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THE EC AS A STRATEGIC ACTOR
IN THE INTERNATIONAL POLITICAL ECONOMY:
EUROPEAN STEEL POLICY FROM THE 1970s TO THE
1990s

by

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A Doctoral Thesis

Submitted in Partial Fulfilment of the Requirements
for the Award of
Doctor of Philosophy of Loughborough University

November 1999
Abstract

This thesis analyses the European Community (EC) as a strategic actor in the International Political Economy (IPE). Rivalry or competition in the IPE has traditionally been analysed with a central focus on the state. Yet, with the advent of factors such as globalisation and internationalisation, the trend towards the formation of regional trading blocs, and the emergence of firms as powerful political actors, the notion of states' autonomy and strategic action capacities has increasingly been at odds with the realities of social, economic and political life. This thesis captures the complex interactions of state actors in today's IPE by adopting the concept of state economic functions and creating a level playing field upon which their interactions can be analysed. In order to evaluate strategic action capacities, the thesis identifies a range of key political, market and social variables and synthesises them into a research framework for the study of strategic action in the IPE. The research framework consists of four interactive elements: international relations, institutional capacity, decision-making capacity and market structure. Reflecting the need to analyse strategic action capacities on a sectoral basis, the research framework is applied to a longitudinal case study of EC policy-making in the steel sector from the 1970s to the 1990s. The thesis shows that the focus on state economic functions enables the researcher to move beyond traditional state-centric analysis and to incorporate non-state actors such as the EC into the analysis. The application of the research framework to the case of the EC shows that it emerged as a 'parallel' or 'joint' provider of state economic functions and that it has evolved into one of the most powerful actors in the IPE. The empirical analysis of EC policy-making in steel produces not only produces insights into the EC's strategic action capacities, but also insights into the strategic action capacities of other actors in IPE, the factors that restrict actor's capacity to act strategically, and the policies that should be adopted in order to improve strategic action capacities. By approaching the EC from the perspective of strategic action, the thesis offers a new approach to on-going research that tries to conceptualise the role and capacities of the EC in IPE, the evolution of the EC into a powerful international actor, and insights into the factors that shape the strategic action capacities of actors in the IPE.
Key Words

European Community
Globalisation
International Political Economy
State Economic Functions
Steel
Strategic Action
Acknowledgements

I'd like to thank my Supervisor, Mike Smith, and my Director of Research, Dave Allen, for all their support, guidance and patience throughout the course of this project. Their contributions were vital to the successful completion of the thesis. I'd also like to thank many of the staff of the Department of European Studies at Loughborough University for their support and the ESRC for providing me with a two-year tuition fee award (Award No. R00429624053).

I am deeply indebted to a great number of people for their patience and encouragement throughout the past years. A special thanks to Peter Welsh, Paul Green, Catriona Simpson for their help especially during the last stages of this project and a gang of last minute proof readers led by Rachel Emslie-Henry. Furthermore, Georges Salemohamed's generous provision of an electrical heater made a crucial contribution to the completion of this thesis. And, of course, a very special thanks to Pauline Dainty for literally saving my day when it mattered most.

Finally, I'd like to thank and dedicate this piece of work to my parents, Antje and Manfred Gring, for their unconditional support during all these years.
LIST OF FIGURES .................................................................................................................. 4
LIST OF ABBREVIATIONS ........................................................................................................ 5
INTRODUCTION ....................................................................................................................... 7
PART I: FRAMEWORKS ............................................................................................................ 11

