

Opinion of the European Economic and Social Committee on 'The repercussions of trade policy on industrial change, with special reference to the steel sector'

(2004/C 117/15)

On 17 July 2003 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on 'The repercussions of trade policy on industrial change, with special reference to the steel sector.'

The Consultative Commission on Industrial Change was instructed to prepare the Committee's work on the subject.

At its 408th plenary session of 28 and 29 April 2004 (meeting of 29 April 2004), the European Economic and Social Committee decided to appoint Mr Lagerholm as rapporteur-general and adopted the following opinion by 46 votes in favour, 16 against and 8 abstentions.

1. Introduction. Aim and scope of the opinion; definitions

1.1 The steel sector, its process of continuous change and the impact of trade policy on that process, presents a case study of great value to other industrial sectors.

1.2 For the purpose of this own-initiative opinion, 'steel sector' is defined as the total of industrial activities related to steel production and steel distribution taking into account their important functions for the European steel-consuming industries. The scope of this opinion and the recommendations it contains therefore go well beyond the steel-making industry only.

1.3 In this document, 'industrial change' is meant to be the normal and continuous process of an industrial sector proactively responding to the dynamic movements in its business environment in order to remain competitive and create growth opportunities. Rather than being an objective of that process, changes to the structure of the sector are understood as a result of the response to these movements. 'Restructuring' refers to a particular form of industrial change and regularly is an ad hoc process of (often enforced) adaptation to the conditions in the business environment in order to regain competitiveness, leading to discontinuities in business activities. Restructuring has as its prime objective a fundamental change of structures in that industrial sector.

1.4 It is obvious that industrial change is largely driven by structural changes in the overall economic environment, especially by the dynamic change of market needs. Also internal (national and/or EU) policies of very different nature – i.e. legal, monetary, environmental, energy and last but not least, social – have a significant impact on industrial change, sometimes a decisive one. This of course can be very clearly observed monitoring the industrial change in the EU steel sector in the past 20 years. But this opinion only deals with EU trade policy, which by definition is an external element and sets the political framework for trade flows between the EU and other countries or economic regions of the world.

1.5 Consequently it has to be kept in mind that this opinion does not have as its aim to describe industrial change in the EU steel sector including all of the above-mentioned (internal) poli-

cies but only the interdependencies between the steel sector and (external) trade policy.

1.6 In this context it also has to be understood that the EU enlargement process is no longer an EU trade policy issue, which it has been to a considerable extent in the early phases of the accession negotiations with the then candidate countries. There will be a single enlarged common market by May this year leading to the conclusion that any further EU policies meant to assist industrial change and especially with the restructuring of the steel sector in the acceding countries, which is still necessary, are part of the internal EU policy framework.

2. Significance of trade policy in the steel sector

2.1 Companies compete in an increasingly global economy and the business conditions they face in the world market are key determinants of their competitiveness and growth opportunities. To a great degree, these conditions depend on the market framework put in place by policymakers: e.g. competition and internal market rules, international trade rules and specific rules and agreements on trade disciplines. This framework results from trade policies at both national and international levels. Ideally, it should stimulate and facilitate a permanent process of industrial change which reflects the dynamics of the global economy. It should certainly not have a negative influence on industrial change and hinder free and fair international competition. Indeed, trade policy should have as its main objective to secure the openness of the world trading system as well as to enforce 'fair play' on a level playing-field.

2.2 In this context it has to be pointed out that trade policy is an extremely important aspect of the European Union's political framework given that the EU is an export-oriented economy showing considerable surplus results in its trade balance. Consequently trade policy is an important driving factor for economic growth. The existence of a Commissioner and the DG Trade within the European Commission fully reflects the vital interest of the Community in the management of trade policy. The Lisbon Strategy to support the competitiveness of European economy certainly looks at the enhancement of internal parameters in the first place; but the success of such

efforts will largely show only in global markets which of course can only be reached by relevant and equally successful trade policy development.

