Industrial policy and competition policy. State aid and the restructuring of the European steel industry in the 1980s

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The economic crisis of 2008 gave rise to a growing interest in the industrial policies in OECD countries[1] and this has reopened a wide global debate on the regulatory state that transcends the academic world.[2] In Europe, after decades of progressive de-industrialization, the idea arose of establishing a strong and competitive manufacturing sector in order to achieve stable economic growth and generate quality employment.[3] Nevertheless, as pointed out by Miguel Sebastián, the former Spanish minister of Industry, Tourism and Trade, the European Union lacks a genuine industrial policy.[4] Indeed, the European Union has three types of competences conferred on it by the Treaties: exclusive competences, shared competences with the Member States, and supporting competences. Industrial policy falls within this latter group. This means that "the EU can only intervene to support, coordinate or complement the action of EU countries".[5]

The role of EU institutions in industrial policy is not only very limited, but also relatively recent. The Treaty establishing the European Community

1. A summary of national cases can be found in Warwick (2013).
2. Sawyer and Hovenkamp (2019); Mazzucato (2014); Ahrens and Eckert (2017).
3. European Commission (EC). *Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage*. 28 October 2010. COM(2010) 614 final. EUR-Lex 52010DC0614; EC. *Investing in a smart, innovative and sustainable industry. A renewed EU Industrial Policy Strategy*. 13 September 2017. COM(2017) 479 final. EUR-Lex 52017DC0479. See also Grabas and Nützenadel (2014).
4. Sebastián (2019), p. 149.
5. Bache, George and Bulmer (2011), pp. 351-353; Division of competences within the European Union (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3Aai0020. Accessed 27 November 2020).

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(1957) did not include industrial policy among the Commission's competences. While it is true that there was a reference to the shipbuilding industry, it was limited to state aid.[6] In fact, the Commission's only powers in industrial policy until 1986 emanated from the Treaty of Paris establishing the Economic Coal and Steel Community in 1952. The Treaty provided for the creation of a supranational power, the High Authority, which was equipped with a series of tools with which to intervene in the steel market and its principal raw materials, i.e., coal, iron ore, and ferrous scrap. The High Authority used these tools during its mandate as an independent institution, but sought to limit its intervention to specific occasions when the severity of the situation so required and always by common agreement with the national governments. It recurred to imposing maximum prices for certain inputs (scrap) in order to overcome the difficulties arising from the creation of the common steel market in the 1950s, and to limiting imports when the steel crisis of the 1960s began.[7] The Treaty also laid the foundations for a common competition policy through strong provisions against cartels and abuse of dominant position. The mandate of the High Authority concluded in 1967 when its powers were transferred to the European Commission. In addition to the powers received from the High Authority, the Commission had another tool of competition policy provided by the Treaty of Rome: control of state aid. However, the Commission's attempts to establish state aid legislation were blocked from the mid-1960s onwards, due to the Council's inability to reach an agreement. The Commission's action was limited to the detection of cartels and the control of company mergers and, with the exception of the steel aid codes, there was no Community legislation on state aid control until 1997.[8]

Something similar happened with industrial policy: the initiatives to establish a Community industrial policy developed since the mid-1960s failed.[9] It is particularly significant that a Directorate-General for Industrial Affairs (DG III) was not created until 1967, when the Commission took over the competences of the High Authority following the merger of the three European Communities.[10] But it was not until the mid-1970s that the DG III – headed by Commissioner E. Davignon since the beginning of 1977 – was able to deploy a common industrial policy for the first time in history, using the powers of the ECSC Treaty and the EEC Treaty at the same time. In fact, as Warlouzet points out, "the European industrial policy implemented in the

6. Industrial policy was included for the first time in the European treaties in the Single Act (1986) and the Maastricht Treaty (1991). Warlouzet (2014), pp. 216-218.

7. Mason (1955); Diebold (1959); Spierenburg and Poidevin (1994); Díaz-Morlán and Sáez-García (2020).

8. Ehlermann (1994), p. 1215; Cini (2001), p. 197.

9. Warlouzet (2014), pp. 223-228. A more positive assessment of the EU institutions' industrial initiatives can be found in Ahrens and Eckert (2017).

10. Bussière (2014a).

steel sector from 1977 to 1984 was more an exception than the norm", and the Commission's attempts to implement similar measures in other sectors failed.[11] In the second half of the 1980s, all the sectoral policies of the so-called Davignon Plan were removed, remaining in force only those relating to control of state aid, within the powers of the Directorate General for Competition (DG IV).

Since the late 1990s, political science researchers have published numerous studies on European Community competition policy. These studies have largely focused on the roles played by political actors (national and community) and on the decision-making process or, alternatively, they have raised the strengthening of European competition policy as a result of the rise of neoliberal ideas in the 1980s.[12] Yet the issue has received little attention from economic historians and business historians. A few years ago, Warlouzet proposed to delve into the knowledge of European competition policy through rigorous historical methodology and the uses of archival sources.[13] This proposal is in line with that made by Friedman and Jones to encourage business historians to carry out empirical research on governmental direct intervention through the use of historical evidence.[14] More recently, in the same vein, Rollings and Warlouzet have pointed out the importance of studying the response of companies and sectors to the existence of European competition policy. In addition, there is still a significant gap with respect to the influence of competition policy on business. Furthermore, the historiography has focused on studying the cartels, paying much less attention to the issue of public aid.[15]

In this respect, the bibliography on the restructuring of the steel industry is no exception. In the 1980s and 1990s, many studies by economists and social scientists analysed the roles played by the different agents involved in the restructuring process, paying particular attention to transformations of the institutional framework and the relationships between national governments and Community institutions.[16] In general, the studies focused on the series of measures implemented from 1977, the Davignon Plan, which consisted in the establishment of a Community crisis cartel, and control by the European

11. Warlouzet (2014), p. 233; Warlouzet (2017), p. 26.

12. See, for example, McGowan and Wilks (1995); Cini and McGowan (1998); Van Apeldoorn (2002); Buch-Hansen and Wigger (2009). For a state of the art review of this issue see Warlouzet (2010).

13. Warlouzet (2010); on the scarcity of work on EEC industrial policy based on archival sources, see Warlouzet (2014).

14. Friedman and Jones (2011).

15. Rollings and Warlouzet (2020). The control of public aid has also received much less attention by economists than other aspects of Community competition policy. Spector (2009).

16. Mény and Wright (1987); Howell et al. (1988); Dudley and Richardson (1997). The same can be said of industrial policy studies, where the national perspective prevails over the European. See, for example, the works collected by Grabas and Nützenadel (2014), and Ahrens and Eckert (2017).

Commission of state aid. Of these measures, the former have been the object of detailed analysis, while the so-called aid codes have received less attention despite constituting the fundamental element of the restructuring process and their importance transcends the steel sector, given that they led to the conception and development of Community competition policy which was consolidated in the following decade.[17] Moreover, there is a large number of studies that have assessed the results of the steel restructuring policies from a national perspective, but not from a Community perspective.[18]

The aim of this paper is twofold. Firstly, we want to explain how the common steel restructuring policy was established. More specifically, we will focus on the key role of the steel aid codes in the implementation of the first common industrial policy. Secondly, an assessment of the results yielded by the steel codes between 1980 and 1985 will be carried out, which involves explaining how the aid codes were applied with regard to the financial rescue of companies, reduction of surplus capacity and modernization of installations. The work is based on the extensive documentation on the subject generated by the EU institutions, particularly the European Commission's reports to the European Council (COM and SEC documents). These are preparatory documents for Community legislation, produced during the various stages of the legislative process, and provide an insight into the Commission's position and the changes made to its initial proposals, often forced by the Council.[19]

The article analyses, first, the emergence of the European restructuring policy after the failure of the beggar-thy-neighbour subsidy war in the Community in the 1970s. We also explain how one of the fundamental tools of competition policy – the control of public aid – ended up becoming the key element of the European Community's steel policy. The second section evaluates the results of the restructuring process based on the introduction of aid codes, assessing the extent to which the objectives defined by the Commission were fulfilled: the financial restructuring of companies, the reduction of surplus production capacity and the modernization of the steelworks. The article closes with the conclusions and an overall assessment of the intervention of the European Community in the restructuring of the steel sector.

