EEC Steel: Davignon Seeks To End Free Trade

STEEL

With the failure of the Simonet plan to halt the collapse of the European steel industry, the new European Economic Community steel commissioner Etienne Davignon has proposed a revised plan to deal with the crisis. Davignon's plan, which is strongly endorsed by ex-EEC steel comissioner Simonet of Belgium and by Frenchman Jacques Ferry, the president-elect of Eurofer and president of the Syndicale de la Siderurgie Francaise, is designed to provide for massive reduction of the bankrupt Belgium and French steel industries. Under the plan, trade and competition within the EEC would be cut to an absolute minimum and strict import quotas would be imposed, allowing time for Belgium and France to "restructure," that is, rationalize, their steel industries by reducing the size by 25 percent and bailing out the banks by having the governments loan the industry the money to pay off otherwise unpayable debts.

By blaming the industry's problems on low-priced Japanese imports into the EEC and into previously traditional EEC export markets, Davignon hopes to draw the other EEC steel producers into accepting his plan. Besides the imposition of import quotas, Davignon's plan would also: establish production limits, provide for the rationalization of raw materials buying and of product lines, and establish minimum prices on various products. The British, however, have already dealt the plan a severe blow by backing down from the threat to close the British Steel Corporation plant at Shotton, North Wales, and committing themselves to spending $1.5 billion to expand BSC's Port Talbot plant in South Wales. It is doubtful that the British will risk injury to their ambitious steel modernization program to help Belgium and France rationalize their industries. It is also recognized that the Italians would prefer to go it alone rather than agree to a plan which would force production quotas. Under the Simonet plan, these quotas were voluntary.

In Belgium and France however, where steelmakers are desperately in need of government aid to avoid bankruptcy, there appears little resistance to the plans of Davignon and Ferry. Already in Belgium agreements have been reached whereby the industry is to be kept in limbo until a comprehensive program can be worked out under the control of Simonet and Davignon. The program is sure to include most of the Davignon plan. In return for this agreement, the government and banks will provide aid to the industry to maintain day-to-day operations.

In France, Ferry also blames the demise of the Simonet plan on its failure to limit imports into the EEC, and proposes that an agreement be reached between the "big three" — the U.S., Japan, and the EEC, which would, in times of slack demand, "permit the avoidance of the excesses of free competition, and would allow countries or groups of countries to take measures to safeguard their markets." Ferry reasons that any agreement reached between the big three could be forced upon small producers in developing countries.

Ferry's plan for France will mandate the closing of much of the older steelmaking capacity, most of which is in the Lorraine region, at the cost of an estimated 20,000-30,000 jobs, and seek to "concentrate steelmaking production at the ultramodern works." Furthermore, all state aid to the industry will require that shares of ownership be deposited with the Casse des Depots et Consignations (national savings bank), to insure that these plans are implemented. State aid, which is to be a one-shot deal only, is expected to be between $400 million and $600 million, most of which will go to pay short-term debt and interest on the industry's incredible $1.5 billion long-term debt. This will leave little money left for the modernization and rebuilding Ferry talks about. In Belgium, debt service also is to be paid before any "restructuring" can take place.

'Coal Or Uranium': MITRE Report Sets Trap For U.S. Utilities

UTILITIES

The MITRE Corporation energy report, commissioned by the Ford Foundation and widely acknowledged as a preview of Jimmy Carter's April 20 energy policy messages apparently recommends leaving the issue of energy sources for electrical generation to be decided on the basis of a cost comparison between nuclear and fossil fuel electricity production. The report compares construction and operating costs of nuclear and coal fired plants and determines that the prices involved are close enough to make the decision a political alternative, presumably to be heavily influenced by environmentalist groups. In fact, most environmentalist groups are funded by the same foundations and corporate sources that back the MITRE Corporation.

A brief survey of the facts reveals that the MITRE Corporation is conveniently presenting the picture inside out. What we have in the uranium-coal question is not an objective price comparison leaving a tough political decision, but a political determination of price being used to ram through a pre-determined energy policy, and one that is neither in the interest of the nation's energy producers or consumers.

Basing their judgment on the MITRE Report and other indications, utility analysts expect the Carter energy program to call for a massive reconversion of all oil and gas-fired generating plants to coal by 1985, and to say little about the current generation of Light Water nuclear reactors now in use. Reasons for the conversion cited in the MITRE report are the security of energy independence — the U.S. has very large coal reserves it notes — and the relative low cost of coal-generated electricity compared to oil and gas.

