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The Davignon plan for Europe's steel

I. The Davignon plan for rationalizing European steel

The current phase of rationalization of the EEC steel industry began during 1976, when the imperiled condition of the industry — following a year when orders and production collapsed by 25 percent — became evident. To deal with the crisis, Henri Simonet, a member of the London-based International Institute for Strategic Studies and at the time EEC Commissioner for Industry, introduced a steel plan bearing his name. The plan basically consisted of setting "optional guidelines" on the prices of a number of steel and iron products in order to prevent price competition and undue disruption during a period of collapsing demand. This was late 1976.

By early 1977 the world steel crisis had in no way abated, and it was clear that desperate steelmakers were not going to follow the guidelines for certain products, especially steel reinforcing bars used in the depressed construction industry. In March 1977, Simonet's successor as Industry Commissioner, Viscount Etienne Davignon, introduced a more binding plan, which not only fixed minimum prices for steel reinforcing bars, but mandated that for each new ton of production capacity that was added, an equal or greater amount would have to be abandoned. This was apparently to prevent an "oversupply" of steel, and price wars in the future.

It was clear at the time that Davignon was using the immediate crisis to bring about a permanent dismantling of large segments of the European steel industry. Over the subsequent period Davignon began to talk openly about the need to abandon all plans for adding new capacity in the European steel industry, to shut down up to 16 percent of installed capacity, and eliminate another 100,000 steel jobs on top of the jobs lost during the 1975 downturn.

The plan's basic strategy

To grasp the full strategy behind the Davignon plan, it is necessary to put it in the perspective of the European Coal and Steel Community (ECSC), the predecessor organization of the EEC. The ECSC was established at the termination of the Marshall Plan in the early 1950s by a small, tightly knit group of British-allied Europeans with one overriding purpose: constraining the growth of, in particular, French and West German industry and keeping the two nations under British economic control. The *New York Times* obituary of the recently deceased Jean Monnet, founder of the ECSC, was quite candid on this point. According to the *Times*, Monnet, a French national, dreamed of and worked for a unified Europe under British leadership and personally desired nothing more than to receive dual French-British citizenship.

Contraction of EEC steel labor force, 1974-1978

(Total production workers and salaried employees, excluding apprentices. In most cases, 1974 was the most recent peak year.)

	1974	1978[1]	Change	Planned layoffs/attrition (part)
West Germany	223,103	197,273	- 12%	
France	157,629	134,896	- 14%	30,000
Italy	95,595	96,297	+.07%	
Netherlands	24,722	19,300[2]	- 22%	
Belgium	63,738	48,920	- 23%	12,000
Luxembourg	23,145	17,273	- 25%	
United Kingdom	188,264	162,544	- 14%	9,500
Total EEC[3]	792,191	698,483[4]	- 12%	100,000 (Davignon Plan) 200,000 (The Economist's target)

1) August 1978 2) 1977, latest available year 3) includes apprentices 4) May 1978 Source: European Community, Eurostat, **Iron and Steel.**

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Etienne Davignon was a cothinker and intimate associate of Monnet and others who put together the ECSC, and his steel plan is in effect an ECSC for depression conditions. In October 1977 Giovanni Agnelli of Fiat, a fellow zero-growth ideologue and "supranationalist," heaped praise on Davignon's steel plan as a model for the rest of the world economy: "The Davignon plan is a concrete example of how it is possible to supersede national interests and politics," Agnelli told the annual meeting of the International Iron and Steel Institute in Rome that year.

What it calls for

The actual measures that were adopted by the EEC Commission in late 1977 included an average price hike on steel products of 15 percent and a toughening of the surveillance mechanisms. The minimum prices that were established for steel reinforcing bars were directed against smaller, but more efficient producers, such as the Bresciani electric furnace producers of Northern Italy, and Willy Korf's direct-reduction ironmaking plants in West Germany.