CHAPTER ONE: STRATEGIC ACTION IN THE INTERNATIONAL POLITICAL ECONOMY
INTRODUCTION .................................................................................................................. 12
1.1. SETTING THE STAGE: INTERSTATE RIVALRY IN IPE ......................................................... 13
1.1.1 The Shift to the Economic Battlefield .............................................................................. 13
1.1.2 Sources of Trade Friction ............................................................................................... 15
1.1.3 The State and 'its' Firms: Triangular Diplomacy and the Rise of Regulation ..................... 16
1.1.4 The State, Multilateralism and Regionalism ................................................................... 17
1.1.5 The Changing Role of the State .................................................................................... 19
1.2. THE CONCEPT OF STATE ECONOMIC FUNCTIONS .......................................................... 20
1.2.1 The Relationship between States and Business .............................................................. 23
1.3. THE CONCEPT OF STRATEGIC ACTION IN IPE ................................................................. 28
1.3.1 Forms of Strategic Action in IPE .................................................................................... 29
1.3.2 Identifying the Parameters of Strategic Action Capacities ............................................. 31
1.3.2.1 Systemic/Structural Approaches .................................................................................... 32
1.3.2.2 Society-Centred Approaches ....................................................................................... 34
1.3.2.3 Statist Approaches ....................................................................................................... 36
1.3.2.4 Cognitive Approaches ............................................................................................... 38
1.3.2.5 Institutionalist Approaches ......................................................................................... 41
1.3.2.6 Summary ..................................................................................................................... 43
1.4 SYNTHESIS: A RESEARCH FRAMEWORK FOR THE EVALUATION OF STRATEGIC ACTION CAPACITIES .................................................................................................................. 45
CONCLUSIONS ...................................................................................................................... 50

CHAPTER TWO: THE EC AND STRATEGIC ACTION
INTRODUCTION .................................................................................................................. 52
2.1 CONCEPTUALISING THE EC .......................................................................................... 52
2.2 THE EC AS A PROVIDER OF STATE ECONOMIC FUNCTIONS ........................................ 58
2.3 EXPLORING THE EC'S STRATEGIC ACTION CAPACITIES ............................................. 63
2.3.1 The EC's International Relations .................................................................................... 63
2.3.1.1 The EC's Economic Weight in the World .................................................................... 64
2.3.1.2 Multilateral Relations ................................................................................................. 68
2.3.1.3 The EC's System of Trade Agreements ...................................................................... 69
2.3.1.4 EC-US Relations ....................................................................................................... 70
2.3.2 The EC's Institutional Capacity .................................................................................... 73
2.3.2.1 The EC's Commercial Competences ......................................................................... 75
2.3.2.1.1 Procedure: Tensions between the EC and the Member States .............................. 75
2.3.2.2 The EC's Commercial Policy Instruments .................................................................. 78
2.3.3 The EC's Decision-Making Capacity ............................................................................ 83
2.3.3.1 The Co-ordination Process ......................................................................................... 85
2.3.3.2 The Commission ........................................................................................................ 88
2.3.3.3 The Member States .................................................................................................... 91
2.3.3.4 Firms ......................................................................................................................... 93
2.3.4 The EC in World Markets ............................................................................................. 97
2.4 EVALUATION OF THE RESEARCH FRAMEWORK FOR THE CASE OF THE EC .......... 103
2.5 THE CASE STUDY APPROACH: A LONGITUDINAL STUDY OF THE STEEL INDUSTRY ....... 109
CONCLUSIONS ...................................................................................................................... 111
PART II: TOWARDS STRATEGIC ACTION (FROM THE 1950S TO THE 1970S) .......... 113

CHAPTER THREE: THE GLOBAL STEEL INDUSTRY AND THE EC .................. 115

  INTRODUCTION .................................................................................................................. 115
  3.1 STEEL AND THE GLOBAL ECONOMY ....................................................................... 115
  3.2 THE ESTABLISHMENT OF THE ECSC ................................................................. 120
  3.3 THE MARKET STRUCTURE OF THE EUROPEAN STEEL INDUSTRY ................. 124
  3.4 DECISION-MAKING IN THE ECSC ......................................................................... 130
  3.5 ECSC POLICY INSTRUMENTS ................................................................................. 138

CONCLUSIONS .................................................................................................................... 140