2.3 In the steel sector, the significance of trade policy is extremely high. Steel, together with oil, is the most commonly traded industrial product between nations. Today, approximately one third of total world steel production is traded across borders: almost double the figure of thirty years ago. Conditions applying to international steel trade therefore present one of the most important factors for competitiveness in this sector. Similar observations can be made regarding the almost unlimited variety of steel consuming industries and their products – i.e. the automotive sector, shipbuilding and mechanical equipment. Trade policy directly affects how the steel sector with its different segments can respond to competition on its own domestic markets and how it can access third country markets. Trade policy is instrumental in shaping the rules-based system within which world trade operates and the extent to which it can respond to structural changes in its business environment.

2.4 The importance of international steel trade is reflected in the fact that more than 40 % of current WTO conflict cases are steel related. That figure reflects the continuing challenges of the sector in terms of the existence of inefficient capacities, often funded by state aid, which constitute a distorting influence on trade flows and it tells us that there exist fundamental flaws in the application of existing agreements on rules governing international trade by WTO members.

2.5 Finally, it has to be kept in mind that the EU steel sector constitutes an essential element of the European economy and contributes significantly to economic development. Steel is the fundamental and still most important industrial material with a global market volume of more than an estimated EUR 350 billion – more than ten times the market volume of any other industrial material – and essential for infrastructure development as well as for most of the different manufacturing sectors. A very efficient EU steel production is able to fulfil any market needs the important steel consuming sectors may develop, largely helped by equally efficient steel distribution systems which organise about two thirds of the market supply and render ever increasing services to steel consumption. Without its own highly competitive steel production the Community could not rely on its own resources and own know-how to develop still further the competitiveness of EU steel consuming industries among the world's leaders. Maintaining a vibrant steel sector should therefore be of major political concern to the EU.

3. Industrial change in EU steel production and trade policy

3.1 Steel production in the EU-15 has undertaken extensive restructuring efforts since the early eighties: a reduction of 50 million tonnes of market-effective steel making capacity, the closure of more than 50 % of its production sites and the reduction of the number of employees in the steel-making industry from 900,000 to 250,000. The EU-15 is the second largest steel producer in the world after China, producing about 160 million tons of crude steel per year, representing approximately 20 % of world steel output. Its turnover is calculated at about EUR 80 billion.

3.2 Today, European steel production (EU-15) is among the best, worldwide, in terms of manufacturing skills, equipment performance, product quality, distribution and service activities and innovative capacity. It is characterised by the co-existence of a few very large and truly global players, a number of smaller and specialised producers and numerous highly efficient distributors and service centres. The painful process of restructuring in the eighties and first half of the nineties, followed by a process of privatisation and consolidation, has resulted in a modern and competitive sector which could rightfully feel confident about its future and its capacity to successfully respond to the challenge of continuous change under free and fair trade conditions.

3.3 Indeed, in a market truly subject to the rules of free and fair competition, EU-15 steel production would even be more competitive than it is today. However, the international competitiveness of EU steel production is seriously threatened by protectionist measures and market distorting practices in third countries such as the S. 201 safeguard measures taken by the US government, which were ruled not to be in conformity with WTO rules by WTO panels. Also, non-viable excess capacities worldwide continue to destabilise the balance between supply and demand and thus steel prices – especially in poor global market situations.

3.4 In the extensive restructuring of the steel production in Europe in the 1980s and 1990s, trade policy played a key role. In response to the increase of third country imports and based on the European Coal and Steel Community (ECSC) treaty, the European Commission initiated its 'Volet Externe': a series of measures for peripheral protection which consisted essentially of bilateral agreements with the main steel exporting countries to voluntarily restrain their deliveries to the Community and which complemented the internal measures taken to control state aid, assist restructuring and for a time regulate the market. The measures stayed in force throughout the crisis period and maintained imports at around 10 % of apparent consumption.

3.5 Steel production in the new member states of the EU as of May 2004 is still in a process of structural change, key elements of that change process being cutting of non-viable excess capacities, bringing steel-making technologies up to modern standards, enhancing economic and market synergies through consolidation efforts and making the paradigm shift from a production-oriented approach to one which is market-oriented and based on customer oriented entrepreneurship. The EU-15 supported this process through a series of bilateral agreements with the candidate countries in the years before accession, implementing the EU rules based on the ECSC instruments. These regulations went as far as giving the European Commission the right of control and approval of national restructuring plans.

