministers in December 1993. The package deal and 'vote trading' or 'log rolling' thus allowed several member states to circumvent the subsidy ban specified in the ECCS-treaty, or rather its strict subsidy code. As *quid pro quo*, the member states were obliged to close down capacity of 5.4 million tons for hot-rolled steel and 2 million tons for raw steel, and to partially privatise their companies.[31]

The coalition of states wanting to subsidise their steel industries determined EU steel policy. The Council of Ministers could not make a decision about the subsidy applications until each member state-wanting subsidies had submitted its application. This lengthened the decision making process, beginning with the first subsidy submission by Spain in 1992 and ending in 1993 when Germany submitted an application to have EKO-STAHL subsidised. In addition, state enterprises refrained from proposing a more extensive capacity reduction in the hope of subsidies.[32] The private enterprises did not want to commit themselves to reducing capacity until the extent of state subsidy for enterprises was established and thus maintained their capacities. The two were connected in the Commission's concept of reducing capacity as a condition for approving subsidies.

These subsidies had the potential to become export subsidies and thus to harm the non-subsidised steel industries. So why were the member states with a competitive steel industry unable to prevent subsidisation, even though it was formally prohibited? As early as the beginning of the eighties Great Britain, France and Italy had granted extensive subsidies to their national steel industries. Since the member states had yielded their customs autonomy to the European Commission within the framework

[30] The major parties interested in extending the coal assistance were Germany and Spain. In order to circumvent the general subsidy ban in Article 4c of the ECCS treaty, the unanimous approval of the Council of Ministers was necessary (Article 95 ECSC treaty). See *W.A.* (1993b), p. 7.

[31] ILVA, CSI, EKO-STAHL and partially SIDENOR.

[32] Van Miert stated that the subsidies received caused the state enterprises to show little interest in submitting constructive suggestions for reductions EUROPE, 7 July 1993, No. 6016, p. 5.

of the EU Internal Market, it was impossible for member states to react to the competition-distorting subsidies of other member countries by levying anti-subsidy duties on subsidised imported products (as was done by the USA in its latest conflict over the trade in steel with the EU[33]) without the approval of the Commission. While, according to Article 4c of the ECSC treaty all forms of subsidies are prohibited, the Commission in effect compromised this ban and allowed it to become meaningless by the failure to enforce it. It created an unregulated policy area, which is the reason why the German government found it necessary to force the introduction of a new subsidy regulation to the Council of Ministers in the form of a new code in 1980. According to Article 95 of the ECSC treaty (Art. N of the EU-Treaty), decisions regarding the inclusion of additional regulations in the ECSC treaty must be unanimous. Because the subsidies were essential for the continuing existence of the steel industries of several member states, no unanimous decision could be reached in the Council of Ministers, and the Commission was only able to introduce a weak subsidy limit-tolerated by the subsidising countries.[34] Because of the unanimity necessary in the Council of Ministers for treaty extensions, Germany was a prisoner of European political interdependence.[35]

4.3. The collapse of the restructuring programme. In mid-January 1994 the private companies had still failed to commit themselves to binding closures. Up to that point the Commission had only dealt with closure commitments within the framework of subvention applications from the public companies. The companies seeking to maintain steel-making capacity wanted secure market shares in return for the financial concession provided by the Commission, but this request had already been refused with regard to ECSC competition regulations. The determining reason for the companies' waning interest for capacity closures was the increased demand for steel in the fourth quarter of 1993. Bangemann, the Commissioner for Industrial Policy who followed Narjes, reduced the prescribed closures and called on companies to sign the

[33] See Conrad, Christian, A. (1995), pp. 150-156.
[34] See Conrad, Christian A. (1997).
[35] See Conrad, Christian A. (2003).

final closure agreements. Just before the deadline, the companies offered an additional reduction of 8 million tons. Because of this positive development and the negative effects that would have followed an abrupt abandonment of the associated measures, the Commission advised the Council of Ministers in April 1994 to extend all measures contained in the restructuring concept until the industry convention in the autumn of the same year. This extension was, in fact, granted, even though the deadline they had set for 21 March 1993 had already passed.[36] The offer of the Italian electro-steel producers was the only one to be rejected, on the basis that the subvention code for the approval of support demanded a total closure (Article 4 c).

