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Article

State aid for the restructuring of the Spanish steel industry from a European perspective (1975–1988)

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ABSTRACT

Given the serious crisis of the European steel industry between 1974 and 1986, the Member States of the European Economic Community allocated a large amount of public resources to avoid the bankruptcy of major steel undertakings and to facilitate restructuring of the sector. In this regard, what the Spanish government did in relation to the steel aids was no exception. The main difference between the Spanish and European Community steel policies was not so much on the amount of the public resources but rather on the use of them in the restructuring process, especially since the 1980s. So while in the EEC steel aids were granted only in exchange for the elimination of surplus capacity, in Spain not adjustment was made until its accession to the European Communities on 1 January 1986.

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Las ayudas estatales para la reestructuración de la siderurgia española desde una perspectiva europea (1975–1988)

RESUMEN

Ante la grave crisis que atravesaba la siderurgia europea entre 1974 y 1986, los Estados miembros de la Comunidad Económica Europea destinaron una gran cantidad de recursos públicos para sostener económicamente a las grandes empresas que se hallaban al borde de la quiebra, y para facilitar la reestructuración del sector. A este respecto, la actuación de los Gobiernos españoles no fue una excepción. La principal diferencia entre las políticas siderúrgicas española y comunitaria estribó no tanto en el montante de las ayudas públicas destinadas al proceso de reestructuración como en el uso que se hizo de las mismas, especialmente desde los años ochenta. Así, mientras en la CEE las ayudas públicas estuvieron condicionadas a la eliminación de los excedentes de capacidad productiva, en España no se realizó ningún ajuste en este sentido hasta nuestra integración en la Comunidad en 1986.

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1. Introduction

The steel industry was one of sectors most severely affected by the crisis of the 1970s. From the end of 1974, the fall in demand for steel and the drop in prices, together with the increase in energy

costs, wages and raw materials generated losses for all of the large steel-making companies in Western Europe. These difficult economic circumstances also coincided with the culmination of major plans for the modernisation and extension of the steel production facilities in an attempt to close the technological gap with Japan which generated a surplus production capacity and serious financial difficulties for the companies that had implemented these plans. This is why, from the mid 1970s, the European states dedicated vast amounts of public resources to the financial clean-up and

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the restructuring of the sector. After a brief respite between 1978 and 1979, with the second oil crisis it became evident that the sector had serious structural problems with extremely low levels of production facility use and with companies that were suffering from heavy losses and continued to require state aid. In view of this situation, the countries of the European Economic Community (EEC) accepted the need for a restructuring process, financed with public aid and sponsored by the European Commission with the aim of reducing the surplus production capacity. Therefore, from 1980, the national government subsidies granted to the sector were regulated and controlled by the EU institutions and conditioned by adjustment plans which required the permanent closure of some plants and the dismissal of thousands of workers.

The panorama for the Spanish steel sector was very similar to that of the rest of Europe. During the years immediately following the crisis, the Spanish companies began to implement ambitious extension and modernisation projects which received a high amount of state aid. The start-up of these new production facilities coincided with a dramatic contraction of demand for steel, giving rise to significant surpluses of production capacity. In spite of this, new investments were still required to modernise the sector and improve its competitiveness, particularly as Spain was preparing to become a member of the EEC.

The restructuring of the European steel industry in the 1980s has been analysed on the whole by specialists in the field of Political Science and Public Administration who have focused their studies on the role played by the different agents involved in the restructuring process (*stakeholders*), paying particular attention to the transformation of the institutional framework and the relationships between governments, trade unions and EC institutions.¹ In the case of Spain, many studies have also been carried out which analyse the steel policy and the involvement of the different social agents. We can highlight the studies conducted by Saro (2000), which compares the steel policies of Spain and the UK; Marín Arce (1997), which analyses the changes in the attitudes of the trade unions in the restructuring processes during Spain's transition to democracy; and Navarro (1989a), which offers the best explanation of the motivations of all of the stakeholders of the restructuring process in the 1980s. Some of the studies in the field have tried to explain the behaviour of the social agents using economic models. For example, the study conducted by Viaña (1991) is based on the models of imperfect competition and workable competition theory; Simón (1997) uses the theory of pressure groups and Saro (2000) refers to policy networks. However, the complicated relationships between the social agents and the need to integrate political, economic, social and technological elements, limits the use of the economic models to explain an extremely complex reality.