CHAPTER FOUR: EC POLICY-MAKING IN STEEL FROM THE 1950S TO THE 1970S ... 141

  INTRODUCTION .................................................................................................................. 141
  4.1.1 Early VRAs ............................................................................................................. 143
  4.2 THE DEVELOPMENT OF EC INVOLVEMENT IN THE STEEL SECTOR ......... 146
    4.2.1 The Spinelli Years (until the end of 1976) ......................................................... 146
    4.2.2 The Simonet Years (1976-77) ............................................................................ 151
    4.2.3 The Davignon Years (1977-79) ........................................................................ 156
    4.2.3.1 Internal Measures ............................................................................................. 158
    4.2.3.2 External Measures .......................................................................................... 161
    4.2.3.3 Extensions of the Davignon Plan 1977-79 ...................................................... 164

CONCLUSIONS .................................................................................................................... 167

EVALUATION PART II: STRATEGIC ACTION IN STEEL FROM THE 1950S TO THE LATE 1970S ........................................................................................................................................ 171

PART III: STRATEGIC ACTION IN STEEL IN THE 1980S ............................................ 175

CHAPTER FIVE: INTERNAL POLICY-MAKING IN STEEL IN THE 1980S .......... 176

  INTRODUCTION .................................................................................................................. 176
  5.1 LANDSCAPE OF THE STEEL INDUSTRY IN THE 1980S .................................. 176
  5.2. EC MARKET REGULATION IN THE 1980S ......................................................... 178
    5.2.1 The System of Production Quotas ...................................................................... 179
    5.2.1.1 Enforcement Problems of the Quota System ................................................ 180
    5.2.1.2 Co-operation with and within Eurofer .......................................................... 182
  5.3 EC RESTRUCTURING IN THE 1980S ...................................................................... 185
    5.3.1 The Control of Subsidies (1980-89) ................................................................. 187
  5.4 PHASING-OUT THE 1980S CRISIS MEASURES ................................................. 192

CONCLUSIONS .................................................................................................................... 196

CHAPTER SIX: THE 1980S EC-US STEEL CONFLICT .............................................. 199

  INTRODUCTION .................................................................................................................. 199
  6.1 THE BACKGROUND OF THE EC-US STEEL PROBLEM .................................. 199
  6.2 FROM THE TPM TO THE ANNOUNCEMENT OF COUNTERVAILING DUTY MARGINS ........................................................................................................................................ 203
    6.3.1 Obtaining a Negotiation Mandate ................................................................. 210
    6.3.2 The First Tentative Agreement ....................................................................... 212
    6.3.3 The September 1982 Deal ............................................................................. 215
  6.4 CONTESTED ISSUES AFTER THE 1982 AGREEMENT ......................................... 218
  6.5 THE 1989 RE-NEGOTIATION OF THE EC-US VRAS ....................................... 224

CONCLUSIONS .................................................................................................................... 229

EVALUATION PART III: STRATEGIC ACTION IN STEEL IN THE 1980S .......... 233
PART IV: STRATEGIC ACTION IN STEEL IN THE 1990S ................................................................. 237

CHAPTER SEVEN: INTERNAL POLICY-MAKING IN STEEL IN THE 1990S ......................... 238

INTRODUCTION ................................................................................................................................. 238
7.1 LANDSCAPE OF THE STEEL INDUSTRY IN THE 1990S ....................................................... 238
7.2 EC MARKET REGULATION IN THE 1990S ............................................................................... 239
7.2.1 ECSC Question ...................................................................................................................... 243
7.3 EC RESTRUCTURING DURING THE 1990S ............................................................................... 245
7.3.1 The Steel Rescue Plan ............................................................................................................. 247
7.3.2 The Control of Subsidies in the 1990s .................................................................................... 249
7.3.3 Agreeing Capacity Cuts for Private Producers ..................................................................... 252

CONCLUSIONS ................................................................................................................................... 257

CHAPTER EIGHT: THE 1990S EC-US STEEL CONFLICT ......................................................... 260

INTRODUCTION ................................................................................................................................ 260
8.1 THE BACKGROUND OF THE 1990S EC-US STEEL CONFLICT ............................................. 260
8.2 US ANTI-DUMPING PROCEDURES VS. EC HARASSMENT CLAIMS ....................................... 263
8.3 THE EC-US STEEL PROBLEM IN THE MULTILATERAL CONTEXT ......................................... 270
8.3.1 Steel in the GATT Context ..................................................................................................... 270
8.3.2 MSA Negotiations and other EC Initiatives Relating to Steel ............................................. 272

