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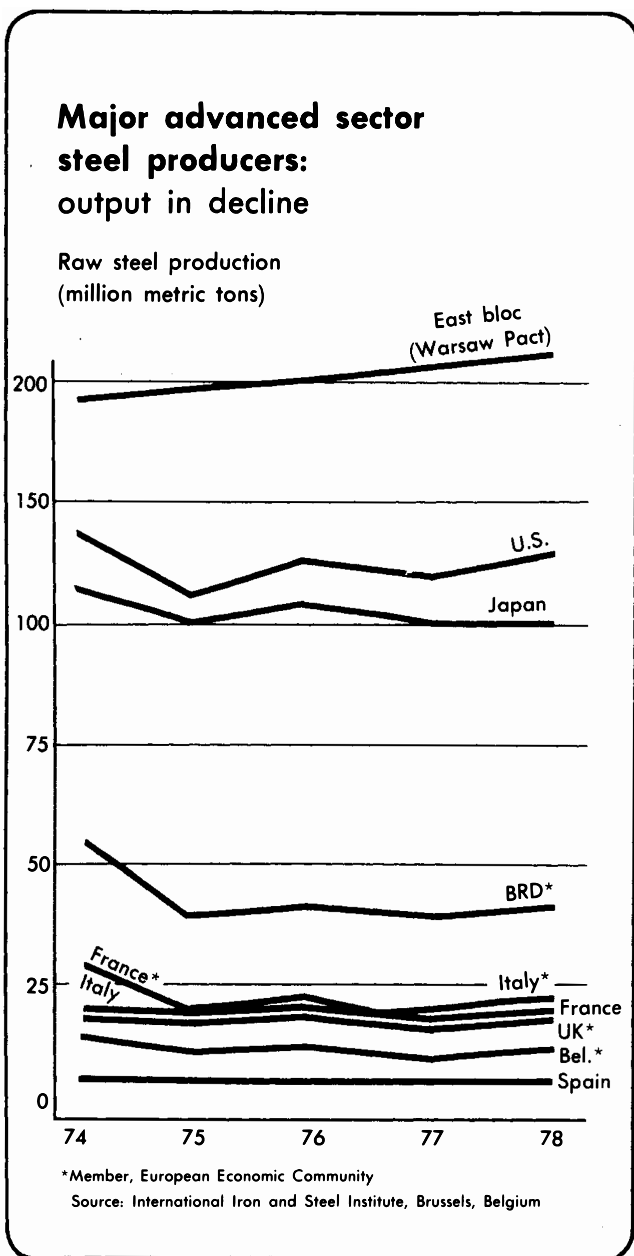
World steel industry in crisis

Part I: Cartelizers implement 'rationalization' of world steel



Part I: Cartelizers implement "rationalization" of world steel

Using the code word "Rationalization," efforts are underway to strip down the steel industries of the advanced sector. The "rationalization" of the steel industries of the United States, Europe, and Japan — which is already at an advanced stage — has absolutely nothing to do with improving the efficiency of those industries. Its aim is to effect a sweeping reduction of capacity and employment in this crucial sector of the world economy on the pretext that overall global economic growth and demand for steel have entered a permanent trough.

This assumption of a shrinking world market is being challenged head on by the architects of the newly formed European Monetary System. The aim of the EMS is to foster global economic growth through instituting stable currency relationships and credit policies for development; its first fruits are the package of trade and development deals that were inked at the mid-March meetings of President Giscard d'Estaing of France and President Lopez Portillo of Mexico. Part III of this report on world steel will examine the demand for steel that will be generated under an EMS-governed industrial recovery, based on extrapolations from the Mexican example. The outline of Mexico's ten-year industrial development plan, which was formally presented shortly after Giscard's visit to Mexico, indicates the scale of demand for advanced sector steel and capital goods that will be created by Mexico's industrial development alone: the plan sets an overall economic growth rate of 8 to 10 percent per annum, and a 12 percent growth rate for the industrial sector. The growth rate for the capital goods sector was set at an even higher 20 percent and includes such ambitious plans as the construction of 50 petrochemical plants over the next four years. Mexican government officials have estimated, overly conservatively, that some $40 billion in imports of capital goods and technology will be required to carry out the ten year plan.

