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EUROPEAN COUNCIL, BRUSSELS
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STEEL

Brief by Department of Industry

OBJECTIVE

[If steel is discussed] To discourage any pleading of social and political difficulties as preventing steel capacity reduction and phasing out of state aids.

POINTS TO MAKE

2. Welcome agreement at 8 June Industry Council on extension of mandatory production quotas.
3. Anti-crisis measures have enabled Community steel prices to recover from the uneconomic levels that threatened the industry with bankruptcy last year. But market restrictions are bad in principle and offer no permanent solution to over-capacity. Social and political problems - which the UK has had to face as a result of our own steel cutbacks - must not prevent capacity reduction linked to the phasing out of state aids.

BACKGROUND

1. Although strict enforcement of production restrictions and the ECSC rules on price transparency have improved the position of the Community steel industry since last year, orders are at a low level and the market is fragile and vulnerable to imports.
2. The Industry Council on 8 June agreed that mandatory production quotas should be extended, with the inclusion of wire rod, for another twelve months. Italian pressures for additional quota are to be considered further although some concessions have already been agreed.

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3. The state aids decision of 7 August 1981 provides for all state aid contrary to the ECSC Treaty to be phased out by end 1985 and in the meantime subjected to Commission approval tied firmly to restructuring involving capacity reduction. The Commission is facing considerable political difficulties but has so far adopted a fairly firm line (with German and UK support). Problems with the Italians (who have failed to notify the Commission of their aid plans) and the French (who have not only infringed Community law but have failed to offer significant capacity cuts to justify the level of aid proposed). Serious political sensitivities in Belgium and Luxembourg (whose economies are dependent on steel).

4. Massive closures and cuts in capacity by BSC have reduced employment by over 60,000 in the last two years, with another 15,000 expected in the coming 2 years.

5. US countervailing and anti-dumping actions are adding to the problems of the Community steel industry. They are covered by the brief on EC external trade issues (Brief No 7).

Department of Industry
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