17. Dudley and Richardson (1997); Smith (1998).

18. See the studies in Mény and Wright (1987), Bovens, Hart and Peters (2002) and Warlouzet (2017).

19. Some of these documents can be accessed through the websites of the European Union (https://eur-lex.europa.eu/homepage.html?locale=en) and the Historical Archives of the European Union (https://archives.eui.eu/en/search). Other documents are available through the website of the Archive of the European Integration of the University of Pittsburgh (http://aei.pitt.edu/). However, some documents are only available for consultation at the Historical Archives of the EU headquarters in Villa Salviati, Florence (Italy).

From national policies to consensus on the European Community steel policy

From the end of the 1960s, the large European steelmakers, in many cases urged by their governments, responded to the strong increase in demand for steel and growing competition from the highly competitive Japanese steel industry with the implementation of ambitious projects to extend and modernize their facilities.[20] At the end of 1974, a reduction in the global demand for steel and plummeting prices caused a fall in the earnings of the companies, which, together with the increased cost of energy and raw materials, meant that almost all of the large steel groups incurred losses. Governments provided financial aid so that they could continue with their projects to modernize and expand their plants. However, far from helping to improve the situation, this public aid contributed to aggravating the crisis, as the inauguration of new facilities did not mean the dismantling of obsolete units, which generated a surplus, and this transferred the problems of national industries to the other Community members, jeopardizing the European Common Market.

The poor results of national policies and the worsening of the crisis revealed the limitations of industrial policies based on state-owned enterprises and support given to national champions. Consequently, from 1975, large companies, supported by the governments of a number of Member States of the European Communities, began to call for a European steel policy to control steel imports and organize steel markets in order to increase prices.[21] Thus, after 1977 a consensus was established between the Commission and the national governments based on a basic idea: "No country can save its steel industry single-handed and reorganization will only be acceptable if the difficulties, costs and sacrifices are equitably shared".[22] Based on this new consensus, "a system of supranational governance to steel" arose,[23] with the Commission assuming the leadership of the restructuring of the European Community steel sector. The importance of the series of measures implemented between 1977 and 1988 for the restructuring of the steel sector resides in the fact that, except for agricultural policy, it constituted the first sectoral policy carried out by the European Communities. There are two reasons that explain why the efforts of the Commission were focused on this sector. First, it should be taken into account that the steel industry continued to be considered a strategic sector, due to its importance in guaranteeing the regular supply at a reasonable price of a raw material that was essential for industry.

20. Díaz-Morlán and Sáez-García (2016).
21. Messerlin (1980); Tsoukalis and Strauss (1987); Conrad (2005); Warlouzet (2017).
22. EC, "The European steel policy". *European File*, 16/82 (1982), pp. 2-3.
23. Dudley and Richardson (2002), p. 38

Its strategic nature was reinforced by the high number of jobs that it generated (almost 800,000 direct job positions in the EEC-9 countries at the end of 1974), and by the strong concentration of its production, which meant that certain European regions depended almost completely on this activity. Second, the Treaty of Paris, whereby the European Coal and Steel Community (ECSC) was constituted, provided the Commission with a much greater intervention capacity than in any other sector covered by the subsequent Treaty of Rome.[24] In particular, Article 57 gave the Commission a subsidiary role through cooperation with national governments on prices and commercial policy. In addition, in the event of any decline in demand, Article 58 allowed the Commission to take direct action by declaring a manifest crisis, thus enabling it to set up a crisis cartel and impose quotas on certain products. The declaration of a state of manifest crisis required the unanimous support of the European Council, therefore, the agreement of the Member States was necessary for its implementation. Moreover, the Commission and the Council had the exclusive legal competence, established by Articles 93 and 94 of the Treaty of Rome, to control state aid. These measures affect not the actions of private sector companies but the decisions of the governments, which, as Smith points out, may lead to direct confrontation with the wishes of Member State governments.[25]

Therefore, the tools required to undertake a coordinated response in the European Community steel market were in the hands of the Commission when the crisis of the 1970s broke out. From 1975, French steelmakers called for direct Community intervention by declaring a manifest crisis, a proposal supported by the British and Italians, but German companies, which were better prepared than their competitors thanks to the rationalisation policy of the previous years, were against this measure. After considering this difference of opinion, the Commission declared that the crisis was temporary and not structural and did not take any action. In December 1976, again with a worsened situation, Henri Simonet, vice-president of the Commission and Director General of Industry, established a system of voluntary production quotas and promoted the creation of a European steel association, Eurofer, with the objective of facilitating self-regulation of the sector. In this way, the Commission blessed the creation of a European cartel, as had been advocated by the German steelmakers, backed by the Dutch and Luxembourgers.[26]

24. Mény and Wright (1987), pp. 50-63; Tsoukalis and Strauss (1987).
25. Smith (1998); Ehlermann (1994).
26. Tsoukalis and Strauss (1987); Howell et al. (1988), p. 76; Mioche (2004), p. 59; Bussiére (2014), p. 269. A similar solution was sought by synthetic fibre manufacturing companies, but the crisis cartel was initially rejected by the Commission in 1978 and, after modifications, accepted in May 1980. Unlike in the steel sector, the Commission was not involved in the management of the cartel, but merely authorized cooperation between the companies. Marx (2017), pp. 190-193.

Although these measures could help to support the prices of steel products, they did not solve the serious structural problems of the European steel industry, which needed to complete the modernization process started at the end of the 1960s and at the same time eliminate significant surplus production capacity. Nevertheless, the necessary restructuring was hindered by the serious financial situation which the leading European steel groups were experiencing. They were heavily in debt due to the investments carried out in the preceding years and required new resources to complete the technological modernization process. Although the ECSC Treaty expressly prohibited any public aid for the steel sector, all of the governments provided financial support to these companies. The amount of aid was particularly large in countries where the sector was dominated by a public company (Italy and the United Kingdom) and in those where, due to the crisis, most of the sector had been transferred to state control (Belgium and France). As indicated by Mény and Wright, "by the early 1980s there was no doubt that in the United Kingdom, Italy and France, whatever the mechanisms, the ultimate source of financial support was the Treasury".[27] On the contrary, in the three countries where there was a clear predominance of private companies (Germany, Luxembourg and the Netherlands), public aid granted to the sector was much lower.[28]

At first, pressured by Member States and public opinion, the Commission accepted on social grounds the need for public aid for those sectors which, like the steel industry, were experiencing a structural crisis.[29] However, there was a change in the Commission's approach to state aid from 1977 onwards: it was to be an exceptional instrument, targeted and limited in time.[30] As a result of this new approach, frameworks and guidelines concerning horizontal, regional and sectoral aid were approved. The latter included the framework on aid to the textile industry (1977), the fourth directive on aid to shipbuilding (1978), and the steel aid code (1980), which we will refer to below.[31] It is important to point out that there is a significant difference between the aid frameworks for the textile sector and shipbuilding industry and the steel aid code, since the former was considered incompatible with Community legislation aid for investments that involved an increase in production capacity, but did not impose capacity reductions on the recipient companies, which was the case in the steel industry.

The disproportionate increase in aid to steel companies led the Commission to send a letter to the Member States in April 1977 to remind them that

27. Meny and Wright (1987), p. 78.
28. Díaz-Morlán and Sáez-García (2017).
29. Bussière (2014b), p. 264.
30. European Commission (EC). *Report on Competition* (1977), p. 11.
31. EC, *Report on competition* (1980), pp. 112-113.