CONCLUSIONS ................................................................................................................................... 276

EVALUATION PART IV: STRATEGIC ACTION IN STEEL IN THE 1990S ............................. 279

CONCLUSIONS: STEEL, THE EC AND STRATEGIC ACTION IN THE INTERNATIONAL POLITICAL ECONOMY .................................................................................................................. 281
9.1 STRATEGIC ACTION IN STEEL .................................................................................................. 281
9.2 THE EC'S STRATEGIC ACTION CAPACITIES IN IPE ........................................................... 291
9.3 STRATEGIC ACTION IN IPE AND REFLECTIONS ON THE FRAMEWORK ............................ 295

APPENDIX ........................................................................................................................................ 300

BIBLIOGRAPHY .............................................................................................................................. 306

PRIMARY SOURCES .......................................................................................................................... 306
A: Official Journal of the European Communities (L) ................................................................. 306
B: Official Journal of the European Communities (C) ................................................................. 309
C: Court of Justice ....................................................................................................................... 309
D: Commission Communications (COM) .................................................................................... 309
E: SEC ........................................................................................................................................... 310
F: Other Commission Publications .............................................................................................. 311
Other Primary Sources .................................................................................................................. 311
List of Interviews ........................................................................................................................... 312
Press Cuttings from Newspapers and Periodicals ....................................................................... 313
Commission Press Releases (Rapid) .............................................................................................. 317
EJC Press Releases ...................................................................................................................... 318
SECONDARY SOURCES ...................................................................................................................... 319
LIST OF FIGURES