At the industry convention in September 1994 there were still no reduction commitments to the degree necessary. The Council of Ministers moved the deadline for offers to their next convention in November 1994. At the end of October the Commission concluded that the restructuring plan has failed due to the lack of commitments to reduce the capacity.[37] The quarterly predictions were replaced by half-yearly predictions and both the pre-financing concept and the planned social measures were dropped. The exception was the sum of 240 million ECU paid out from the ECSC budget for social support. At variance with the opinion of the Commission, the Council of Ministers decided to maintain protection against foreign competition.[38] The Commission approved many mergers and company collaborations in their crisis management concept that they would have to have sanctioned according to Article 65 of the ECSC treaty: 29 specialization and merger treaties were approved in 1993 alone.[39] The Council of Ministers decided against the suggestion of the Commission that the support measures be continued.[40] In the end, only 13 million tons of the predicted 31-42 million tons/year overcapacity of raw steel were officially abandoned and 11.2 million of the 19-26 million tons/year of

[36] See *EC-Commission* (1994b) p. 7.

[37] Van Miert had already determined that the mission had failed on 19 May 1994.

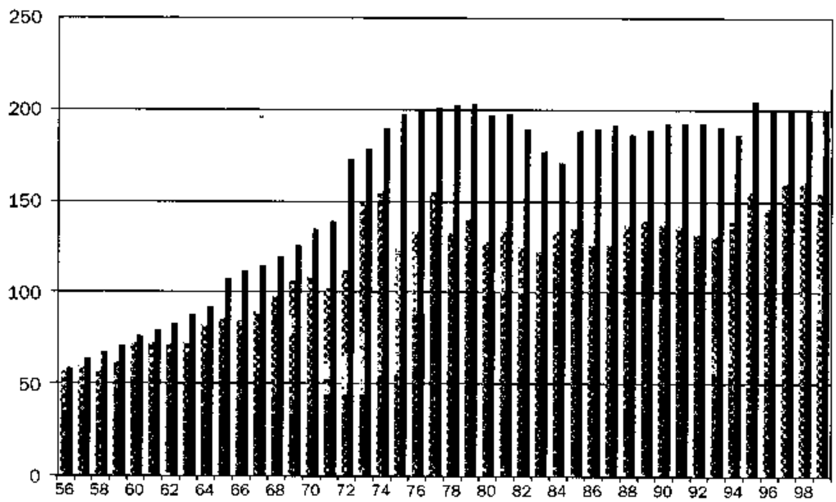
[38] See *EC-Commission* (1994c), p. 394.

[39] See *EC-Commission* (1994b), pp.4.

[40] See Conrad, Christian, A. (1994a); Conrad, Christian, A. (1997), pp. 132; Dudley, Geoffrey and Richardson, Jeremy (1999), pp. 241 and Hitiris, Theo (1998) , p. 316.

hot-rolled steel. Two million tons of the raw steel and 4.4 million tons of hot-rolled steel came from public companies within the framework of the subvention approvals.[41] Hindsight cannot determine how much the capacities would have been reduced or closed down if not for the action of the Commission. However, and the total EU capacity of raw steel did not change so much, which means that some capacities were also increased.

CHART 2: The national subsidies in the European steel industry from 1975 to 1993 *(billions Euro)*



Source: Berthold, Norbert (1994), p. 65.

5. Evaluation of the Commission's Policy

Judging by the results, the European steel producers seem to have been able to engage the co-operation of the Commission for their own ends. The Commission tried to achieve the reduction of over-capacities with financial incentives, as it had during the second steel crisis. The Commission met the demands of the companies to an even larger extent

[41] See *EC-Commission* (1994b), pp.4; *EC-Commission* (1994a) and *EC-Commission* (1992b), pp. 3.

than was the case during the second crisis, but it ended up losing its plausibility because it paid out subsidies before companies fulfilled their obligation to make binding closure offers. Social support was paid out in the framework of the Braun Mission despite lacking commitments. The companies repeatedly received a deadline for final closure commitments from individual Commissioners, and were threatened with having their support measures and protection from abroad revoked should the deadline expire. In fact, the Commission paid out the remaining social support that had been agreed upon, despite the failure of the restructuring concept and repeated deadline extension. The Council of Ministers voted down the suggestion of the Commission to drop the protective measures and thus undercut the policy of the Commission, just as it had during the second crisis.