3.6 As a result, EU steel production in the enlarged Union will present itself in a different form on the world market. On one hand its position will be strengthened by the accession of the new member countries and the Union again becoming a more important net exporter of steel. On the other hand, the structures of EU steel production will be weakened by the sheer fact that steel undertakings in these countries are still in a process of restructuring. Trade policies will have to take the above circumstances into account, albeit within a rules-based system.

4. Future challenges for trade policy and industrial change

Today, European steel production seems considerably vulnerable to policies and practices that breach trade disciplines. The European market for steel is the most open in the world. Following the zero-for-zero agreement on steel in the Uruguay round, tariff rates for imports of steel in the EU are eliminated in 2004. Imports of steel in Europe have grown very fast in recent years, rising from 14.5 million tonnes in 1997 to 24.6 million tonnes in 2002 - a 70 % increase - and turning the EU, which had been a net exporter for decades, into a net importer of steel in 1998. (In 2003 exports were again slightly larger than imports.)

From here on, looking into the future, a number of challenges can be identified that set the context of trade policy in relation to ongoing changes in the steel sector in the coming few years:

- The former CIS countries Russia, Ukraine and Kazakhstan – which are not WTO members - represent a region where EU trade policy is still steel-specific given the bilateral agreements regulating trade in steel products with these countries. These agreements represent a mature and pragmatic response to the challenges presented by these economies in transition: permitting a controlled development of trade and avoiding trade surges and an anti-dumping reaction during a period in which the industries of these countries are adjusting their capacities and developing their internal consumption. The possible accession of Russia to the WTO is another very important element for the EU steel industry.

- As compared to other industrial sectors, steel is still highly fragmented on a world scale; the process of consolidation has taken place solely in few regions such as the EU. It is, however, to be expected that in the coming years steel firms will increasingly be looking for cross-regional mergers and alliances, following the process of globalisation and consolidation in their industrial markets. Multilateral trade agreements should take account of that dynamic movement, lifting barriers to foreign investment as well as to in-company trade.
- In a global economy, the concept of 'home market' no longer exists. Already a large number of steel producing and distributing companies have operations in other regions and approach customers in these regions as an 'on-shore' supplier. Future trade policies will not only have to take into account this trend towards internationalisation, but will also have to encounter other dynamics of this industry with new steel producing regions looking for a position on the world steel planet. Many steel firms located in developing countries are already modern and competitive and their preferential treatment in the world trade system therefore cannot be justified.

5. The EESC's comments on key trade policy issues in the steel sector

Given its present position and the future challenges it faces, the EU steel sector, in order to successfully respond to the dynamic movements in its business environment, will want to see the same openness and fairness in steel markets around the world as is the case for third country imports into the EU. Despite the negative outcome of the WTO meeting in Cancun in September 2003, the Doha Round still provides an opportunity to make significant progress in unrestricted market access between WTO members. It also permits discussions on improvements to existing rules, fine-tuning and reinforcing existing disciplines, notably anti-dumping. In a wider perspective, an effective launch of negotiations on the so-called Singapore issues, such as trade facilitation and trade and competition, would bring real benefits to the steel sector in Europe and indeed world-wide.

Without totally excluding the possibility of improving market access through a bilateral or regional approach with those regions or countries with which the EU has the greatest economic interest in terms of trade, the interests of the EU steel sector are served best in a multilateral trade system (WTO). This should be based on rules that are consistently transposed into national law by all countries and provides for instruments that are applied objectively with no political interference and implemented on an equal basis by all countries. Given the steel related trade policies and practices of certain countries in the past years, the efforts of the EU should focus strongly on the following points:

- priority to improving market access and removing barriers to trade;

- stronger rules on fair trade: anti-dumping, subsidies, safeguards;
- targeted and responsible use of WTO instruments: speedy, measured and proportionate redress only for combating unfair imports;
- above all: ending the abuse of trade instruments for nationalist and protectionist reasons, judging trade cases on their economic/technical rather than on their political merits;
- widely differing social and environmental standards in different parts of the world affect trade flows not only in steel but in many other sectors as well. The differences between economic regions regarding conditions to guarantee fundamental social rights and the protection of the environment lead to economic distortions in world-wide competition and have to be considered as problems not only of the industrial sectors involved but of all policy-makers - including trade policy. The most important elements of these basic statements can be further evaluated taking into account the following aspects.