Article 4(c) of the ECSC Treaty prohibited specific aid and that they should notify the Commission of all aid packages before putting them into effect, as required by Article 67(1). In addition, aid should not contradict the principles of free competition and market unity of the European treaties.[32] In order to fulfil this requisite, aid could not be granted with the sole purpose of preserving existing structures or of creating increases in production capacity. In any case, the Commission considered that these principles may be insufficient to avoid distortions of competition against the common interest and that, therefore, they represented only a first step towards a Community regulation for public aid to sectors in crisis.[33]

These measures coincided with the inauguration of a new Commission, presided over by Roy Jenkins, in which Étienne Davignon was a prominent figure, being the Commissioner of DG III (Internal Market and Industrial Affairs).[34] As soon as he took up the position, Davignon began to work on a series of measures that came into force in May 1977. The so-called Davignon Plan consisted in provisions to sustain the internal market (compulsory minimum prices for certain products, guide prices for the rest, and compulsory restrictions on production and deliveries agreed with Eurofer) and limitations to imports (voluntary agreements on export restraint with several countries and an antidumping and countervailing system).[35] These measures implied the de facto creation of a Community crisis cartel with the objective of sustaining steel prices,[36] but the structural problems of the sector – excess capacity and a lack of international competitiveness – could not be resolved.[37] For this reason, as soon as the first measures of the Davignon Plan had been approved, the Commission began to design a restructuring plan for the Community steel sector in order to adjust the production capacity to expected demand, which meant continuing with the "modernisation and rationalisation of those plants offering the best prospects of viability and closure of other plants".[38] The control of aid to the sector was a key element and an integral part of the plan. The Commission considered that financial support from Member States to companies for their restructuring was essential, but want-

32. Answer to written question no. 751/79, 29 December 1979. *Official Journal of the European Communities* (OJEC), C 328, 31 December 1979.

33. EC, *Report on competition* (1978).

34. On the new orientation of the Commission's industrial policy under Davignon, see Bussière (2014b), pp. 264-266.

35. Tsoukalis and Strauss (1987); Mioche (2004); Warlouzet (2017), p. 4. On a similar cartel crisis for synthetic fibre manufacturing see Marx (2017).

36. Messerlin (1980); Dudley and Richardson (1997).

37. EC, *Restructuring of the steel industry: methods and organization*. 9 December 1977. COM(77) 688 final. EUR-Lex 51977 DC 0688.

38. EC, *Draft Commission Decision establishing Community rules for aids and interventions by Member States in favour of the iron and steel industry*. 2 May 1978. COM(78) 175 final. EUR-Lex 51978 PC 0175.

ed to ensure that such support did not undermine the effectiveness of the measures taken at Community level.

> It is vital that the implementation of the Communitys restructuring policy should not be impeded by measures taken by Member States individually. Equally, however, the Community is not itself in a position to meet all the industrys requirements for assistance. As a counterpart to the initiatives taken by the Commission a framework must now be developed within which national measures will reinforce rather than frustrate action taken at Community level.[39]

The problem was that, as stated above, specific aid to the steel industry was prohibited by the ECSC Treaty, which, only in very exceptional situations, allowed a Member State to grant aid to its undertakings under Community supervision, in accordance with Article 67(2) of the Treaty. The Commission considered that the legal coverage provided by that article was limited in scope and lacked flexibility to adapt it to a restructuring plan for the sector. For this reason, the Commission recurred to Article 95 of the ECSC, "to ensure that actions taken under reserved powers are compatible with the common interest and to authorize aids and subsidies that would otherwise be prohibited by Article 4(c) of the Treaty".[40] With this legal base, in May 1978, the Commission created norms to regulate all state aid to the European steel industry. The use of Article 95 was of an exceptional nature and provided the Commission with decision-making powers that are not provided for other industrial sectors in the Treaty. For this reason, the measures proposed by the Commission required broad support from the Council, the agreement of the Court of Justice, and the support of a qualified majority of the European Parliament.[41] The proposal won the support of the ECSC Consultative Committee and Parliament, but met with opposition from the British and Italian Governments at Council meetings on 18 and 19 December. The Commission amended its proposal and presented a new draft, in January 1979, with less ambitious objectives: it covered only specific aid and left out those provided through general or regional schemes; the duration of the agreement was limited to a period of less than two years, as opposed to the three years foreseen in the previous draft, and the Commission's powers to act against Member States in breach of the aid code were restricted.[42]

39. Ibídem, p. 1.
40. Ibídem, pp. 2-3.
41. EC, *Analyse Particuliere de Certain Aspects de la Politique de la Reestructuration Siderurgique*, January 1981. Archivo Histórico BBVA. Fondo AHV, nº 776.
42. EC, *Draft Commission Decision establishing Community rules for aids and interventions by Member States in favour of the iron and steel industry*. 2 May 1978. COM(78) 175 final, pp. 2-3. EUR-Lex 51978PC0175.

Despite this, the confrontation between the Commission and the British and Italian governments continued, with the Competition Commissioner threatening to take the two countries to the European Court of Justice. At the same time, as a measure of pressure, the Commission delayed its decision on the compatibility with the ECSC Treaty of the aid notified by Member States in 1978: "the Commission (...) is awaiting a clear indication of the Council's position on the decision under Article 95 before stating its position".[43] Finally, the proposal benefited from the change in the position of the United Kingdom after the victory of the Conservative Party in the elections held in May, although the unanimous agreement of the Council was not reached until December 1979, due to the reluctance of the Italian Government.[44]

In this way, on 1 February 1980, the first so-called aid code came into force, which should have become the fundamental element of the Community restructuring policy.[45] Although the restructuring of the steel industry lay beyond its competences, given that industrial policy was reserved for the Member States, the Commission directed the instruments that had been bestowed on it by the EEC Treaty (the control of public aid) towards objectives related to industrial policy. Moreover, in order to justify a measure which flagrantly contradicted Article 4(c) of the ECSC Treaty, the Commission took the view that if public aid contributed to Community objectives and did not serve strictly national interests the spirit of the Treaty was not violated. Ultimately, the aim was to

> ensure that planned investments are coherent and that their financing conforms to the broad objectives laid down by the Commission for the steel industry and European competition rules.[46]

The subsidiary role of competition policy, due to the difficulties raised by the crisis, was exposed by the Commission a few years later:

> In the period from 1981 to 1984, competition policy was conducted in the shadow of economic problems manifest notably in rising unemployment and the contraction of declining industries. The Commission's aim in this situation was to bring the weight of competition policy behind the other policies designed to promote structural adjustment in the Community.[47]

43. EC, *Report on competition* (1978), p. 138.
44. Richardson and Dudley (1987), pp. 342-343.
45. Commission Decision 257/80/ECSC. OJEC, L 29/5, 6 February 1980. EUR-Lex 51986DC0235(01)
46. EC, "The European steel policy". *European File*, 16/82 (1982), p. 6. The Commission recognised itself that "in this field [restructuring] the European Commission has not direct powers of decision-making or even to propose solutions".
47. EC, *Report on competition* (1984), p. 12.

The approval of the aid code coincided with a worsening of the crisis. From the early 1980s, the contraction of demand and the fall in prices gave rise to the collapse of the voluntary quota system imposed through Eurofer. In addition to the contraction in demand, the failure of self-regulation in the sector was due to the refusal of Italian independent producers (known as Bresciani) and some German companies, especially Klöckner, to accept the production quotas imposed by the cartel.[48] After the failure of the system, the producers increased pressure on the Commission to declare a manifest crisis, which it did on 31 October, which was made possible by a more favourable position of the German government towards public aid, due to the financial difficulties faced by the major steel undertakings from the Ruhr. From that moment, pursuant to Article 58 of the ECSC Treaty, the Commission imposed mandatory production quotas for the majority of products, maintaining voluntary quotas for the rest. Furthermore, new agreements for voluntary restrictions to exports with third countries were signed.[49] In practice, this meant the creation of a crisis cartel, organized and monitored by the Commission.