The decrease in steel imports from the Eastern European Counties by 28.6% from 1992-1993 can be justified by the amazing jump in imports by 34% in 1992. The protection from abroad could no longer be justified in 1994 as the economy recovered, however. It can be assumed that the companies anticipated the easy acquiescence of the Commission and the Commission's policies being undercut by the Council of Ministers, at least to some extent. Unfortunately, the Commission lost its authority on account of this charade, which made its requests and threats ineffective. The Commissioners let themselves get too involved in the goals of the companies and were to obsessed with the success of their programme.

The developments of the restructuring plan are a consequence of the particular dynamics resulting from the goals and instruments embedded in the ECSC treaty. The minute the Commission officially recognised that the steel industry was in a crisis it was bound by the ECSC treaty to intervene in the market. The companies knew how to take advantage of the automatic intervention mechanism. Even though the Commission was aware of the weaknesses in the treaty, it considered a revision to be extremely unlikely because unanimity and ratification by all national parliaments would be necessary to make a change to the treaty, according to Article 96.[42]

Based on the situation in which the European steel market found

[42] See *EC-Commission* (1991) p. 9.

itself, the suggestion of the Commission to co-ordinate and enforce capacity reductions by way of binding contracts was appropriate. The national subventions made financing overcapacity possible, which kept the 'prisoner's dilemma' going. The Braun Mission was a plan B, which was implemented when the Commission could not enforce plan A, namely prohibiting subvention. The companies lost interest in the capacity reductions because the market recovered, which is why the Braun concept was also ineffective. As in the second steel crisis, the member states tried to save their steel industries through subsidies at the national level, some of which led to a European subsidy race.

As has been shown here, subsidy applications caused delays in capacity reduction and the Commission's policy ultimately failed. Despite the clear prohibition on subventions in Article 4c of the ECSC treaty, the Commission did not succeed in preventing subventions from individual states in the second crisis. Some states did not even wait for the approval of the Commission before protecting their own steel companies in a liquidity squeeze. The Commission was unable to establish its authority.[43] The experience of the Commission in the second crisis influenced its behaviour in the third by way of the following reasoning:

> "Under the current economic conditions in the distressed steel industry, there is no guarantee that the less lucrative over-capacities will disappear. Rather there is a constant danger that the enterprises will resort to state subsidies." (Author's translation)[44]

This sceptical attitude of the Commission was indeed verified by the policies of the member states. Yet what would have happened had the Commission refused to recommend the approval of the subsidies to the Council? It can be assumed that the public steel enterprises would still have been subsidised because of their political and economic importance. Because the matter involved state enterprises, many people are of the

[43] One must keep in mind, however, that it refused to process the subvention applications during the third steel crisis until the governments adjusted their restructuring concepts and capacity reductions to the requirements of the Commission.
[44] See *EC-Commission* (1992b), p. 9.

opinion that the state should take some responsibility. Were it not possible for the subsidised member states to keep the subsidies secret, the Commission would have been forced to act against these states. The Commission was able to claim a violation of the regulations according to Article 88 of the ECSC treaty, for example, and stop ECSC payments to member states, as well as the investment aid outlined in Article 54, the research aid outlined in Article 55, and the social adjustment funds according to Article 56 of the ECSC treaty[15]. Paragraphs five and six of Article 54 of the ECSC treaty even granted the Commission the power to charge penalties up to the amount of the unapproved subsidies. It did not come to this, and thus it can be assumed that the Commission forwarded the subsidy applications to the Council for approval because it wanted to avoid a political dispute with the member states.

6. Conclusions

The European steel industry has made headlines at regular intervals. The news was usually bad: reports of high losses, lay-offs, and capacity reductions. In times of such negative reports there was always a cry for state intervention. Because of the economic and political importance of this industry, national governments have often intervened in the past. The EC-Commission intervened at the supranational level as well. The reason for the special industrial and political engagement of the Commission was the Treaty of the European Coal and Steel Community (ECSC). The treaty held the Commission responsible for the steel industry, and gave it the means to implement a diversified industrial policy.