5.1 *Market access*

5.1.1 As stated above, the European market for steel is the most open in the world and European steel production is considerably vulnerable to policies and practices that breach trade disciplines. Consequently the European steel sector needs to see the same openness in markets around the world. Both European and multilateral trade policy instruments need therefore to remain mobilised with a view to removing obstacles to market access in third countries while providing effective remedies to unfair trade practices by those third countries accessing the EU steel market. The effective use of trade policy instruments is a legitimate interest of the steel industry.

5.1.2 The priority of the EU is that the Doha Round delivers effective gains in market access through tariff reductions accompanied by the simultaneous elimination of non-tariff barriers. As to the special and differential treatment (SDT) for developing countries, SDT should apply only on a case by case basis and distinguish between countries and sectors, according to their level of competitiveness. SDT in itself should not prevent tariff elimination by those developing countries with highly competitive steel industries.

5.1.3 Effective market access gains will only be achieved if tariff reductions are accompanied by the elimination of non-tariff barriers. Furthermore, the application of existing WTO rules can constitute a barrier to market access. The Doha Round provides an opportunity for governments to clarify existing rules and to harmonise their application on the basis of best practice.

5.2 *Anti-dumping*

5.2.1 Anti-dumping measures are still necessary to defend the European industry against unfair trade practices but the operation of anti-dumping instruments must be impartial and non-discriminatory, the rules being applied to all equally and without exception unless especially provided by WTO rules. For that, discussions should be pursued to achieve a greater harmonisation of the implementation of the existing WTO agreement on anti-dumping, preferably towards EU anti-dumping standards.

5.2.2 Important objectives for a harmonised application and strengthening of the anti-dumping agreement should focus, above all, as the efficiency and effectiveness of the instrument: fair and expeditious timetables, early provisional determination of injury, mandatory adoption of the so-called 'lesser duty' rule, just to mention the most important.

5.2.3 If the main objective of an world-wide adaptation of EU standards regarding anti-dumping procedures cannot be achieved, the EU should optimise its own anti-dumping application, enhancing its effectiveness, efficiency, transparency and objectivity. The European steel sector must be enabled to fight effectively against dumped or subsidised imports from third countries. EU legislation on anti-dumping and anti-subsidy procedures is considerably more liberally organised than laid down by the WTO or is the case in other countries, notably the USA. This is true for example for the 'Community interest' clause and the 'lesser duty' rule. Practical implementation in the EU also exhibits weaknesses in comparison with other countries, the European Commission refusing to open proceedings to react to threat of injury, instead demanding proof of injury that has already occurred. Also, the Commission makes use of the maximum time periods for investigation in EU rules, leading to further delays. Finally, the EU needs of more rapid and effective monitoring of trade flows. These and other shortcomings should be corrected.

5.3 *Subsidies*

5.3.1 Subsidies are discussed within the Doha Round as well as within the OECD, the latter having as its main objective the conclusion of a specific steel subsidies agreement (SSA). The pending OECD discussions are of extreme importance. An international agreement on a general prohibition of any kind of (direct or indirect) state aid for steel undertakings, with only a very limited number of green-lighted exemptions, would have a very strong positive impact on trade relations between countries. Indeed, the agreement on subsidies should above all address the root causes of steel trade disputes: subsidised excess and inefficient production capacities. These inefficient capacities intensify the trade problems of the industry, pressing more material than can be absorbed on international markets and certainly on the most open markets such as the EU.