In February 1981, the Commission presented the Council with a report on the restructuring policy, in which the insufficiency of the measures adopted until then were highlighted. The actions implemented so far had served to limit the growth of productive capacity, but not to force capacity reductions. It was forecast that, even considering the most favourable hypotheses, in the following years, the surplus capacity would reach 25 million metric tonnes (MMT) for crude steel and a similar quantity for hot rolled products. However, the necessary closure of the less competitive plants clashed with the interests of certain steel groups that were unwilling to eliminate production capacity or reach agreements that implied a loss of market share. Furthermore, governments and trade unions opposed the closure of plants due to the impact on employment and the economy of the regions dependent on this activity. The Commission considered that the financial, social and political difficulties arising from the measures needed to solve the structural problems of the sector could not be addressed in socially acceptable conditions by market forces alone. It therefore proposed to the Council "a reinforcement of restructuring policy, especially the aid and investment aspects", to solve the sector's problems. On the other hand, the Commission regretted the reluctance of some Member States to notify of aid in time for its assessment and the delays in sending the requested information, which was quali-

48. Mioche (2004), p. 60; Warlouzet (2017), p. 16.
49. Tsoukalis and Strauss (1987), pp. 211-213; Howell et al. (1988), pp. 80-81.

fied in some cases, particularly Belgium and Italy, as a conscious defiance or omission of their obligations.[50]

The Council considered the first aid code "was no longer an adequate instrument for dealing with the problems", and requested the Commission to strictly apply the provision of the aid code in order to ensure that it was not used to maintain obsolete facilities or companies that would not make restructuring efforts. Furthermore, it requested that the Commission create a new aid code based on the following three principles: public aid must be exclusively granted to companies committed to restructuring programmes (modernization, reduction of capacity, and, where necessary, financial reconstruction); they must be eliminated gradually, and they must not generate distortions in competition.[51] The Council's recommendation to the Commission was made under intense pressure from the German government to strengthen the European monitoring of national state aid, and the threat of imposing quotas and countervailing duties against imports from other Member States benefiting from huge subsidies.[52]

In May 1981, the Commission presented the draft of the new aid code, which established a precise timetable for its progressive reduction until its complete disappearance. Despite differences among its members, with Germany and the Netherlands pushing to shorten the deadlines proposed by the Commission, on 24 June, the Council gave its unanimous approval to the second aid code, which entered into force on 8 August.[53] From this moment, the Community steel industry was subject to stricter regulations than those that applied to other restructuring industries or regional aids.[54] The deadline for the Member States to request the authorization of aid was 30 September 1982 and the payment of aid could only be made until 31 December 1985, although this timeframe was even more limited as the types of aid considered were less efficient for restructuring and more harmful for competition (emergency aid and aid for continued operation). Unlike the previous one, the new aid code provided uniform treatment for all public aid, both sectoral and non-specific (regional or general schemes) and introduced the principle of the private investor for companies in the public sector, considering as aid any measure of finance that was not carried out with a level of risk in accordance with the normal practice of the company in the market economy, a measure that ob-

50. EC, *Steel restructuring policies*, 20 February 1981. COM(81) 67 final. Historical Archives of the European Union (HAEU) BAC.COM(1981) 0067; EC, *Analyse Particuliere de Certain Aspects de la Politique de la Reestructuration Siderurgique*, January 1981. Archivo Histórico BBVA. Fondo AHV, no. 776.

51. Session du Conseil, 26-27 March 1981. HAUE. CM2/1981-00019/001.

52. Howell et al. (1988), pp. 65-66; Warlouzet (2017), p. 16-19.

53. Session du Conseil, 4 and 16 June 1981. HAEU. CM2/1981-00026/001 y CM2/1981-00037/001.

54. Ehlermann (1994), p. 1216.

viously served the interests of the big steel undertakings in Germany backed by the German government.[55] Transparency was also improved, most likely with the aim of enabling national governments to exercise control over the important powers granted to the Commission by Article 95. The Commission had to inform the Member States about each authorized aid and generate periodic reports for the Council and Parliament; furthermore, before adopting a decision about important aid projects, the Commission had to request the ruling of the Member States, which in practice was carried out through multilateral meetings between personnel of the Commission and representatives of the states, of which two were held in 1981 and eight in 1982. For their part, the Member States had to deliver detailed six-monthly reports to the Commission on the aid paid. However, some were unwilling to cooperate, as evidenced by the fact that the Commission was still waiting in January 1983 for answers on the aid granted by France and Italy in 1981.[56]

Until 29 June 1982, the Commission authorized aid for an amount of almost 22,000 million ECU. The two fundamental requirements imposed to approve the proposals received were that the financial viability of the recipient companies of the aid at the end of 1985 had to be demonstrated and that net reductions in the production capacity had to be carried out in addition to those offered initially by the Member States. The exacerbation of the financial difficulties of the large steel groups, due to the persistence of poor market conditions, led six Member States of the ECSC to request an extension of the deadline for the granting of aid at the beginning of 1984.[57] In November, the Commission proposed to the Council an extension of the deadlines foreseen in the aid code.[58] However, the proposal clashed with the interests of major German companies, which considered that the new aid would mean wiping out the debt of companies that had not made a sufficient effort in terms of capacity reduction. The proposal was initially rejected by the Council as it failed to win the support of the German government. Finally, the German government, which was interested in helping Arbed Saar-

55. Commission Decision 2320/81/ECSC. OJEC L 29/5, 13 August 1981. The principle of private investors for companies in the public sector was subsequently applied to the shipbuilding sector and, in 1984, became the principle adopted by the Commission for deciding on the aid component in the financing of public or state-owned companies. EC, *Report on competition* (1984), pp. 124-125.

56. EC, *Second report on the application of the rules for aids to the steel industry*. 5 February 1982. COM(82) 34 final. HAEU BAC. COM(1982) 0034; EC, *Fourth report on application of the rules for aids to the steel industry*. 7 April 1983. COM(83) 178 final. HAEU BAC. COM(1983) 0178.

57. The application was submitted by Belgium, France, Ireland, Italy and the United Kingdom for their State-owned companies and by Germany for Arbed Saarstalh. EC, *Fifth report on the application of the rules for aids to the steel industry*. 8 March 1984. COM(84) 142 final. EUR-Lex 51984DC0142.

58. EC, *Report on competition* (1984), pp. 139-140.

stahl financially, was prepared to accept the approval of new aid provided that the deadline for granting it was set to 31 December 1985. The German proposal was accepted by the Council, and the French Government had to abandon its intention to extend the aid code until 1987 in order to be able to continue injecting capital into Usinor and Sacilor.[59] In addition, the Member States, the Commission and the Council agreed to establish, after 1985, a strict regime for public aid that excluded any type of sectoral aid to the steel industry.[60] There was also a call for an ordered return to a situation of free competition, with the gradual elimination of the quota system, which was completed in mid 1988.[61]

According to the new consensus, in December 1985, a new aid code was approved that prohibited sectoral aid, but authorized subsidies directed at the definitive closure of plants, R&D and environmental protection within the general aid regimes.[62] This type of aid was renewed until the expiry of the ECSC Treaty in July 2002 and implied the existence of stricter regulations for the control of aid than in other sectors. Indeed, despite the fact that since 2002, in an attempt to simplify and modernize the regulations for state aid, the Commission adopted new Community multi-sectoral guidelines, the steel sector continued to be regulated by more restrictive codes than other sectors.[63]

The results of the Community steel policy, 1980–1985

We will now evaluate the results of the aid codes. To do this, we will determine to what extent the programmatic objectives, declared by the Commission and clearly expounded in mid 1981, were fulfilled. Unlike the lack of specificity of the first aid code,[64] the second code conditioned the authorization of public aid to the existence of restructuring plans of the recipient companies, which had to cover the following three aspects: financial restructuring, modernization, and reduction of capacity; with the ultimate aim being to restore their competitiveness and financial viability in normal market conditions. In accordance with the objective, several types of aid were established: investment

59. Howell et al. (1982), p. 67¸ Session du Conseil, 26 March 1985. HAEU. CM2/1985-00017/001.; Commission Decision 1018/85/ECSC. OJEC L 110, 23 April 1985.