The dynamic of European steel politics was determined by a dualism between supranational and national industrial politics. As became clear again in the third steel crisis, getting the two levels to agree is a daunting task. National steel politics created the economic conditions under which the Commission had to make its decisions. Individual governments shaped national steel policies according to their own national interests and economic ideas. When national goals could not be realised on the

[15] See Vondran, R. (1993), pp. 31.

EU level, the member states tried to implement them at the national level and vice versa. The divergent national interests and the unwillingness of the Commission to argue with the member states led to the domination of national interests over supranational and to a subsidy race which reduced European competition to the disadvantage of the unsubsidises or less-subsidised enterprises.

The Commission tried to represent its intervention in the European steel market after the fact as a planned restructuring concept.[46] In truth however, most measures were mere reactions to pressure from outside. The real driving force behind the measures was either the deteriorating financial situation of European companies, and their call for intervention, or the individual member states.

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ANNEX

TABLE 1. Production and position of European companies amongst the 30 largest crude-steel producers of the world

	1977		1982		1987		1992		1997		1999	
	m. tons	No.	m. tons	No.	m. tons	No.	m. tons	No.	m. tons	No.	m. tons	No.
Usinor-Sacilor (F)					16.7	1.	21.1		16.1	3.	22.2	1.
British Steel (UK)	17.7	1.	11.4	1.	13.6	2.	12.4					
ILVA (I)					12.5	3.	11.0					
Thyssen AG (G)	11.5	2.	9.6	2.	10.7	4.	10.2					
Thyssen-Krupp (G)									17.4	2.	16.1	3.
ARBED (LUX)							7.1		18.8	1.	22.2	2.
SACILOR (F)	8.2	3.	6.7	4.								
USINOR (F)	6.8	4.	8.8	3.								
Cockerill-Sambre (B)			4.6	5.	4.3	6.	4.4		6.8	5.	6.6	5.
RIVA (I)							4.3		14.8	4.	14.1	4.
Klöckner (G)	4.0	6.	4.2	6.								
Hoogovens BV (NL)	4.6	7.	4.1	7.	4.8	5.						
Hoesch AG (G)	4.8	8.	4.1	7.	3.9	7.	4.2					
Krupp AG (G)	3.9	9.	4.0	8.	3.8	8.	4.4					
Peine-Salzgitter (G)					3.4	9.	4.1					
Mannesmann AG (G)	3.9	9.	4.0	8.								

Source: EUROSTAT, iron and steel, 1983, 1990, 1993, 2000.

TABLE 2. Share of the member states among the European steel production

Share in %	1960	1975	1981	1985	1993
Germany	46,7	32,3	33,0	33,6	28,5
France	23,7	17,2	16,9	15,4	12,9
Italy	11,6	17,4	19,7	19,8	19,4
Great Britain	X	15,8	12,2	13,1	12,6
Belgium	9,8	9,2	9,7	8,9	7,7
Netherlands	2,7	3,9	4,3	4,6	4,5
Luxemburg	5,5	3,7	3,1	3,3	2,5
Spain	X	X	X	X	9,8

Source: EUROSTAT (1978, 1986 and 1994) and own calculation, rounded.

TABLE 3. Subsidies in relation						
	Subsidies in m. Euro per tons raw steel					per person employed
rounded	**1975-1979**	**1980-1985**	**1986-1991**	**1992-1993**	**1975-1993**	**1975-1993**
Germany	2	12.3	0.5	7.2*	22.0	37.440
France	9.2	93.6	1	-	103.8	300.262
Italy	23	82.3	23.5	50.6	179.5	281.426
Great Britain	67.4	78.7	-	-	146.2	354.247
Belgium	23	77.7	-	-	99.7	271.544
Netherlands	1	17.9	-	-	18.9	36.904
Luxemburg	0.5	32.7	3	-	36.3	118.713
Portugal	.	.	119.1	195.8	315.0	265.765
Spain	.	.	71.1	130.9	201.2	312.837
EC	18.9	58.8	17.8	25.6	115.0	220.246

Source: EUROSTAT (1978, 1986 and 1994) and own calculation, rounded.