The pricing efforts were coupled with efforts to lure Spain, a non-EEC country, into the "anticrisis" plan, and the setting of quotas for imports from Japan and other countries. Imports into the EEC in 1978 were about 1 million tons under 1977's 10 million metric tons, with the reduction coming chiefly in Japanese and Comecon imports. Spain, with its ambitious national steel program, continues to be a thorn in the side of the "anticrisis" planners.

In a recent interview with the *Executive Intelligence Review*, one Japanese steel executive commented that the drop in Japanese imports was actually due to the fact that the **market** price for steel in Europe last year was too low to permit even the highly cost efficient Japanese producers to sell in the European market at a profit. "I do not think that market prices are the same as Davignon prices," he noted. Other sources confirm that Japanese producers did not even meet the quotas for 1978 arranged between Japan's Ministry of Industry and Trade and the EEC Commission because of the soft prices in Europe; Japan's steelmakers were setting their sights on the more profitable markets of the Middle East and Southeast Asia.

As a result of depressed global demand for steel and measures taken against Japanese steel exports by Europe and the U.S., the Japanese steel industry is operating at only 70 percent capacity. Last fall Nippon Steel, the world's largest steel company, released plans to reduce its steelmaking capacity by 25 percent and its workforce by 7000 jobs. An industry official confided recently that much of the steel industry's spending on research and development is going to discovering ways of make Japan's giant blast furnaces less efficient, so as to lower output while avoiding costly shutdowns.

Not popular

Significant price discounting in the EEC steel market, in spite of Davignon's efforts to fix minimum prices, points up the fact that the EEC's national governments have not exactly been eager to carry out a plan which means, undeniably, massive unemployment in their steel sector. It also underlines the point that the only type of steel "anticrisis" plan that can work is one whose first task is to actively create new markets and demand for European and world steel.

The underlying premise of Davignon and his cothinkers like Barre in France is that European steel is a dying industry — the labor costs are too high, the capacity is antiquated, the industry can't compete with Japan and the modern developing sector steel producers. On the other hand, the route that France followed up to the present, of subsidizing inefficient capacity when it should have been phased out in favor of new integrated plants, merely set it up for the current crisis.

The Davignon plan's only "success" has been to fuel petty rivalries among different EEC nations' steelmakers and preempt discussion of a reasonable, market-creating approach to the steel crisis.

As a result of Davignon and related national sector "restructuring" plans, over 50,000 jobs have already been lost in the EEC steel sector as a whole since 1974. The nation by nation breakdown is the following:

France: As late as 1976 there were still some 156,000 production and supervisory workers employed in the French steel industry. The goal of Barre's restructuring

French foes of the EMS

A significant step in the organizing for global steel rationalization took place at the annual conference of the Steel Communities Coalition in Cleveland in late February. Present at the conference were two officials of the French government who put themselves forward as spokesmen for France and Europe on the question of the future of the world steel industry. Michel Barba, a government officer of the French national steel concern Usinov, and Christian Stoffaes, director of economic studies for the French Department of Industry, warned the United States to abandon investment in new or improved steel capacity and to allow the "free market" to force plant closings and tens of thousands of layoffs.

Barba sharply criticized the French government's past investment in the French steel industry: "We enjoyed the gimmicks of industrialization with the enthusiasm of great youth," Barba said, "despite our 2,000 year history and our population's top-heavy age pyramid. We did it by committing the fatal sin — by

program for steel is to shrink employment to 107,000 by the late 1980s — a clean sweep of one-third of France's steel workers. The strikes that are now convulsing France's steel regions were triggered last December when Barre called for the elimination of up to 30,000 jobs by 1982-83, mostly in the Lorraine region, on top of the 20,000 jobs already cut.

Last autumn the Barre regime stepped in and "bailed out" two of France's leading, financially troubled steel concerns, Usinor and Sacilor-Sollac, converting their debt into a government equity stake in the firms. Barre then sprang the restructuring plan on the industry.