60. Sessions du Conseil, 25 July 1985 and 17 October 1985. HAEU. CM2/1985-00046/001 and CM2/1985-00053/001.

61. Howell et al. (1988), pp. 88-93.

62. Commission Decision 3484/85/ECSC. OJEC. L 340/1, 18 December 1985.

63. Communication from the Commission, "Rescue and restructuring aid and closure aid for the steel sector". OJEC. C 70, 19 March 2002; European Commission (2004).

64. The stated purpose of the first aid code was, "the adaptation of producing capacity to a foreseeable demand and restauration of the competitiveness by means of extension, modernization and rationalization in an orderly and socially acceptable fashion". Commission Decision 257/80/ECSC. OJEC. L 29/5, 6 February 1980.

aid, aid for closures, aid for continued operation, emergency aid, and aid for research and development.[65] Below we will analyse this aid in detail and seek to assess the degree of success achieved by the Community restructuring policy in relation to the three objectives declared by the Commission.

a) Financial restructuring

After the approval of the second aid code in 1981, the Commission imposed two conditions on the companies receiving public aid: to carry out net reductions in capacity, and to achieve financial viability in 1986. While the first condition was easy to control, this was not the case for the second. As acknowledged by the Commission itself, "in its appraisals of undertakings' prospects of returning to viability, the Commission faced a task which it had not previously been called upon to undertake".[66] In fact, the Commission hired external consultants to calculate the amount of aid depending on the financial obligations of each company and their reports were analysed in multi-lateral meetings with the Member States. This shows the complexity of the task of the Commission in this issue.[67]

As a general rule, the deadline for granting aid was 31 July 1983, and payments could be made until 31 December 1985, but this time horizon was more limited for operating aid, for which payments could only be made until 31 December 1984, and for emergency aid, until the end of 1981.[68] However, in view of the deterioration of the companies' financial situations due to the sharp fall in steel prices since 1981, the Commission allowed further aid for financial restructuring and to cover costs occasioned by capacity reductions.[69] This last aid package, approved in August 1985, allocated almost all of the aid to the financial restructuring of companies. The total amount was 4.3 billion ECU, the main beneficiaries being the Italian steel industry (2.2 billion ECU) and the French steel companies Usinor and Sacilor (1.4 billion ECU).[70]

The data in Table 1 confirms that the principal objective of the aid was not the reduction of capacity or the modernization of the sector but its finan-

65. Aid for closures was aimed at defraying the costs resulting from the partial or total closure of steel plants that cover payments to workers made redundant or retired before legal retirement, payments due to third parties (in particular for the supply of raw materials) in respect of the termination of contracts, and expenses occasioned by the redevelopment of the site. Commission Decision 2320/81/ECSC. OJEC. L 29/5, 13 August 1981.

66. EC, *Report on the application of the Rules on Aids to the Steel Industry 1984-1985*. 6 August 1986. COM(86) 235 final, 3. EUR-Lex 51986DC0235(01).

67. *Ibidem*; EC, *Report on competition* (1985), p. 154.

68. Emergency aid was allocated to financially supporting the receiving companies and not conditional on the achievement of financial viability. Commission Decision 2320/81/ECSC. OJEC. L 29/5, 13 August 1981.

69. Commission Decision 1018/85/ECSC. OJEC. L 110, 23 April 1985.

70. EC, *Report on competition* (1985), p. 154.

cial restructuring. Of the almost 38,000 million ECU that the European steel companies received, more than 60 % was allocated to continued operation, that is, aid for financial clean-up, which was ten times more than the amount allocated to the closure of plants and more than double that aimed at new investments. It can therefore be stated that the main objective of the aid was to restore the financial viability of companies in normal market conditions. A company was considered to be financially viable when the earn-sales margin enabled it to cover all costs, including depreciation, financial charges, and a minimum remuneration for capital. Under these conditions, it was considered that companies could continue the restructuring process on their own, without relying on state aid.[71]

TABLE 1. ▪ *Total aid to the Community steel industry cleared for payment by objective, from 1/2/1981 to 31/12/1985 (ECU millions)*

Country	Investment	Closures	Continued operation	Emergency	R&D	Total
Belgium	719	118	3,408	12		4,257
Denmark	13		68			81
Germany	1,120	619	1,942		163	3,844
France	3,039	302	5,111	689		9,141
Ireland			264			264
Italy	3,993	227	9,216		43	13,479
Luxembourg	440	15	176			631
Netherlands	234		222			456
United Kingdom	1,788	1,036	2,767		49	5,640
Total EEC-9	**11,346**	**2,317**	**23,174**	**701**	**255**	**37,793**

Source: EC, *Report on the application of the Rules on Aids to Steel Industry 1984-1985*, 6 August 1986. COM(86) 235 final, table 3. EUR-Lex 51986DC0235(01)

Note: Greece has been excluded. Its only request for aid was not authorised as it was considered to be incompatible with the aid code.

Table 2 specifies the principal beneficiary companies of public aid. Four state-owned undertakings (Cockerill-Sambre, Sacilor/Usinor, Finsider and British Steel Co.), which in 1979 produced 40 % of the European Community's steel,[72] received 78 % of government aid for the period. Given that we

71. EC, *Report on competition* (1984), p. 135.
72. Eurostat (1984), p. 54.

know the type of aid received, we can confirm that 99 % of the aid received by these four groups corresponded to capital contributions, participatory loans and conversion of debts into capital, which means that it was aimed at restructuring their social capital. In view of these data, we should conclude that the aid codes were used to carry out a giant rescue operation of the large publicly-owned steel groups in Belgium, France, Italy and the United Kingdom, and the private firms in Saarland (Germany).

TABLE 2. ▪ *State aid received by the European steel sector by company and type of aid (in millions of ECU), 1980-85*

		Type of aid			
Country	**Company**	**a**	**b**	**c**	**Total aid**
Belgium	Cockerill-Sambre	88	2,889	968	3,945
	Others	78	67	166	311
Denmark	Danish Steel		39	42	81
Germany	Arbed Saarstahl	843		204	1,047
	Others	1,968		828	2,796
France	Sacilor/Usinor	150	8,298	693	9,141
Ireland	Irish Steel	44	162	58	264
Italy	Finsider	802	6,711	3,430	10,943
	Others	2,240		297	2,537
Luxembourg	Arbed/MMRA	211	165	255	631
Netherlands	Hoogovens	89	222	137	448
	Others	8			8
United Kingdom	British Steel Co.	228	5,346		5,574
	Others	66			66
Total EEC-9		**6,815**	**23,899**	**7,078**	**37,792**

Sources: Authors' work based on EC, *Report on the application of the Rules on Aids to Steel Industry 1984-1985*, 6 August 1986. COM(86) 235 final, table 2. EUR-Lex 51986DC0235(01)

Note: The data in the columns corresponds to the following types of aid:

(a) grants and interest relief grants;
(b) capital and participatory loans and conversion of debts into capital;
(c) loans, guarantees and others.