Table 1: Framework for the Evaluation of Actor's Strategic Action Capacities in IPE p. 48
Table 2: The EC's Strategic Action Capacities p. 104
Table 3: Division of Competences in the ECSC p. 132
Table 4: Member State Share of EC Steel Production p. 300
Table 5: Share of Large Companies of EC Crude Steel Production p. 300
Table 6: Development of Employment in the Member States And the EC p. 301
Table 7: Interest Determinants of the Member States in the Steel Sector at the Beginning of the 1980s Steel Crisis p. 303
Table 8: Interest Determinants of the Member States in the Steel Sector at the Beginning of the 1990s Steel Crisis p. 304
Table 9: EC Anti-Dumping and Anti-Subsidy Measures; VRAs Concluded by the EC p. 305
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>APEC</td>
<td>Asian Pacific Economic Co-operation</td>
</tr>
<tr>
<td>ACPs</td>
<td>African, Caribbean, and Pacific Countries</td>
</tr>
<tr>
<td>BIS</td>
<td>Bank for International Settlements</td>
</tr>
<tr>
<td>BSC</td>
<td>British Steel Corporation</td>
</tr>
<tr>
<td>CAP</td>
<td>Common Agricultural Policy</td>
</tr>
<tr>
<td>CCP</td>
<td>Common Commercial Policy</td>
</tr>
<tr>
<td>CCT</td>
<td>Common Customs Tariff</td>
</tr>
<tr>
<td>CEECs</td>
<td>Central and Eastern European Countries</td>
</tr>
<tr>
<td>CET</td>
<td>Common External Tariff</td>
</tr>
<tr>
<td>CIS</td>
<td>Community of Independent States</td>
</tr>
<tr>
<td>Coreper</td>
<td>Committee of Permanent Representatives</td>
</tr>
<tr>
<td>DOC</td>
<td>US Department of Commerce</td>
</tr>
<tr>
<td>DG</td>
<td>Directorate General (EC Commission)</td>
</tr>
<tr>
<td>EAs</td>
<td>Europe Agreements</td>
</tr>
<tr>
<td>EC</td>
<td>European Community</td>
</tr>
<tr>
<td>ECSC</td>
<td>European Community for Coal and Steel</td>
</tr>
<tr>
<td>EEA</td>
<td>European Economic Area</td>
</tr>
<tr>
<td>EEC</td>
<td>European Economic Community</td>
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<tr>
<td>EFTA</td>
<td>European Free Trade Association</td>
</tr>
<tr>
<td>EJC</td>
<td>European Court of Justice</td>
</tr>
<tr>
<td>EMU</td>
<td>European Monetary Union</td>
</tr>
<tr>
<td>EP</td>
<td>European Parliament</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>Euratom</td>
<td>European Atomic Energy Community</td>
</tr>
<tr>
<td>Eurofer</td>
<td>European Confederation of Iron and Steel Industries</td>
</tr>
<tr>
<td>FENA</td>
<td>Organisation of European Steel Traders</td>
</tr>
<tr>
<td>FEP</td>
<td>Foreign Economic Policy</td>
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<tr>
<td>FPA</td>
<td>Foreign Policy Analysis</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IPE</td>
<td>International Political Economy</td>
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<tr>
<td>IR</td>
<td>International Relations</td>
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<td>ITC</td>
<td>US International Trade Commission</td>
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<tr>
<td>FEP</td>
<td>Foreign Economic Policy</td>
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<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>G-7</td>
<td>Group of Seven</td>
</tr>
<tr>
<td>MFN</td>
<td>Most Favoured Nation</td>
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<tr>
<td>Acronym</td>
<td>Abbreviation and Description</td>
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<tr>
<td>MSA</td>
<td>Multilateral Steel Agreement</td>
</tr>
<tr>
<td>MSSA</td>
<td>Multilateral Speciality Steel Agreement</td>
</tr>
<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organisation</td>
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<tr>
<td>NTBs</td>
<td>Non-Tariff Barriers</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OEEC</td>
<td>Organisation for European Economic Cooperation</td>
</tr>
<tr>
<td>OJ</td>
<td>Official Journal of the European Communities</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
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<tr>
<td>SEA</td>
<td>Single European Act</td>
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<tr>
<td>SEM</td>
<td>Single European Market</td>
</tr>
<tr>
<td>TBR</td>
<td>Trade Barriers Regulation</td>
</tr>
<tr>
<td>TEU</td>
<td>Treaty on European Union</td>
</tr>
<tr>
<td>TPM</td>
<td>Trigger Price Mechanism (US)</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>US</td>
<td>United States of America</td>
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<tr>
<td>USSR</td>
<td>Union of Soviet Republics</td>
</tr>
<tr>
<td>USTR</td>
<td>United States Trade Representative</td>
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<tr>
<td>VRAs</td>
<td>Voluntary Restraint Agreements (also called VERs - Voluntary Export Restraints)</td>
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<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
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INTRODUCTION

One of the most salient features of today's international political economy (IPE) is frictions over trade issues. In today's globalised world economy, conflicts arise over issues as diverse as bananas, foreign investment, intellectual services, market access issues, and protectionist trade policies. These frictions involve a multitude of different actors, including states, firms, and various international organisations, each of which draws on their own sets of resources. Located at the interface between their external and internal environments, actors pursue their interests by both acting and interacting on and across a variety of levels and by employing a variety of instruments and strategies. Interactions between actors take place within a number of bilateral and multilateral fora and these to varying degrees structure the nature, actions and outcomes of the interactions of actors in the international political economy. As Underhill concludes in a recent introduction on political economy and the changing global order:

The exercise of power in the international political economy...takes place in a setting characterised by the complex interdependence among states, their societies, and economic structures at domestic and international levels of analysis. This occurs largely through an integrated system of governance operating simultaneously through the mechanisms of the market and the multiple sovereignties of a system of competitive states. Interdependence, as well as anarchy, is an integral part of the international environment within which states attempt to promote their sovereign interests and those of their domestic constituencies. Interdependencies necessitate a focus on the linkages among actors and political interaction is the substance of these linkages. The outcome is determined by the complex interaction of systemic and domestic structural and process variables. (Underhill, 1999:19)

