‘Events in steel’ from the Financial Times (18 April 1978)

Caption: On 18 April 1978, the British daily newspaper Financial Times analyses the reforms introduced by the Luxembourg steel group Arbed to mitigate the decline of the steel industry.

Source: Financial Times (18.4.1978), "Events in steel", David Buchan, Londres: Pearson PLC.

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Events in steel

IT MAY BE SOME TIME before Europe's steel industry makes the structural changes needed to put it on an competitive footing with its non-European counterparts. But this year may well see in that steel making belt which stretches from southern Belgium, through Luxembourg, to the German Saarland, the foundations laid for its future in the 1980s. At the pivot of this process is Arbed, the Luxembourg steel company, big in European terms and enormous in Luxembourg terms, accounting for 90 per cent. of the Grand Duchy's crude steel production and also its biggest single private employer.

Some of the changes are already taking place. Arbed has played the major part in saving Luxembourg's only other steel company, Rodange Athus from extinction, taking the biggest single private shareholding in it with the aim of integrating the Rodange mills in with its own operations inside the Duchy. With the same aim in mind, Arbed has also earlier this year increased its stake in the Saar. In addition, the company is along with the Luxembourg Government now talking to the Belgian companies and Government about long term co-operation in production and investment between the two countries.

Arbed is looking to the future precisely because the present is so bleak. The company is now making thumping losses—it has just reported a Lux. Frs.4.5bn. loss for last year or slightly more than the combined losses of 1975 and 1976. For the third successive year it has not paid a dividend. Arbed's ratio of debt to own funds may not be as alarming as that of some French and Belgian companies (quite apart from nationalised companies like British Steel), but clearly it cannot continue to shoulder this scale of operating loss, coupled with an ambitious investment programme, indefinitely.

A state bail out, as both government and company officials regularly point out, is not possible given the disparity between the size of Arbed and that of the duchy. All the state gives the company is virtually free use of the small Luxembourg railway network, a generous but not terribly effective gesture to a company with distant export markets. Arbed crude steel production fell last year by another 6.5 per cent. to 3.78m. tonnes, with a somewhat smaller drop in finished and rolled products—the difference being accounted for by drawing on the company's "steel mountain" stocks. There has, say Arbed executives, been a pick up in prices and orders since the start of this year, which they put down to the EEC Commission's new system of import protection and minimum prices on the internal market. But similar hopes of a sustained end to the post 1974 steel depression have been raised and dashed before, and Arbed in any case faces two special handicaps.

Given the exiguity of its home market, Arbed depends more than any European company on exports. Markets outside Europe are becoming harder and harder to get into, with for instance the new "trigger price" system of protection introduced in the U.S. by the Carter Administration and the general rise in the Third World's own steel capacity. Even inside the EEC, Luxembourg steel's most important export market (72 per cent. in 1976), the depression has brought on a creeping, unofficial (because in strict terms illegal under the Rome Treaty) protectionism.

The second handicap for Arbed is the political and social impossibility for the company of laying off redundant steel workers to match the fall in production in the way that a smaller fish in a bigger national pond could. Arbed still employs nearly 20,000 in a national active workforce of less than 150,000. The fact that Arbed's present workforce is openly admitted to be at least 4,000 too many therefore takes on the proportions of a national problem, and the way that government, unions and the company have sought to tackle this is also instructive of the way people in a small community can pull together to achieve something that would lead to social warfare in a larger country.

The steel problem was what the government, unions and employers all had in mind when last summer they reached their "tripartite agreement." As it affects steel, the bargain thereby struck was as follows: the government would finance a compulsory early retirement scheme for steel workers over 57, and use public money further to try to diversify the economy out of steel; the unions would not block the closing of outdated steel plant by for instance breaking the Duchy's proud record of having no strikes for the past 30 years; and Arbed would increase new steel investment (creating very few new jobs admittedly), while at the same time undertaking to do its utmost not to lay off any workers without another job to go to, and in close co-operation with the government to diversify into downstream steel activities and out of steel altogether into both downstream and non-steel activities.