Some of the above-mentioned studies address the role of national state aid and EEC aid in the restructuring processes, but, in general, this issue has remained in the background. This is in spite of the fact that during the 1980s, the strong increase in subsidies for industry, particularly the steel industry, decisively contributed to laying the foundations of competition policy, which

¹ For the restructuring of the steel sector in Western Europe, see the national studies included in the projects coordinated by Mény and Wright (1987) and Dudley and Richardson (2001). The studies conducted by Bain (1992) and Herrigel (2010) offer a comparison of the behaviour of the agents involved in the restructuring processes (unions, governments and companies) in several countries around the world, in the EEC and outside of Europe. See also, the national studies carried out by Daley (1996) and Godelier (2006) for France; Dudley and Richardson (1990) for the UK; and Balconi (1991) for Italy. The relations between the public companies British Steel Corporation and Finsider and their respective governments have been analysed by Ranieri (2011). A comparison between the restructuring process in Spain and in the EEC countries has been carried out by Díaz-Morlán et al. (2009).

is considered to be the first common policy of the EEC.² Therefore, the few studies in the field of Political Science that have focused on the subsidies given to the steel industry mostly explain how the regulation of state aid carried out in the 1980s led to the design and implementation of the Community competition policy.³ However, there is a lack of comparative studies that examine the economic aspects of the state subsidies using a more quantitative methodology. In Spain however, studies have been conducted which, despite the enormous methodological difficulties in their calculation, have attempted to quantify the resources dedicated to industrial restructuring processes. For example, Navarro (1989b, 1989c) offers an estimate of all the public resources used for industrial restructuring until 1988, Edo Hernández and Paredes Gómez (1992) extend this calculation until 1992 and Simón (1997) provides an estimate of the subsidies granted to industry between 1978 and 1993.⁴ With respect to studies focusing on state aid for the restructuring of the steel industry, only two estimates have been conducted; one by Navarro (1989a) and one by the steel sector's employers' association (Unesid, 1987b). However, there are no comparative studies that shed light onto whether the actions of the Spanish governments corresponded to the pattern followed by the EEC countries and if the amount of the subsidies and the instruments used to channel them were similar in Spain and the rest of Europe.

The main objective of this study is to provide a comparative analysis of state aid for the restructuring of the steel sector in Spain and in the EEC countries. More specifically, it will attempt to determine whether, as claimed by the entrepreneurs of the sector, the resources provided by the government for the restructuring process were lower than those received by the steel sectors of other EEC countries and whether the instruments through which they were channelled were similar. Furthermore, it seeks to contribute to a debate which remains open today: during the restructuring process were there regions that were favoured and others that were sacrificed? Or, more specifically: Did discrimination take place in favour of the public company (*Ensidesa*) and in detriment to the private sector (*Altos Hornos de Vizcaya*)?⁵ In this respect, it will also be interesting to determine to what extent the steel policies of the Spanish government coincided with the European guidelines. On the other hand, in the same way as Navarro (1989b), we will examine the real objectives sought by the restructuring policies and attempt to ascertain to what extent they were fulfilled. Similarly, we will study the role played by the European institutions in defining these objectives both for Spain and for the other EEC countries.

² McGowan and Wilks (1995).

³ See the articles by Dudley and Richardson (1997), Smith (1998), Conrad (2005) and Aydin and Thomas (2012).

⁴ We have preferred not to include the figures of the studies in the text because they are not comparable. While Simón's study includes all the subsidies granted to the industry, those of Navarro and Edo Hernández and Paredes Gómez limited their analyses to the specific subsidies directed at restructuring. The latter two studies use a different methodology and do not include the same concepts, therefore a comparison of the overall figures would not be significant.

⁵ The differences between the three consolidated companies (*Ensidesa*, *Altos Hornos de Vizcaya* and *Altos Hornos del Mediterráneo*) led to bitter regionalist disputes. However, the grievances persist today in the affected areas, as revealed in the recent study by Barrutia (2013), which claims that the closure of *Altos Hornos de Vizcaya* (AHB) at the beginning of the 1990s was a result of the lack of financial support from the Spanish government which led to the undercapitalisation of the company. The sense of grievance is also still evident in Asturias, as we can see, for example in the studies carried out by Agüera (1996) and Reißmann (1996). On the contrary, González-Polledo (2015) considered that *Ensidesa* was the "winner" of the conflict between the three integrated companies. Navarro (1989) and Sáez García and Díaz Morlán (2009) consider that the Basque company received favourable treatment due to social and political reasons.

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