FOCUS

STEEL: PROTECT AND SURVIVE

While Mrs Thatcher is busy battering the steel industry down to a size consistent with her contracted vision of the future for manufacturing, it is instructive to reflect on the very different fate of the British and European steel industries in recent years. UK steel production will this year be at best half of the 1970 level. Had Britain been in the EEC in 1970, it would have held one fifth of Community output: in June this year the figure was 12%. The UK has suffered nearly half of the total Community job loss since 1973.

The principal explanation lies, of course, in the long decline of the domestic market, and its rapid collapse since 1979. From a reduction in manufacturing industry's activity of one fifth stems a proportionate fall in home steel demand. And given the dwindling influence of the state on steel markets, the propensity of what is left of UK industry to buy UK steel is falling. British Shipbuilders, for example, buys over 90% of its steel requirements at home: what price that trend after the privatisation promised by the Government for the new parliamentary session?

The Government has had some success in diverting attention from the effects of its policy of depressing steel demand and focusing it on trends in international trade. Adherence to Cobdenite nostrums is common within the establishment. BSC Chairman Ian MacGregor, reflects this consensus and resists protectionist arguments with references — accurate enough — to the high percentage of gross domestic product exported by Britain. But steel has moved in recent years from being one of the most freely traded international commodities to a prime target for restraints. The last few weeks alone have seen the USA force the EEC, under duress, to reduce its exports by nearly 9% and govern them by quotas, while on the other side of the world steel workers stormed the Australian parliament in protest against the imposition of what they saw as inadequate tariff barriers against imports. These are but two incidents in a secular trend. In 1980 25% of world steel production was traded: it will be a long time before that happens again.

Britain's steel trade problem is a Cerberus: one head — imports — is biting ever larger chunks out of a declining home market; the other — export potential — is faced with *anorexia nervosa* following the imposition of broad import quotas by the United States. 200,000 tonnes of export sales have been lost by BSC alone in this, the largest foreign market for UK steel. Moreover Britain also has some alarming imbalances in its steel trade with South Africa, South Korea and other countries: with most of the world. There are now leaks in the press about the Government turning from Cobden to Chamberlain and tariff reforms. Actually there are already constraints on trade through our membership of the EEC, but these are not efficacious since § of our steel imports come from within the Community. These government leaks would appear to be inspired more by a desire to influence November's General Agreement on Tariffs and Trade (GATT) talks than by any desire to plan trade. Indeed, the Tories have been indifferent to the fact, as can be seen by the table, that higher domestic steel prices and a modest upturn in demand during the first half of the year actually led to a fast growth in import tonnages.

% **increase over previous quarter**

	UK Consumption	*UK Imports*
2nd quarter 1981	-5.5%	+ 8.2%
3rd quarter 1981	+ 0.1%	+ 1.5%
4th quarter 1981	+ 2.0%	+ 19.4%
1st quarter 1982	+ 13.2%	+ 10.0%

In the USA Reagan deflated his own economy and then partially shielded American companies from the effects with import quotas. Thatcher has been administering the same medicine for twice as long but, without protectionism. If she now launches into it, the benefits are dubious. Britain needs capacity adequate for an economic upturn and the freedom to negotiate the trade acts it needs. Both would be ruled out by Britain's adherence to EEC pacts. The EEC has presided over the disintegration of the UK steel industry and has not prevented a swingeing contraction of export markets.

But there is a danger of labour movements in different countries having their attention diverted from the enemy at home to the 'enemy' abroad. US steel production has fallen 38% this year but its *total* domestic market has fallen 34%. Thus it is Reaganomics which has produced a situation where a given level of imports represents a far greater market share. Similarly in Britain, imports are actually only slightly above the levels of 1979, our last 'normal' year. But the *total* market is 20% smaller so the share of imports is larger. The lesson is that trade planning without domestic expansion will merely box us in to a smaller market.

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