Arbed last pushed its steel investment, which never exceeded Lux.Frs.3bn. even in the good years before 1974, up to Lux.Frs.4bn. last year, and the same is forecast for this year. The money is being mainly spent on a new 11-metre blast furnace, with the sums involved being raised in public and private loans in Germany, Switzerland and Luxembourg itself. Second, Arbed has created what it calls an "anti-crisis division" inside the company. This followed a hard look by the company at all those jobs not considered essential—

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some 3,000 at the present time. This reservoir of surplus labour has up to know been variously used to perform certain public works for the government and odd jobs for the company itself. But the basic aim is to offer this labour, retrained if necessary by Arbed itself, to potential foreign investors thinking of setting up in Luxembourg — along with assistance from Arbed in the form of capital, industrial sites and technical help.

This was the bait which Prime Minister Gaston Thorn and the Arbed president M. Emanuel Tesch put before a number of companies on their trip to the U.S. just before Easter. The pitch of Arbed and the Government is aimed not only at steel-related companies but almost any manufacturing enterprise which could use Arbed's facilities to make a start in Luxembourg. The U.S. seems to be the main hope chiefly because Luxembourg has had more experience with American investors than any other foreign investors, and that experience has been good. It must be added that Luxembourg seems to be fully aware that it is swimming against the current trend, created by the falling dollar, for Europeans to invest in the U.S. instead.

But Arbed is not leaving diversification entirely to those elusive foreign investors. With the creation of its Mecanarbed division three years ago, its downstream steel activities have considerably increased. The biggest Luxembourg engineering company, Paul Wurth SA, now comes under this division and is a specialist particularly in steel blast furnace equipment and, among other things, metal bridges, with a respectable turnover of some Lux.Frs.1.5-2bn. a year. Draw-also on its German engineering companies. Mecanarbed is beginning to provide turn key steel plants for the Third World, improbably large though this sort of project might seem for a small country like Luxembourg to undertake.

The Arbed group is still adding to its interests outside Europe, which include Brazilian iron ore and West Virginia coal, by announcing a wire rod joint venture in South Korea earlier this year. But the real action is much nearer home. In the Saarland, Arbed has strengthened its financial stake by taking 100 per cent. in Roechling Burbach which in turn has a share in Neunkircher Eisenwerk. The deal had the blessing of the Bonn Government, pleased that Arbed reckons it can turn certain strengths of the otherwise relatively sick Saar steel sector to advantage by integrating them more closely with Arbed's Grand Duchy operations.

Though the Rodange Atbus case was thrust upon Arbed last summer by the Luxembourg Government, anxious to save these jobs, the rationale of Arbed with Rodange is exactly the same as with the Saar. The Rodange blast furnaces will be closed down, and its future activity will be mainly that of rolling Arbed crude steel. Arbed believes that though Rodange may prove a short-term financial drag, longer-term benefits will follow. The new ungainly catchwords are "specialisation, restructuring, rationalisation" and so on—in short, a tidier division of labour between Europe's steel companies.

This could easily smack of the steel cartels of the 1920s and 1930s and which the language of the Rome Treaty expressly forbids. On the other hand, the present EEC steel plan of EEC Commissioner Etienne Davignon is in many ways a producer cartel, with voluntary production quotas and fixed prices, but with the crucial difference that it is run by the Commission on a European scale. In addition, the EEC Commission has for some years sanctioned the grouping of German steel producers into two rationalisation groups (one for the north, one for the south) to plan their future investments. Arbed is part of the southern group because of its Saar interests.

Arbed may soon be part of a similar arrangement with Belgium. It is already part of a study by the U.S. consultants, McKinsey, on the future of Belgo-Luxembourg steel. The logical conclusion from this report, expected in its final form this month, might be a rationalisation group between Arbed and the Belgian steel companies to plan future investment and maybe production so that their interests do not clash. Indeed talks to this end have already started under, too, the aegis of EEC Commissioner Davignon.

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