According to a French official source critical of the Barre plan, the plan will shut down not just the oldest Lorraine mills as has been widely publicized, but modern capacity installed in the 1960s as well. As late as 1975 it was still French government policy to foster the expansion of overall French steel capacity at sites such as the massive integrated steel complex planned for Fos sur mer.

West Germany: West German steel producers have been outspoken critics of the Davignon plan since its inception in 1977 — but from a largely negative "free enterprise" standpoint. The West German steel firms are currently fighting for a strong code for restricting state aid to steel companies. This reaction is warranted insofar as British Steel, for example, has taken advantage of subsidies to maintain antiquated steel capacity, but it hardly represents a positive alternative to the Davignon plan. West German firms such as Krupp have recently grudgingly endorsed the Davignon plan for the shortsighted reason that it has limited imports.

The defensive behavior of the West German steelmakers is explained in part by the fact that West Germany's capital goods-oriented steel industry has been among the hardest hit in Europe over the last several years. One of West Germany's major markets, shipbuilding, is now operating at one-quarter capacity; in January 1979, 55 million dead weight tons were under construction compared with 225 million in the peak year of 1974. Today West German steel production is still at a level 25 percent below the 1974 peak.

The West German steel industry's other problem is heavy infiltration of British "free enterprise" ideology. A recent study by Wolfgang H. Philipp, former executive board member of Thyssen AG, predicted that European steel capacity will drop 10 percent by 1985. According to Philipp, the aim of EEC steelmakers is now merely to produce enough steel to keep their steel operations going, while ploughing back income into non-steel businesses: diversification.

West Germany steel participates in the Denelux steel cartel with Belgium and Luxembourg. This cartel within the Davignon cartel was set up prior to the 1975 crisis and includes price and market specialization arrangements.

Belgium and Luxembourg: In December, the Belgian government announced that it will assume an equity stake in about six of the country's largest steel companies. Job losses could be more than 12,000 out of

advise United States steelmakers

permitting our private companies to have access to almost unlimited funds." Barba's responsibilities at Usinor are to direct the reconversion of steel jobs into other sectors of the economy.

Stoffaes, another outspoken opponent of French dirigist policies, told his audience of industry, union, and community leaders from the U.S. steel belts: "You can derive interesting conclusions from the experience of 30 years of government intervention in the steel sector in France. The situation is worse than in the U.S. — and we can incriminate government intervention."

Both in their public speeches and in corridor conversations, Barba and Stoffaes emphasized an overriding point: steelmaking in the advanced sector is in a state of irreversible decline. The market for steel is shrinking and will continue to do so, they claimed, and steelmaking capacity must adapt to this "reality."

The policy perspective put forward by Barba and Stoffaes at the SCC meeting willfully undermines the thrust of the organizing efforts of French President Giscard d'Estaing and West German Chancellor Helmut Schmidt for a global industrial development program based upon the European Monetary System and European Monetary Fund. As Giscard's subsequent negotiations with Mexican President Lopez Portillo demonstrated, the intent of the French president and his cothinkers in the EMS is to actively create new markets and demand for steel and advanced sector capital goods in the developing countries.

It is clear that the dirigist policies attacked by Barba and Stoffaes are precisely what will be urgently required — on an expanded scale — to gear up and modernize advanced sector steel capacity to meet this global demand. And it is equally clear that a rationalization program of the type proposed by Messrs. Barba and Stoffaes, whose objective is the drastic reduction of overall steel capacity in the advanced sector, will abort the possibility of EMS/EMF development programs.

Belgium's current steel work force of 45,000.

Arbed SA unveiled a rationalization program for its Luxembourg operations early this year that would idle half the blast furnaces, reduce pig iron capacity by 15.5 percent, and reduce steel finishing capacity by an equivalent amount. The company expects to reduce its overall workforce to 16,500 by 1983 from 21,000 at the end of 1978.