The result of the financial rescue operation of the European integrated steel sector is ambivalent. It is beyond doubt that, without state aid, state-owned enterprises would have gone bankrupt, as demonstrated by the fact that aid accounted for 71 per cent of the gross value added to the sector in Italy between 1981 and 1985, 58 per cent in France and the UK, and 40 per cent in Belgium.[73] Of the four large public groups that received the majority of the aid, the group with the best results was the British Steel Co., which, after a decade of continuous losses, recorded profits again in the financial year 1985-86, leading the British government to consider its privatization, which was carried out at the end of 1988.[74] For the rest, the recovery was a little slower. In 1987, Finsider, Cockeril/Sambre and Usinor/Sacilor were still in the red, as was the Dutch group Hoogovens and the Luxembourg Arbed, although the following year all of them, except for Finsider, reported profits again after more than a decade of losses.[75] Achieving the financial viability of Usinor/Sacilor was not exempt from controversial decisions taken by the French government, causing the Commission to declare them incompatible in March 1987 and to request the return of part of the aid equivalent to 454.5 million ECU.[76]

However, Finsider had the greatest difficulties. This company was the only integrated steel group that in 1988 did not report an operating result that guaranteed its financial viability. The accumulation of losses led the Italian government to announce a new restructuring plan in June 1988, which was approved at the end of the year by the Commission. In exchange for the authorization of aid amounting to 3,400 million euros in order to pay the debts incurred, it had to carry out a restructuring of its assets, concentrating the potentially viable ones in a new company (Ilva), and committed to a series of closures.[77] The new aid was not definitive in achieving the financial viability of the Italian integrated steel sector, which began to report losses again from 1991. In December 1993, the Council approved a restructuring proposal and, in exchange for further aid worth 2,573 million ECU, the group was obliged to definitively shut down 2 MMT of hot-rolling capacity. The potentially profitable assets of the company were shared between two companies, Acciai Speciali Terni and Ilva Laminati Piani, which were privatized in December 1994 and March 1995 respectively.[78]

73. The situation of the Irish public steel industry was even worse, with aid accounting for 107 per cent of gross value added in the same period, in contrast to the low figures for Denmark (18 per cent), Luxembourg (15 per cent), Germany (8.6 per cent) and the Netherlands (4.3 per cent). European Commission (1989), p. 17.

74. Dudley and Richardson (1990).

75. Moinov (1995).

76. EC, *Report on competition* (1988); Howell et al. (1988), pp. 135-140.

77. EC, *Restructuring of Italian public steel industry*. 25 October 1988. SEC(88) 1485. University of Pittsburgh. Archive of European Integration (AEI). www.aei.pitt.edu/4086/; EC, *Report on the application of the rules on State aid to the steel Industry*. 20 September 1991. SEC(91) 1681. EUR-Lex 51991SC1681.

78. EC, *Report on the application of the rules on State aid to the steel industry in 1993*. 27 July 1994. SEC(94) 1301. AEI. www.aei.pitt.edu/3749/; EC, *Monitoring of article 95 ECSC*

b) Reduction of surplus capacity

Since 1975, there have been significant imbalances between production and demand in virtually all steel products. The crisis years aggravated the problem of surplus capacity, which led to a low rate of utilization that fell from 80 % in 1974 to 55 % in 1980.[79] In a sector characterized by significant economies of scale, this meant a considerable increase in production costs, which, combined with low prices, resulted in high losses for companies. In around 1980, the countries of the European Community had a production capacity of 202 MMT of crude steel and a surplus capacity of 52 MMT was calculated; for final products, the surplus capacity was 42.8 MMT and it was estimated that this would increase to 48 MMT in 1985.[80]

In the early years of the implementation of the aid codes, the adjustments to production capacity were very limited due to the strong resistance of the companies and Member States. Up to 30 September 1982, the aid notified by Member States to the Commission was linked to restructuring proposals involving a reduction of 14 MMT in hot-rolling capacity. This was far below the targets proposed by the Commission.[81] In December 1982, in an informal meeting in Elsinor (Denmark), the Ministers of Industry agreed that, by the end of 1985, the hot rolling capacity should be reduced by between 30 and 35 MMT with respect to that of the beginning of 1980, which was equivalent to 17.5-20 % of the capacity installed at that date. Fulfilling this objective was not going to be easy because it meant "the closure not only of obsolete plants but also of some more modern plants".[82] From that moment, the advances made in the restructuring process were noteworthy and in mid 1983, after the negotiations held between the Commission and the Member States in several multi-lateral meetings, the commitments to reduce capacity by the end of 1985 reached 26.7 MMT. Although the figure was lower than the objective established by the Council, the Commission was optimistic because it considered that, in order to obtain financial viability, certain companies would be obliged to carry out cutbacks higher than they had committed to.[83] In fact, certain countries re-

steel aids cases. *Third report*. 26 April 1995. SEC(95) 620. AEI. www.aei.pitt.edu/5066/. See also Ranieri (2011).

79. EC, *Steel restructuring* policies, 16 March 1981. COM(1981) 67 final. HAEU BAC. COM(1981) 0067.

80. EC, *General objectives. Steel. 1985*. 28 October 1982. SEC(82) 1564. AEI. www.aei.pitt.edu/5066/

81. EC, *Report on the application of the Rules on Aids to the Steel Industry 1984-1985*. 6 August 1986. COM(86) 235 final, p. 4. EUR-Lex 51986DC0235(01).

82. EC, *Fourth report on application of the rules for aids to the steel industry*. 7 April 1983. COM(83) 178 final, 2. HAEU. BAC-COM(1983) 0178.

83. EC, *Fifth report on the application of the rules for aids to the steel industry*. 8 March 1984. COM(84) 142 final. EUR-Lex 51984DC0142.

ported closures that far exceeded the agreed amounts: almost one million additional tonnes in Germany and around 0.5 MMT in the Netherlands. However, the objective established in Elsinor could only be fulfilled through the authorization of new aid to six Member States in August 1985, conditioned to reducing capacity by 2.4 MMT, which had to be carried out between 1985 and 1986. The latter capacity cuts were mainly concentrated in Italy (800,000 tonnes), France (745,000 tonnes), the UK (655,000 tonnes) and Belgium (256,000 tonnes), i.e., where public companies with a serious financial situation predominated.[84]

Once the restructuring had finished at the end of 1986, the hot rolling capacity had reduced by 31.1 MMT with respect to that produced at the beginning of 1980. It was a remarkable achievement as it was equivalent to a reduction of 18 % in only seven years, which was also matched by a similar reduction in the production capacity of crude steel. The closures carried out between 1980 and 1985 were "logical choices", as they corresponded to facilities that were obsolete or inefficient due to their size, so their closure was inevitable.[85] The elimination of the most inefficient plants also gave rise to a rationalization of production. Between 1980 and 1985, a total of 86 steelworks were closed, the majority of which had an annual production of less than one million tonnes, falling from 233 to 151.[86] However, it could not be considered as a completely satisfactory result because, as the Commission itself acknowledged, there was still a surplus capacity of 21.7 MMT in hot rolling and 26.7 MMT in crude steel. Consequently, the utilization rate of the plants continued to be low (69 % in the case of hot rolling), although it had improved with respect to the beginning of the decade.[87] During 1987, the Commission negotiated with Eurofer the possibility of extending the production quota system until 1990 in exchange for a commitment to eliminate another 20 MMT of hot rolling capacity. The lack of an agreement meant that the production quota system was discontinued in July 1988.[88]

84. EC. *Report on the application of the Rules on Aids to the Steel Industry 1984-1985*. 6 August 1986. COM(86) 235 final. EUR-Lex 51986DC0235(01).
85. ECSC (1980-1986).
86. Eurostat (1980-1986), tables 2.3 to 2.6.
87. The Commission considered that the utilization rate had to reach at least 70 % for the companies to be profitable. EC. *Report from the Commission to the Council on the General Objectives Steel 1990*. 7 October 1986. COM(86) 515 final. EUR-Lex 51986DC0515; ECSC (1986), p. 20; EC, *Report on competition* (1982), p. 114.
88. Dudley and Richardson (1990), pp. 221-225.

