European Steel Outlook: More Cutbacks

STEEL

After two of its worst consecutive years in history, the steel industry is entering 1977 with the realization that its old friend the business cycle is not going to reassert itself and bring about a miraculous end to the industry's problems. Nowhere is this more evident than in Europe.

1976 ended with the industry in dismal condition. In France alone one-third of a 150,000-man work force is either laid-off or on short time, and an additional 10,000 layoffs are expected over the next two to three years. In Germany, 55,000 workers, or 17 per cent of the work force, are similarly affected. Compounding this problem is that some of these "temporary" layoffs have now reached the allowed two year maximum beyond which government wage subsidy is cancelled and dismissals become too difficult to avoid. In France, where medium and long-term debt is presently equal to this year's turnover of Frs. 3bn, the industry is seeking additional government aid in the area of Frs. 3bn ($600 mn). Present industry indebtedness to the state already accounts for 20 per cent of total debts on loans bearing around 9.5 per cent interest. French President Valery Giscard d'Estaing is expected to approve additional aid of about Frs. 2bn or $400 million to help the industry cover its financial needs during 1977.

Symptomatic of the problem has been the decline in export prices. Reinforcing bars which had reached a peak price of f.o.b Antwerp 12,500 Belgium francs during 1974 were being quoted at Bfr. 7,000 in December 1976, and actually being sold below that level. Cold rolled coils which had climbed back to a level of Bfr. 12,700 as recently as June of 1976 have dropped down to Bfr. 11,000.

In Great Britain the industry, while not thriving, is doing somewhat better than its neighbors. This is partially due to government subsidies for the stockpiling of products and to a strong market situation outside the EEC.

As the Europeans view the real solution to their problems, the increased use of, and therefore the increased demand, for steel, as beyond their control, they have apparently reached the conclusion that cartels are the best way to deal with the current situation.

The major cartel is called "Eurofer" and involves all EEC members in a plan of voluntary production quotas (reductions) and stiff import restrictions. The levels of these reductions are shown in the following table and reveal the extent to which demand for steel has declined over the past three years.

Another form of cartel arrangement which is becoming more of a factor on the continent as the depression continues involves individual firms either within one country or extending into other countries within the EEC. In Belgium the four largest steel producers — with a capacity of over 15 million metric tons, (about the size of Germany's Thyssen group), one-third of which is currently idle — have just signed a close cooperation accord. While the accord is subject to approval of the European Coal and Steel Community, it has been left open to other EEC steelmakers who may wish to join. It calls for all members to consult on all matters of mutual interest ranging from production and marketing problems, to raw material supplies, transport and investment problems. Belgium's steelmakers are handicapped by a small home market and high overhead costs as many plants are located inland. They also produce large amounts of some of the products hardest hit by the ongoing crises.

In Germany, a new grouping has been approved by the EEC, replacing the rationalization program which began in 1971. This new plan, which excludes two large steel conglomerates, Thyssen and Estel, brings in Luxembourg's Arbed group. Under the new plan the German industry will form two groups, "northern" and "southern." The northern group consisting of eight companies including Klockner-Werke AG, Peine-Salzgitter AG, Fried Krupp Huttenwerke AG, and Maximilianshuette mbH accounts for 20 per cent of German and 9.4 per cent of EEC steel production. This grouping provides for coordination and joint production of certain products between certain of the member countries, and also allows for Krupp, Klockner, and Peine-Salzgitter to coor-

STEEL PRODUCTS
In 1000 tons for the first quarter.

	Germany	France	Italy	Benelux	U.K.
Beams and Sections					
1974	394	293	163	362	346
1977	270	200	117	245	255
Reduction %	31.5	31.7	28.2	32.3	26.3
Reinforcing Bars					
1974	444	270	891	423	173
1977	250	165	735	240	125
Reduction %	43.7	38.9	17.5	43.3	27.7
Other Merchant Bars					
1974	698	376	562	299	584
1977	480	240	460	185	465
Reduction %	31.2	36.2	18.1	38.1	20.4
Wire Rod					
1974	753	540	228	320	472
1977	510	350	155	210	410
Reduction %	32.2	35.2	32.0	34.4	13.1
Heavy and Medium Plate					
1974	991	424	637	465	549
1977	600	295	485	315	370
Reduction %	39.5	30.4	23.9	32.3	32.6
Cold Rolled Sheets					
1974	711	835	761	864	482
1977	600	750	660	715	440
Reduction %	15.6	10.2	13.3	17.2	8.2

dinate their production programs and rationalize product lines. The southern grouping consists of all medium-sized firms with mills located in Germany, except for Arbed. Due to interlocking directorates this grouping actually represents three distinct entities. They will coordinate production of finished products, raw steel, and semifinished products, and cooperate in the purchase of raw materials, especially iron ore. Members of this group include AG des Dillinger Huttenwerke, Roechling Burbach (an Arbed subsidiary), and Neuenkirchen Eisenwerke AG and account for 11.5 per cent of West German steel production, and with Arbed, 7.4 per cent of all EEC production.

Europe's answer therefore appears to be the contraction of its steel industry and the minimizing or sharing of losses through consolidation.

Although the situation in the U.S. is different than that in Europe, especially in the area of free markets this psychology seems to be surfacing there also. It has been reported that Alan Wood Steel Co., Conshohocken, Pa. and Youngstown Sheet and Tube, Youngstown, Ohio intend to sign a mutual cooperation agreement. While few of the details have been made public, it is known that under the agreement Youngstown will process and market some of Alan Wood's products and Alan Wood will process Youngstown's products. The agreement will also provide Alan Wood with a source of hot-rolled band when it closes its hot-strip mill in February due to the company's weak financial position. Negotiations are also underway for agreements on raw material and technical services. The two companies will continue to operate independently, according to a source from Youngstown Sheet and Tube.

Alan Wood has been operating at a loss for the past 18 months and has just announced that holders of its major long-term debt of over $4,500,000.00 in principal and interest due Dec. 1, 1976 have agreed to a postponement until May 31, 1977. Losses for the first nine months of 1976 were $11,583,000.00 against sales of $126,071;000.00.

It is still too early though to know whether the Alan Wood-Youngstown agreement will lead to the paths presently being followed in Europe.