The clique of technocrats carrying out steel ration-

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alization in the U.S. and Europe are the enemies of the EMS. They are part of the same political and financial nexus exemlified by Royal Dutch Shell and British Petroleum, which launched the 1979 oil hoax for the purpose of bringing advanced sector industry to its knees. They are especially intent on ruining the highly efficient Japanese steel industry and the dirigist credit and economic policies on which it was founded, through the new oil hoax and protectionist measures against Japanese steel and other exports.

The cartelizers include such figures as Viscount Etienne Davignon, EEC Commissioner for Industry, who was also the first head of the International Energy Agency — the supranational watchdog agency which recently imposed a 5 percent "voluntary" oil consumption cutback on its member nations for 1979; French Prime Minister Raymond Barre, whose economic "restructuring" program for France is a direct attack on the dirigist traditions of that nation; Sir Charles Villiers, chairman of the antiquated British Steel Corporation; in the U.S.: Under Secretary of the Treasury Anthony Solomon, the author of the U.S.'s steel "rescue" plan; Father William Hogan, S.J., the widely reputed expert on the industry who has advised the U.S. steel industry to prepare for a period of "shrinking demand"; the leadership of the U.S. Steel Corporation, which has a 78-year history of operating on the British cartel model; and the implicitly environmentalist Sadlowski "opposition" grouping in the United Steelworkers Union.

The so-called Davignon plan for European steel and the Solomon plan or "trigger price system" that went into effect in the U.S. in January 1978 are the two principal instruments of the world rationalization strategy. They have the identical aim of eliminating "redundant" steel capacity and workers, establishing a minimum price floor to keep out imports of steel and guarantee a margin of profitability for inefficient producers. And they would carve up the "shrinking" world market among the few remaining steel concerns which are left standing after the "rationalization" is completed.

Many observers have been duped into believing that the Davignon plan and the Solomon plan are fundamentally different — that whereas the Davignon plan is unquestionably a protectionist cartel arrangement — with import quotas, minimum prices, prohibitions against additions of new capacity, and so forth — the Solomon plan is still within the realm of "free trade."

The Solomon trigger price system does not, in fact, officially restrict the volume of steel imports entering the U.S. market. The Solomon plan established minimum prices on steel imports, based on the U.S. Treasury's estimate of Japanese production costs, which were designed to trigger antidumping investigations by the Treasury Department if imports entered the U.S. below those prices. In some cases these trigger prices are higher than domestic prices for the same products.

The Solomon plan was "very clever," one steel market expert said in a recent interview. "The U.S. has kept up the face of free trade." The effect of Solomon's trigger prices, however, has been the same as the Davignon plan's protectionist quotas on volume. Japanese exports of steel to the U.S. declined by 15 percent in 1978.

Likewise, both the Davignon plan and the Solomon plan have extended subsidies in one form or another to some of the least efficient world steelmakers. A big row has broken out in the EEC over the question of subsidies and, in particular, over the fact that British Steel Corp., for one, has continued to receive subsidies from the British government, under the Davignon plan, and to keep open antiquated plants. In the U.S., a number of smaller steel producers and service center executives voice suspicions that Solomon's trigger price system must have been dreamed up at U.S. Steel headquarters because the effect of the system has been to put an escalating floor under domestic prices, a floor which inefficient steel makers like U.S. Steel need to stay profitable. The trigger price has handed companies like U.S. Steel higher prices and profits — at a very inflationary cost to the whole economy — and provided them with the cash flow to diversify out of steel into other "less cyclical" areas of the economy like finance companies and real estate. Diversification is the route that is now being taken by some of the major U.S. steel companies — U.S. Steel, Armco, National, and Allegheny Ludlum. The Solomon plan is, in effect, financing the shrinkage of U.S. steel capacity.

A number of astute steel market analysts are pointing out that the Davignon and Solomon plans were closely coordinated when Davignon came to Washington and met with Solomon and other Administration officials in November 1977.

— Lydia Schulman