TABLE 3. ▪ *Reductions in hot rolling capacity (million tonnes) and aid to the Community steel industry (ECU millions)*

Country	Reductions	Total aid cleared	ECU /tonnes eliminated
Belgium	3.4	4,257	1,239
Denmark	0.1	81	1,227
Germany	6.7	3,844	571
France	6.1	9,141	1,488
Italy	7.2	13,479	1,872
Luxembourg	1.0	631	604
Netherlands	1.7	456	263
United Kingdom	5.4	5,640	1,038
Total EEC-9	**31.1**	**37,793**	**1,215**

Source: Authors' work based on EC. *Report on the application of the Rules on Aids to Steel Industry 1984-1985*, 6 August 1986. COM(86) 235 final, tables 3 and 5. EUR-Lex 51986DC0235(01).

Note: Ireland has been excluded as it was the object of special consideration because it was a marginal producer with just one steel company (Commission Decision 2320/81/ECSC, art. 2.3), and it was able to increase its production capacity between 1980 and 1985.

As a general rule, all of the aid had to be related to a restructuring programme, which implied a reduction of the production capacity of the aid-receiving firms. Therefore, we could expect a correspondence between the aid received and the reduction in production capacity, but, as shown in Table 3, there was no such relationship. Indeed, following the capacity reduction agreement reached at Elsinore, the Commission wanted to make it clear that, since all companies would benefit from the improvement of the steel market, "including those receiving little or no aid", they should all contribute to the effort to reduce surplus production capacity.[89] The average amount received per tonne of capacity definitively shut down was 1,215 ECU. However, the aid was much more important in the case of the Italian steel sector, with more than 1,800 ECU per tonne, and above the average in the case of France, while they were quite a lot lower in Germany (547), Luxembourg (604) and the Netherlands (263).

Some countries called for a maximum quantity per tonne of capacity eliminated.[90] But the Commission considered that this proposal was "contra-

89. EC. *Report on the application of the Rules on Aids to the Steel Industry 1984-1985*. 6 August 1986. COM(86) 235 final, p. 4. EUR-Lex 51986DC0235(01), p. 178.
90. Session du Conseil, 26 and 27 March 1981. HAEU. CM2/1981-00019/001.

ry both to the spirit and to the letter of the aids code", and affirmed that the assessment of the restructuring effort was qualitative rather than quantitative in nature and was based on criteria such as the reduced capacity, the timing of the closure of plants, the product affected, the modernization of facilities, the measures carried out to reduce costs, and the location of the plants.[91] The discrepancies between the Member States led the German government and the Dutch company Hoogovens to appeal to the Court of Justice with respect to some of the aid authorized by the Commission in June 1983.[92] The Court ruled in favour of the latter, considering that "the Commission had exercised its discretion fully in accordance with the principles of proportionality, equal treatment and non-discrimination".[93]

c) The modernization of the sector

Since one of the three objectives of the Community restructuring policy was to modernize the sector to make it internationally competitive, a large percentage of public aid could be expected to be aimed at financing new investments. Of the 37,793 million ECU of aid that national governments granted to steel companies between 1980 and 1985, 30 % (11,346 million) was allocated to investment aid, which was equivalent to two thirds of the investments carried out in the sector during these years, although the differences between countries are notable (see Table 4). The total investments made in the period in France, Italy, Luxembourg and the United Kingdom were financed with public money; in Belgium and Denmark, public financing accounted for around 40 %, while in Germany and the Netherlands public aid accounted for a much lower percentage. We cannot rule out that the high percentages that can be observed in the four first countries could have been due to the fact that part of the aid which was theoretically intended for investments was in fact used to cover losses. Therefore, following the informal meeting of the Ministers of Industry at Elsinore, the Commission decided that this aid would only be granted once the investment had been made and that the Commission must be informed quarterly of the investments and aid paid.[94]

91. EC, *Fourth report on application of the rules for aids to the steel industry*. 7 April 1983. COM(83) 178 final, 5-6. HAEU. BAC-COM(1983) 0178.

92. EC, *Fifth report on the application of the rules for aids to the steel industry*. 8 March 1984. COM(84) 142 final. EUR-Lex 51984DC0142.

93. EC, *Report on the application of the Rules on Aids to the Steel Industry 1984-1985*. 6 August 1986. COM(86) 235 final, p. 4. EUR-Lex 51986DC0235(01).

94. EC, *Fourth report on application of the rules for aids to the steel industry*. 7 April 1983. COM(83) 178 final. HAEU. BAC-COM(1983) 0178

TABLE 4. ▪ *Investment in the steel industry and investment aids (ECU millions)*

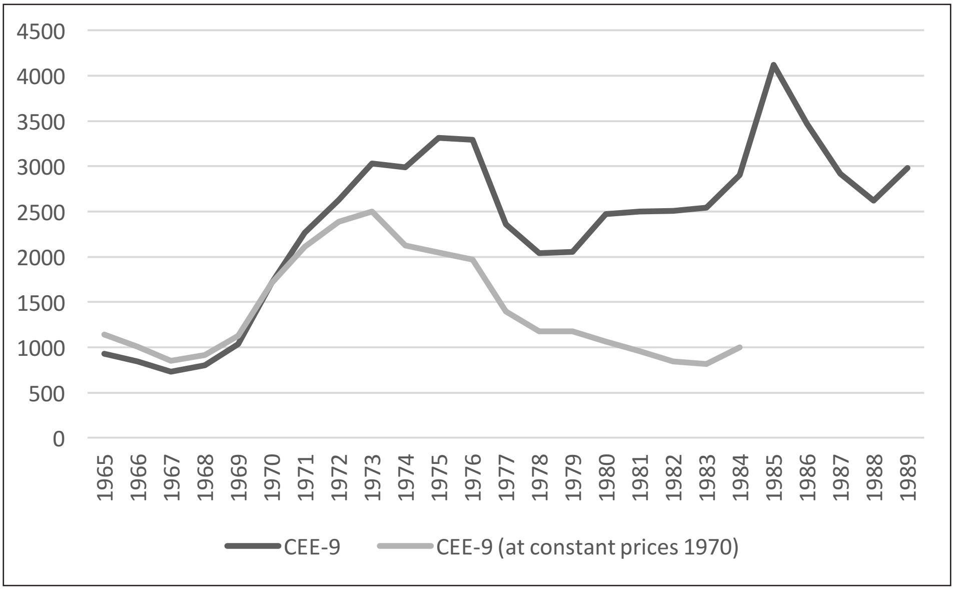
	Total Investment	Investment aids	Aids/investment %
Belgium	1,695	719	42.4
Denmark	37	13	35.3
Germany	5,383	1,120	20.8
France	2,978	3,039	102.0
Italy	3,732	3993	107.0
Luxembourg.	396	440	111.3
Netherlands	909	234	25.8
United Kingdom	1,850	1,788	96.6
Total EEC-9	**17,058**	**11,346**	**66.5**

Source: Authors' work based on EC. *Report on the application of the Rules on Aids to Steel Industry 1984-1985*, 6 August 1986. COM(86) 235 final, table 3. EUR-Lex 51986DC0235(01); European Coal Steel Community, (1980-86).

Notes: see tables 1 and 3.

