Restructuring of the European steel industry

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Instead of capacity cuts there were continued investments in capacity expansions thereby exacerbating overcapacity.

### W. Europe* investment in steel industry (million ECU**)

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment (million ECU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>1000</td>
</tr>
<tr>
<td>1971</td>
<td>1500</td>
</tr>
<tr>
<td>1972</td>
<td>2000</td>
</tr>
<tr>
<td>1973</td>
<td>2500</td>
</tr>
<tr>
<td>1974</td>
<td>3000</td>
</tr>
<tr>
<td>1975</td>
<td>3500</td>
</tr>
<tr>
<td>1976</td>
<td>4000</td>
</tr>
<tr>
<td>1977</td>
<td>4500</td>
</tr>
</tbody>
</table>

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### W. Europe* production, capacity and utilisation rate (million tonnes, %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Capacity</th>
<th>Utilisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>127</td>
<td>119</td>
<td>86%</td>
</tr>
<tr>
<td>1971</td>
<td>135</td>
<td>136</td>
<td>77%</td>
</tr>
<tr>
<td>1972</td>
<td>139</td>
<td>142</td>
<td>82%</td>
</tr>
<tr>
<td>1973</td>
<td>174</td>
<td>179</td>
<td>86%</td>
</tr>
<tr>
<td>1974</td>
<td>179</td>
<td>190</td>
<td>87%</td>
</tr>
<tr>
<td>1975</td>
<td>126</td>
<td>190</td>
<td>66%</td>
</tr>
<tr>
<td>1976</td>
<td>134</td>
<td>198</td>
<td>68%</td>
</tr>
<tr>
<td>1977</td>
<td>126</td>
<td>201</td>
<td>63%</td>
</tr>
</tbody>
</table>

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* EU 9 countries include Germany, UK, France, Italy, Ireland, Belgium, Denmark, Luxembourg, Netherlands
** 1 ECU is equivalent to FB 40.66, DKr 6.54, Ir£ 0.66, FF 5.6, FI 2.78, USD 1.13, Flux 40.7, £ 0.66, FS 2.76, DM 2.67, Lit 989.3, Can$1.14 as of Dec. 31, 1976
This further worsened the market situation and losses continued

W. Europe* steel capacity utilisation rate and profitability (%)

Financial losses of EU companies between (million ECU***)

* EU 6 until 1972, EU9 afterward
** UK steel companies average pre-tax income as % of sales
*** 1 ECU is equivalent to FB 40.66, DKr 6.54, Ir£ 0.66, FF 5.6, FI 2.78, USD 1.13, Flux 40.7, £ 0.66, FS 2.76, DM 2.67, Lit 989.3, Can$1.14 as of Dec. 31, 1976
During the restructuring phase, capacity in Europe was reduced by almost 20%, resulting in significant improvement of the utilisation rate.

W. Europe* - production, capacity and utilisation rate (million tonnes, %)

*EU 9 countries include Germany, UK, France, Italy, Ireland, Belgium, Denmark, Luxembourg, Netherlands
As a consequence of capacity reduction and other supporting policies, profitability recovered dramatically.

W. Europe* - steel capacity utilisation rate and profitability (%)

Phase 1 - Capacity expansion
- to meet the high demand growth

Phase 2 - Restructuring
- to deal with overcapacity when demand saturated

Phase 3 – Privatization and consolidation
- to improve profitability and ensure sustainability

* EU 9 countries
** UK steel companies average pre-tax income as % of sales
Under Davignon II, Europe reduced ca. 40mt (20%) of steel capacity within 5 years

W. Europe* capacity change (million tonnes)

W. Europe* capacity change by country between 1980 and 1986 (million tonnes)

* EU 9 countries include Germany, UK, France, Italy, Ireland, Belgium, Denmark, Luxembourg, Netherlands
The European producers received state aid of almost 38 billion ECU during Davignon II, but only a fraction of this was directly required for closure and redeployment.

State aid by country 1980 - 1985 (million ECU)

State aid breakdown by category 1980 - 1985 (billion ECU)
Ca. 5 billion ECU came from the EU commission of which more than 2 billion was used to support manpower reduction.

State aid from commission (million ECU)
About 0.5 billion ECU was used for redeployment of more 180000 employees

Financial aid for redeployment, number of people that received aid and aid/person (million ECU*, thousand, ECU/people)

- Redeployment aid was income support for the workers affected, whether they are
  - Unemployed
  - Employed in a different job
  - Undergoing vocational training
- The ECSC also contributes towards the cost of organising training courses and helps to facilitate re-employment by paying travel or resettlement allowances for redeployed workers
Nearly 1 billion ECU used for creating new jobs in other sectors

Reconversion aid for job creation, number of jobs created, cost per job created (million ECU, thousand, ECU per job)

- Creation of new jobs primarily for workers in steel and coal industries
- Loans with reduced rates of interest were given to support job creation in other sectors and investment in small and medium-sized businesses (SMEs)
Bilateral Trade Agreement in terms of volumes and prices supported market stabilisation

W. Europe* steel imports and exports (million tonnes)

- The European Commission developed an international framework in order
  - To maintain a reduced imports level but of the same economic value
  - To authorise a reduced export level but at an economic level which would not threaten the profitability of exporters nor that of steel plants in the importing countries

*EU9 countries include Germany, UK, France, Italy, Ireland, Belgium, Denmark, Luxembourg, Netherlands
Sources: The Politics of Steel, OECD, Eurostat, Steel industry annual report, ArcelorMittal Corporate Strategy team analysis