German Steel Industry Bears the Brunt of the Crisis

By Dr. Ruprecht Vondran
Executive Director,
German Iron and Steel Federation

For most European countries the beginning of large-scale iron and steel production marked the start of their industrial history. Up until World War II a nation's economic and military strength was measured by the size of its population, the amount of energy it consumed and the tonnage of steel it produced annually. Today, such criteria in themselves no longer have the same importance. A large and a rapidly growing population means for many governments difficult supply problems which drain the vitality of the domestic economy. Above average energy consumption is no longer looked upon as an indicator of industrial vitality; it often means an overdependence on foreign energy resources. Something similar can be said about steel production. Its importance is shrinking in modern economies. Within the European Economic Community, steel's contribution to total gross added value is only about 10%, and about the same applies in the Federal Republic of Germany.

The European Community in 1960 accounted for 29% of total world steel production. In 1981, Europe's share dropped to 18%. For Germany the pertinent figures are 10% and 6%. Such a decrease is not a calamity. It rather reflects the principle of the international division of labor in which newly industrialized nations tend to try to provide their national economies with all necessary domestic steel products while also filling to a certain extent the demand of other countries. It would be wrong to withhold from these nations the technical means they need to develop their steel industries or to shut them out of our markets with trade barriers. Any such policy aimed at containing a nation's development and contravening the principle of the international division of labor would not only lead to intolerable political tensions, but more importantly, it would fetter the important economic forces which the "old" industrialized countries need to maintain their leading position in technical progress.

However, it would be wrong for young third-world countries to believe they can, within a few years, supplant a steel tradition in Europe that reaches back more than a hundred years. The steel industry is capital intensive. And capital is just what most developing countries need more than anything else. When comparing the different industrial sectors, steel is not particularly labor intensive. Many of these nations now trying to industrialize have unemployment problems. By setting up their own steel industries they will solve these employment problems only to a small degree. To obtain economies of scale, a steel market of some size is needed. In many developing countries, however, steel consumption is still small. Consequently they must sell a large part of their output on the risky and unpredictable world market. The redeployment of steelmaking centers from the North to the South will therefore take some time. Nevertheless, the traditional steelmaking countries must be ready to turn to a growing number of products with a higher added value. In Germany, this is generally recognized, and restructuring of the steel industry is in full progress.

Europe's Head-in-the-Sand Approach: the Davignon Plan

The steel policy of the European Community since 1974 has, however, not always been in harmony with the above principles. Economic experience tells us that a policy aimed at the maintenance of existing economic structures cannot, in view of far-reaching economic changes, be successful in the long run. Unfortunately, the truth of this has not been respected everywhere. Adaptation to altered circumstances is always an uneasy thing for contemporaries who must weather the changes. "Every advance expels us rapidly from the centuries we have scarcely taken possession of" (Antoine de Saint-Exupery). The destruction of the guilds, the passing of the colonial era, the technical revolution of the machine age, have all proved to be painful experiences in the past. To stick to old ways has always shown itself to be a policy without a future. The costs involved will grow so quickly that, soon, they cannot be borne any longer. There are reliable signals indicating that the steel crisis in Europe will add another link to this chain of painful experiences.

The attempt to overcome the present problems of the European steel industry is called the "Davignon Plan." This plan embodies two ideas:

— to prevent cracks in the social and economic structure, cracks which would be unavoidable if changes develop too rapidly, and
— to maintain even inefficient plants or companies, irrespective of the costs involved.

The first idea is to be supported; enough cannot be said against the second. The problem is that all decisions made in the context of the Davignon Plan claim to meet the first of the above-mentioned goals. However, over the last few years, the necessary evolution of the industry has been blocked frequently. Many of the measures decided upon during this time have been designed to merely preserve the status quo.

This can easily be seen in the basic concept of the Davignon Plan. For an interim period, companies should not compete in a weak market for additional production shares by cutting prices. Access to the market is dependent on permits such as production and delivery quotas. For that purpose an allocation system is set up. It is not based on the efficiency of the individual companies but on the market share gained in a boom period dating back many years. Such a system protects weak steel companies which operate at high costs and is a restraint on the strong, efficient companies. It is quite obvious that such a market order for steel will never lead to a European steel industry "at the highest possible level of productivity" as

Duisburg plant of Thyssen AG

demanded by Article 2 of the European Coal and Steel Community Treaty. It may be all right to put aside this aim temporarily. However, this can only be justified if companies and the national economy profit from this period of grace by using the chance offered for rationalization. When, instead, in this artificially created environment, they fail to try to improve their basic structure, the whole operation is robbed of its original purpose.