In the Mid Atlantic states, coal-generated electricity costs about half as much as oil per BRU. However, Eastern coal, which would be the main source of expanded coal production, has 4 to 5 times the sulfur content of the dwindling supplies of Western coal. As a result of this and tougher enforcement of air pollution standards, oil accounts for 35 percent of the electrical energy in the Atlantic coast states.

Thus, a significant part of the total electrical generating capacity of the U.S. is oil-fired. Conversion of the capacity to coal is an enormously expensive undertaking. When pollution control operations are added on, the cost is estimated at $100 million per plant.

This is the cost to the industry. Additional costs are those of doubling and tripling coal production and purchase of thousands of extra coal-carrying railroad cars and locomotives. Clearly, if there were a cost effective clean alternative, the industry would go with it. Nuclear-powered electrical generation, in operating costs taken apart from construction costs, is half as expensive as coal-fired generation, and until recently, total operating costs including construction costs were far lower for nuclear power plants.

Today a cost comparison between nuclear and coal comes out close to even only because the construction time for nuclear power plants has increased from 4.5 to 9 years since 1971. The sole reasons for this doubling of lead time for nuclear plant construction is the legal assault leveled against the industry by a myriad of environmentalist groups aided by a network of sympathetic judges on the state and lower federal court level. These groups have succeeded in virtually halting nuclear power plant construction.

In 1973 there were permits issued for the construction of 38,924 Megawatts of nuclear generating capacity.

In 1974 this was cut in half. In 1975 the total was further reduced 80 percent to 5488 megawatts.

In 1976 there were *no new* orders for nuclear plant construction.

In addition, the uncertainty threatening nuclear facilities in a hostile legal environment has forced the postponement of 49 percent of the backlog orders as of February 1977. This includes an average of 20 months per plant for 80 plants totalling 90,000 Megawatts capacity and the complete cancellation of three plants already started this year. The ferocity of the legal attack against the industry in recent years is exemplified by an unprecedented ruling this year by a lower court judge forbidding the Nuclear Regulatory Agency from issuing any more permits to build nuclear plants until he was satisfied that they were "considering environmental concerns."

Despite the fact that the vast majority of knowledgeable engineers have described the dangers of serious nuclear mishaps associated with these plants as negligible and almost without exception every poll and referendum has found the population in favor of building this plant, they are being stalled nonetheless.

Utilities Cannot Survive Nuclear Power Cutback

Unfortunately, the utilities industry itself is buckling under the pressure of this attack. The major industry representative group, the Edison Electric Institute, is now preparing a study endorsing the coal conversion scheme rather than fighting the Naderites head-on. The industry is trying to go around them. The strategy is going to backfire.

As was outlined in a report in this publication, last month, the U.S. electrical generating industry was built into the fastest-growing and most capital-intensive industry in the world through continual technological development which cheapened costs and resulted in horizontal and vertical market growth. The leveling off of that growth has left the industry with a massive debt overhang. Their apparent strategy for dealing with this problem has been to cut capital spending 14 percent in the fourth quarter of 1976, use the money to pay higher dividends in the hope of selling more common stock to finance future construction, and convert to coal with government help through rate increases, tax relief and bond guarantees. Being a vitally necessary regulated industry, the logic goes, the government will see that nothing goes wrong. With that political strategy for financial solvency, it is not suprising that the industry will support the Carter coal schemes.

But the Carter Administration's limited growth scenario is only a foot-in-the-door for more extensive deindustrialization policies. Although Carter may not specifically attack the Light Water Reactor now, the legal assault against nuclear power can be traced to the same behind-the-scenes Trilateral Commission network that advises Carter.

In the last analysis, the real effect of the highlighting of coal as the U.S.'s supposed major source of electrical energy is to place the utilities under the burden of more stringent and powerful environmental protection standards. An environmental case currently being fought in Ohio could cut coal usage by one-third in that state, and is being prosecuted on the basis of a computer environmental model that "predicts" alleged bad effects of coal. With that kind of precedent the utilities may well find themselves in financial hot water, totally under the thumb of the administration and targeted for selective "triaging" in a few years.

FLASH

March 31 — A Federal Judge today ruled unconstitutional the Price-Anderson Act. This law provides government liability insurance of up to 4500 million against nuclear power plant accidents and places a ceiling on overall liability. A spokesman for the Nuclear Regulatory Commission commented that if the ruling stands this could be the end of the nuclear power industry in the United States.