Despite the large amount of public aid, in 1981 investment in the sector was described by Community institutions as "worryingly low", because they considered that it was insufficient to carry out the modernization of the steelmaking facilities. However, although the volume of investments, measured in constant currency, was less than half of the average for the period 1970–1976 (see Figure 1), we could not expect levels similar to those at the beginning of the 1970s to be reached. From the 1960s, the expansion and modernization process had been based on the construction of large integrated coastal plants equipped with modern basic oxygen converters, the diffusion of electric furnaces in non-integrated steelmaking plants and, at the end of the 1970s, the widespread practice of continuous casting. At the beginning of the 1980s, the projects of the large coastal integrated plans had already been finalized, although in some cases they were smaller than initially forecast in order to adapt to the new market situation. Large investments in steel plants were not planned either, given that there was surplus production capacity, which affected the modern facilities (basic oxygen converters and electric furnaces). With respect to the following phase of the production process – hot rolling – there was also surplus production capacity, which affected mostly the modern hot-strip mills, whose production capacity in 1980 (73.2 MMT) was, according to the ECSC, more than enough to cover the forecast consumption until the mid 1980s.

FIGURE 1. ▪ *Capital expenditure in the iron and steel industry, 1965-1988 (million ECU)*



Source: European Coal and Steel Community (1970-1990). To deflate, we have used the iron and steel Community index created by the ECSC and published annually until 1984.

On the contrary, it was foreseeable that investments were directed at the installation of continuous casting and the final phases of manufacturing (cold rolling and coated products), which had a much lower cost. With respect to the former, its diffusion was fairly rapid, increasing the installed capacity from 70.9 MMT in 1980 to 115 MMT in 1985, which represented an increase in the capacity of the steelworks to treat crude steel from 35 % to 67 % of total output. Despite the significant increase experienced, it was still a long way from reaching the objective of 85-90 % established by the Commission in its overall objectives for the sector.[95] This was striking given that they were relatively cheap facilities, which also enabled a considerable saving in terms of energy and raw materials.

Although the capital requirements for installing continuous casting and improvements in the final phase of production were lower than those of the large projects developed in the 1960s and 1970s, the public aid was absolutely necessary due to the serious financial situation of the companies. In addition to the fact that public aid represented 66.5 % of investment for the peri-

95. EC, *Second report on the application of the rules for aids to the steel industry*. 5 February 1982. COM(82) 34 final. HAEU. BAC-COM(1982) 0034.

od, there is another piece of information that confirms its importance: the recovery of the investment coincides with the aforementioned agreement at Elsinor and with the disbursement of most of the aid approved in June 1983 (12,041 million ECU in 1984, and 12,903 million in 1985). Previously, between February 1980 and June 1983, the volume of aid granted amounted only to 11,072 million ECU. After 1986, despite the noteworthy improvement of the steel markets, a rapid decrease in investments occurred, coinciding with the end of public aid (Figure 1). In summary, public aid was necessary to support investment in the first half of the 1980s, but public finance was not enough to maintain an adequate level of investment, which was demonstrated in the relatively slow diffusion of continuous casting.

Conclusions

The uncoordinated action of the national governments in response to the crisis of the 1970s aggravated the problems of surplus production capacity in the steel sector and generated a rush of aid which, transferring the problems of national industry to the rest of the Member States, placed the common market at risk. In view of the fact that it was not possible to resolve a European problem with national measures, the Member States and leading companies accepted the leadership of the Commission, which used the opportunity to direct the efforts of national governments towards Community objectives.

Thanks to the possibilities offered by the European treaties, the Commission converted the control of public aid into a fundamental piece of Community steel policy. The aid codes not only forced a capacity reduction that national governments and companies were reluctant to implement, but also contributed to the success of the rest of the Davignon Plan measures, as the Commission made the approval of aid conditional on compliance with quota and price agreements.[96] It is worth highlighting the pragmatism in the conception and implementation of the restructuring policy. It is paradoxical that an article of the EEC Treaty designed to prohibit public aid served to channel an enormous flow of public money to carry out the largest intervention in industry in the history of the European Communities. It is also paradoxical that the Commission assumed leadership in a field, namely industrial policy, which was the exclusive competence of the Member States; it converted it into a competition policy instrument, which was included in its exclusive competences. Both apparent paradoxes are solved if we take into account the

96. EC, *Fourth report on application of the rules for aids to the steel industry*. 7 April 1983. COM(83) 178 final. HAEU. BAC-COM(1983) 0178.

advantages that the national governments could gain by handing over the responsibility for the restructuring process to Community institutions. Through the aid codes, some Member States organized rescue operations of their national champions, which were in a situation of technical bankruptcy, and could blame the most controversial decisions in terms of social cost on the demands of the Commission, as the restructuring of the sector implied 273,000 job losses (40 % of the total) between the end of 1979 and the end of 1986.[97]

With respect to the results, the analysis of each of the objectives separately reveals limited achievements, despite the vast resources allocated to the restructuring of the sector. Therefore, although the success of reducing production capacity by 18 % in less than seven years is undeniable, the problem was far from being resolved at the end of 1986, as demonstrated by the fact that the utilisation rate of hot rolling mills did not reach 70 %, the minimum necessary to ensure the profitability of the companies. With respect to the modernization of the sector, investments that had plummeted from 1976 began to recover; however, they continued to be abnormally low and did not even reach the objective proposed by the Commission of diffusing continuous casting. Finally, the financial restructuring was the most difficult objective to fulfil, forcing an extension of public aid when the second aid code was about to expire, and which absorbed the most resources. In spite of this, at the beginning of 1986, some of the rescued companies had still not generated profits. The favourable economic climate of the second half of the 1980s enabled all of the large steel groups to report profits once again, with the exception of Finsider, the company which had received most public aid while the aid codes were in force, and was the object of two further bailouts with their corresponding restructuring plans.

Could the same results have been achieved by allowing markets to operate freely, saving the huge amount of money spent on large steel undertakings bailouts? The fact is that the alternative to a Community steel policy was not letting the market drive the process, but national policies and a lack of cooperation – as happened in the second half of the 1970s – which would have further exacerbated the overcapacity problem. In the absence of the Community policy as a scapegoat, governments would have been more susceptible to pressure groups and adjustments entailing high social costs would have been avoided by all means.

More generally, the steel aid codes contributed to a strengthening of competition policy, which until then had focused on provisions against cartels and the abuse of dominant position. From that moment on, the Commission effectively assumed the monitoring of state aid, and the principle of the private

97. Eurostat (1981-1987).

investor for state-owned companies was introduced. As far as industrial policies, the steel aid codes in force since 1986 led to the replacement of sectoral policies with horizontal policies, focused on R&D and environmental protection within the general aid regimes.

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Industrial policy and competition policy. State aid and the restructuring of the European steel industry in the 1980s

ABSTRACT

Using documents from the Historical Archives of the European Union, the article assesses the results of the restructuring of the European Community steel sector carried out at the beginning of the 1980s, considered to be the first European industrial policy. The article concludes that State aid control by the European Commission, through the so-called aid codes, was the main tool of the Community restructuring policy and contributed to resolve the crisis that the sector had been suffering from the mid-1970s, even though the objectives set by the Commission were not fully achieved.

KEYWORDS: steel aid codes; State aid; restructuring policy; steel industry; ECSC Treaty; European Economic Community.

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Política industrial y política de competencia. Ayudas estatales y reestructuración de la industria europea del acero en los años 80

RESUMEN

A partir de fuentes primarias procedentes de los Archivos Históricos de la Unión Europea, el artículo evalúa los resultados de la reestructuración del sector del acero en la Comunidad Económica Europea, llevada a cabo a principios de los años ochenta y que es considerada como la primera política industrial comunitaria. El artículo concluye que el control de las ayudas públicas por parte de la Comisión Europea, a través de los denominados códigos de ayudas, constituyó el principal instrumento de la política de reestructuración comunitaria y que contribuyó decisivamente a resolver las crisis que el sector venía sufriendo desde mediados de los años setenta, a pesar de que los objetivos establecidos por la Comisión no fueron alcanzados plenamente.

PALABRAS CLAVE: códigos de ayudas al acero; ayuda estatal; industria del acero; Tratado de la CECA; Comunidad Económica Europea.

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