Luckily, even a system of production quotas cannot completely neutralize the natural adjusting forces tending toward rationalization. The differences between the costs of production are not levelled by quotas. The quotas stipulated for all companies according to the same criteria and the prices more or less publicly administered could in fact still lead to profits for the well-structured companies while marginal works would have to operate in the red. Market forces are no longer free, but operate with a time lag. They can nevertheless produce the necessary results: The concentration of production in those suppliers with the most favorable costs.

However, it is extremely disappointing that many European governments are too weak to accept even this decelerated selection process. They not only insist on the continued safety of production quotas, but they also try to protect their companies from all remaining risks. They invest taxpayers' money in order to render their firms immune from the adjusting forces dictating rationalization. Subsidies must also be viewed from several different angles: In so far as they aim at smoothing the process of restructuring they can be tolerated. Much harder to justify is the giving of governmental assistance to try to prevent money-losing plants from being closed down. In this respect there are great differences from country to country. After hesitating for a long time, Great Britain has considerably reduced its steelmaking capacity. France was also proceeding along this path until the last presidential election. Since then, however, France has been following a policy which tends more toward safeguarding employment. Belgium, for internal reasons, seeks to maintain steelworks in non-coastal areas, although the country has at its disposal excellent locations on the coast and a healthy production structure. Italy supports a very costly system of national steel production, which is even being expanded to certain locations in the south out of regional development considerations. At the same time, Italy has a strong private steel industry in the north.

The Position in Germany

The companies in the Federal Republic of Germany have, up to now, survived with almost no state subsidies at all. Only in the Saar area, close to the French border where less than 10% of total German capacity is located, has the government granted restructuring aid.

On the whole, this listing is hardly cheering. The biggest part of the 35 billion U.S. dollars granted as public aid in the countries neighboring Germany since 1975 has gone to maintain inefficient capacity or companies. The responsibility for these poor decisions is widespread. Plant managers are responsible, because they did not meet the challenges of their job but called for government aid instead. Trade unions are responsible, because they mobilized their members into demanding that the government cover company losses. Politicians are responsible, because they did not resist the pressure that was exerted in this way. The Brussels Commission is responsible, because though bestowed by the founders of the ECSC with far-reaching powers, it has, without any defense worth mentioning, merely looked on—and continues to look on—as the European Community is undermined to its very foundations by such financing practices.

The German companies in this context are confronted by several problems. They must resist strong market pressure from surplus capacities as subsidies prevent obsolete plants from closing down. They find low-priced offers made by less competitive companies that include in their price calculations the public assumption of losses. Moreover, the American producers insist that, in their own market, they are damaged by the European subsidies. The German companies risk being involved in a trade policy that provokes trade conflicts with other nations.

In this context, it is necessary to clarify some questions that concern the magnitude of the problem involved:

— In the Federal Republic of Germany about 25% of apparent steel consumption is provided by other ECSC countries which support their steel companies largely with public aid. In the United States, these suppliers have, at the very most, a 4% share of apparent steel consumption. German producers, therefore, are much harder hit by the subsidies and their price effect than the American steel industry or any other group of producers.

— Another 15% of the German steel consumption is imported from third-world countries, a considerable tonnage thereof at dumping prices. This market share of 40% imports in total compares with only about 20% in the United States and no more than 2% in Japan. Therefore, among the three biggest steel producers in the western world, the Federal Republic of Germany is by far the most handicapped by a liberal system of world trade in steel.

To sum up, the impatience of the developing countries to build up their own steel industries even when the necessary economic conditions are not yet present, the competition with subsidized companies in Europe and protectionist practices overseas are the biggest problems confronting the German steel industry today. Such imbalances cannot be allowed to continue. No government can just look on for long at the way efficient jobs in its own country are lost. The industry is ready, both inside and outside the European Community, to promote the re-establishment of a healthy market order, free from distortions. It appeals to the Japanese industry to cooperate whole-heartedly in solving these questions. A collapse of the international division of labor would have very serious consequences for both countries. We cannot lose much more time. ●