These increasingly complex and multi-layered interactions of actors in the international political economy have attracted a considerable number of scholars, who approached the problem of explaining outcomes in the global economy from a number of perspectives (for instance Cohen, 1990; Conybeare, 1987; Cox, 1987; Frey, 1984; Gilpin, 1981, 1987; Goldstein and Keohane, 1993; Gourevitch, 1986; Keohane 1989; Keohane and Nye, 1989; Krasner, 1976, 1978, Milner, 1988a, Morgenthau, 1960, Murphy and Tooze, 1991; Odell, 1990, Rosenau and Czempiel, 1992; Stopford and Strange, 1991; Strange, 1986, 1996, Waltz, 1979). Using the concept of strategic action, generally defined as the ability to act in a way that influences the behaviour of
others in a fashion favourable to one's own preferences (derived from Schelling, 1960), this thesis captures the complexity of interactions IPE by systematically generating a framework to evaluate actor's strategic action capacities.

Among the actors in IPE, the European Community (EC) is a particularly taxing case of an actor (see Allen and Smith, 1990; Hill, 1993; Keohane and Hoffmann, 1991; Rummel, 1990; Sandholtz, 1992; Sandholtz and Zysmann, 1989; Sjöstedt, 1977, Smith, 1994a, 1996, 1998; Taylor, 1982; Wallace 1990; Dent, 1997; Hayes, 1993; Heidensohn, 1996; Piening, 1997). Since its inception, the EC assumed an ever growing weight in the world economy, became a participant in a wide range of international institutions, and a central element in the policy concerns of most states in the international arena. As Smith recently put it:

It is an entity which in many respects mimics the actions and performance of states and national governments, but which in some crucial aspects is different. In the global arena, this raises questions about the capacity for action, influence and leadership of the Union; in the EU itself, it raises questions about the process of trade policy-making and about the tensions between EU and other levels of economic action. (Smith, 1999:275)

Yet, the EC is not a state and can therefore not be analysed by the means of state-centric analysis. In order to overcome this conceptual problem and to create a level playing field upon which the actions of actors in IPE can be evaluated, the thesis adopts the concept of state economic functions as developed by Murray (1971). Using this idea, it is possible to move away from traditional state-centric analysis and to incorporate non-state actors such as the EC into a framework for analysis. A review of the literature identifies a range of key political, market and social variables and synthesises them into a framework for the study of strategic action in IPE. Reflecting the need to account for both the location of actors at the interface of internal and external environments and sectoral variations, the framework consists of four interactive elements. These are international relations, institutional capacity, decision-making capacity and market structure. A first application of the research framework shows that the EC has emerged as a 'parallel' or 'joint' provider of state economic functions and that the EC has developed the strategic action capacities to pursue state economic functions in the global economy, with a capacity to act strategically second only to that of the US. While these initial insights have been made previously, the
application of the research framework to the EC nevertheless generates insights into the internal and external constraints on the EC's strategic action capacities. It is in this context that a case study approach is developed in order to put the research framework to a further test. Focusing firmly on investigating the factors involved in EC decision-making that have an impact on the EC's capacity to act strategically, how these have changed over time, and what insights can be gained on the EC's capacity to act strategically in IPE, the thesis undertakes a longitudinal study of EC policy-making in steel from the 1970s to the 1990s.

The thesis asserts that the analysis of strategic action capacities and the focus on state economic functions enables the researcher to analyse the complex factors that are behind outcomes in IPE. Furthermore, the empirical analysis of the EC's experience of policy-making in steel not only produces insights into the EC's strategic action capacities, but also insights into the strategic action capacities of other actors in IPE, the factors that restrict actors' capacity to act strategically, and the policies that should be adopted in order to improve actors' strategic action capacities. This thesis is therefore concerned with 'applied IPE'. In adopting this approach, it does not seek to derive new insights into IPE, but attempts to reduce the complexity of interactions in IPE by developing a framework for analysis and applying it to the case of the EC in IPE. By doing so it offers a fresh approach to the puzzle of what the EC is capable of achieving in IPE, what it has achieved in the past, insights into the factors that shape the development of future strategic action capacities.