5.3.2 The cornerstone of a new international agreement should be the prohibition of all specific subsidies but for a limited set of exemptions as they were foreseen in the European Steel Aid Code, the most important being subsidies for permanent closures including state aid to help with social consequences. All generic subsidies should be allowed, with the exception of those that contribute to the creation of new capacity or the maintaining in activity of uneconomic capacity. Special and differential treatment (SDT) can be envisaged for developing countries respectively for steel sectors facing the need to restructure. Temporary derogations for these countries and sectors should be conditioned by the long-term viability of the beneficiaries and to a reduction of capacity commensurate with the amount of subsidies received.

5.3.3 Negotiations should further aim to establish more effective (pre-)notification rules to strengthen a preventive approach and to establish a dissuasive system of sanctions, including the incorporation of automatic sanctions in case of violation of the obligation to pre-notify.

5.3.4 However, taking into consideration the number of participants and their until now widely divergent positions, there are strong concerns that the OECD negotiations will end up in a compromise 'window dressing' agreement and will not really improve on the current disciplines. Such an agreement should not be supported by the EU.

5.4 Trade policy, industrial change and the social dimension

5.4.1 The restructuring of the European steel sector in the eighties and early nineties had dramatic consequences for employment. Trade policy instruments used by the European Commission during that episode were used to support the restructuring process. Then and now social and employment policies have a role to play in ensuring that the promotion of competitiveness and growth is part of the balanced implementation of trade policies in the context of industrial change processes. By constantly upgrading the skills of workers and the quality of work, they greatly contribute to a smooth and successful process of industrial change, serving the interests of all stakeholders.

5.4.2 Also, the increasing demand for corporate social responsibility may ultimately make a positive contribution to the competitiveness of the European steel sector in the context of the European Social and Economic Model.

5.4.3 Workers' interests are best met by an industry that can firmly stand on its own feet and has no need to hide behind the back of national governments to protect itself against fierce but fair competition. Steady employment, good labour conditions, sound future perspectives: the winds of free and fair trade can only help to achieve these goals. Finally, the steel sector today understands that its process of industrial change

should be managed so as to anticipate developments and avoid abrupt deterioration and structural damage with unacceptable social consequences.

6. EESC conclusions

Considering the findings of this own initiative opinion on the repercussions of trade policy on industrial change, with special reference to the steel sector, the EESC reaches the following conclusions:

6.1 The EU steel sector has a vital and strategic interest for the European Union given the competitive technological knowledge base on which it is built and its strategic importance for the development of infrastructure within the EU and for most manufacturing sectors.

6.2 Industrial change in the EU steel sector has been effectively enhanced by the use of the ECSC instruments in the restructuring process - not least by the social dialogue that has been an integrated part of that process. While this was not able to prevent the restructuring process having profound repercussions for employment, compared with other sectors the impact was substantially alleviated by diverse social measures. Trade policy, the subject of this opinion, has, together with trade policy measures undertaken to support other instruments, played an important role in this restructuring process. The EU steel sector therefore may well serve as a case study on the implications of industrial change as well as the repercussions of trade policy on the potential success of change management and may provide lessons to be learnt for other industrial sectors.

6.3 Trade policy is an essential part of the market framework put in place by policymakers and has to ensure a level playing field and fair play on that field, on which the competitiveness and future growth opportunities of the sector largely depend.

6.4 In the EU steel sector there are considerable interdependencies between industrial changes designed to maintain existing, achieve missing or regain lost competitiveness and trade policy strategies designed to ensure the necessary success of change management in both domestic as well as in international markets. As a result, the EESC makes the following recommendations for trade policy to help with industrial change in the future:

- being an export-oriented economy, the European Union should continue a general policy of open market access, provided that common rules of fair trade are respected;
- the European Union should initiate and improve the development of multilateral trade regulations such as the intended steel subsidies agreement but not endanger existing high EU standards;

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- the European Union should continue to conclude bilateral agreements with important trading partners as far as multi-lateral regulations do not yet cover Community interests;
 - in all cases of unfair trade practices the European Union should make effective use of existing trade defence instruments and support the use of the WTO dispute-settlement rules.

Brussels, 29 April 2004.

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