Great Britain: It's no secret to anyone in Europe that without the Davignon cartel, the nationalized British Steel Corporation would be even deeper in the red than it is now. Of course, BSC has in the past violated Davignon prices left and right. And at a time when the London *Economist* and long-time British allies like Davignon are calling for the phasing out of European steel capacity, British Steel's current investment program is the biggest in Europe. The $2 billion that BSC is spending between 1978 and 1980 is greater than the sum of all steelmaking investments in the rest of Europe.

The chief way that the Davignon plan and earlier European cartel arrangements, like the British-inspired European Coal and Steel Community itself, has benefited Britain's vintage 19th century steel industry is through roping in, and now dismantling, the French and West German industries. BSC has also been making the most of the Davignon plan market sharing arrangements and minimum price schedules — insofar as they protect BSC's markets from competition by more efficient producers. Last fall Sir Charles Villiers vented complaints about the rising sales of other European steel producers in Britain before Eurofer, the European steelmakers' club in Brussels. He demanded a tightening up of Davignon market agreements, and threatened that if the Continental Europeans didn't discipline themselves better, BSC would beseige sensitive continental markets with retaliatory exports.

Britain needs all the protection it can get because of the low productivity and high cost of its decrepit industry. In early February the British Iron and Steel Consumers' Council issued a report complaining about the inconsistent quality of British Steel's strip and mill products, the complete absence of facilities producing good quality heavy plate and certain other products, and high prices — the highest domestic prices in the EEC, despite the fact that BSC pays the lowest hourly wages in Europe.

In an effort to dump some of its oldest and most inefficient capacity, BSC underwent major surgery last year. Over the course of 1978, 17,000 British steelworkers were permanently dismissed. BSC current strategy is to shut down capacity and lay off workers as its new capacity comes on line.

Who are the cartelizers?

Viscount Etienne Davignon grew up at the center of the very circles of Continental and British oligarchists who openly admired the austerity and cartelization policies of the Nazi regime and supported Hitler until the moment he turned west against France and Britain. After World War II these circles sought to "rebuild" a unified Europe under British domination, where national industrial interests would be held in check by supranational institutions like the European Coal and Steel Community. Davignon's father served as Belgium's minister to Germany in the years leading up to World War II, and reported directly to Paul Henri Spaak, Belgium's Foreign Minister and a notorious Nazi sympathizer. After the fall of Belgium to the Nazis, the elder Davignon was part of Spaak's government-in-exile London. Spaak worked closely in those years with Churchill and Anthony Eden in planning NATO and the Cold War. Etienne Davignon grew up under Spaak's supervision as his personal secretary. In 1974 Davignon became the first head of the International Energy Agency, a supranational austerity-enforcing agency of the type long supported by the Spaak-Davignon circles.

Sir Charles Villiers, chairman of the British Steel Corporation since 1976, was from 1960 to 1968 managing director of Schroeder Wagg, the London merchant bank which financed Hitler.

His primary identification is as a member of one of Europe's oldest lines of black nobility. The Villiers family, which traces its lineage back to the eleventh century, boasts two Grand Masters of the Knights of Saint John of Jerusalem at Malta. Its nineteenth century member, Philippe de Villiers de L'Isle-Adam was a major propagandizer for Eastern mysticism and the occult.

Anthony Solomon, Under Secretary of the U.S. Treasury for Monetary Affairs, was brought into the Kennedy State Department by his former Harvard professor, John Kenneth Galbraith. Solomon's subsequent careers in State and the Treasury have shown him to be a faithful student of Galbraith, America's leading Keynesian economist. Galbraith himself studied with Robert Triffin, financial advisor to the Belgian royal family, intimate of the Brussels-centered ECSC-EEC Commission circles, and for decades the chief spokesman for Britain's version of "European Monetary Union" — an antidollar regional currency bloc.

In the 1960s in his State Department posts, Solomon specialized in debt rescheduling/austerity packages for Latin American countries.

Solomon's trigger price system for steel harks back to the industry cartels designed by Keynes for the British government in the 1920s and 30s.