In terms of structure, the thesis is divided into four parts, each consisting of two chapters. Part I develops the research framework (chapter one) and, in a first test of it, applies it to the case of the EC in the global economy and introduces the case study on the European steel industry (chapter two). Part II consists of a background chapter on the steel industry (chapter three) and analysis of EC policy-making in the steel sector up until the late 1970s (chapter four). In the concluding two parts, EC policy-making in steel is analysed at the crisis points of the 1980s and the 1990s respectively, and a distinction maintained between external and internal policy-making. Part III deals with internal policy making during the 1980s steel crisis (chapter five) and external EC policy-making in steel (chapter six). Part IV extends this structure and deals with internal policy making during the 1990s steel crisis (chapter seven) and with external
policy-making (chapter eight). Whereas in chapter 4 the focus is on the development of EC involvement in the steel sector, and particularly the evolution of the Commission into a relevant industrial-political actor, chapters five and seven focus on the interactions between the Commission, the Member States and steel firms. Chapters six and eight focus on the interactions between the EC and the US both on the bilateral and multilateral plane. Each part is concluded by an evaluation of the EC's strategic action capacities during the period under investigation and feed into the overall conclusions. The conclusions offer insights gained from the longitudinal study of policy-making in steel related to conclusions about the EC as a strategic actor in IPE. On the basis of these insights, generalisations are drawn about strategic action in IPE. Finally, reflections on the thesis are presented together with suggestions for further research. It is suggested that the analysis of strategic action capacities in IPE is a useful way of explaining outcomes in IPE.

In order to develop the framework for the evaluation of strategic action capacities, the thesis undertakes a comprehensive review of the literature on International Relations (IR) and its subfields IPE and foreign economic policy-making (FEP), but also draws on the literature on International Politics (IP) and Foreign Policy Analysis (FPA). In the application of the framework to the EC, the thesis draws mostly on approaches to European integration as evolved by IR and comparative politics and policy analysis approaches, but also uses literature on EC trade policy and primary sources produced by the GATT and the WTO. The longitudinal study of the European steel industry uses a wide range of primary and secondary sources on the world and European steel industry. These sources include a collection of newspaper and journal cuttings, compiled from European Press Documentation Centres in Hamburg and Mannheim and the libraries of Glasgow University, Edinburgh University, Loughborough University, and Chatham House (London). Material drawn from the Internet adds further detail. Finally, a series of semi-structured interviews, conducted by the author in Germany and Brussels, not only provides further detail but also helped to structure the case study approach. The appendix, compiled from primary and secondary sources, supplements and further illustrates the steel case study with a selection of tables and graphs.
PART I: FRAMEWORKS

In this first part, a framework for the evaluation of strategic action capacities is developed and applied to the case of the EC as an Actor in the international political economy. Chapter one investigates the interactions of actors in the international political economy, introduces the concept of state economic functions and generates the research framework for the evaluation of strategic action capacities. In chapter two, this framework is broadly applied to the case of the EC and a case study approach is introduced that suggests to study the evolution of the EC's strategic action capacities by analysing EC policy-making in steel on a longitudinal basis.
CHAPTER ONE: STRATEGIC ACTION IN THE INTERNATIONAL POLITICAL ECONOMY

Commerce, which ought naturally be, among nations, as among individuals, a bond of union and friendship, has become a most fertile source of discord and animosity.

Adam Smith¹

The 1990s will probably be regarded as important to historians not only as the decade when Soviet Communism reached a dead end, but also as the point at which commercial competition and trade conflicts among the Western allies replaced political competition between ideological blocs as the dominant theme in international relations.

Howell, T. R. and Wolff, A. W.²

Introduction

The aim of this chapter is to develop a research framework that allows for the evaluation of strategic action capacities in the international political economy. In order to generate this framework, the chapter begins with an outline of the broad context of interactions in today's international political economy. Against the background of increasing globalisation and internationalisation, the first section deal with both the changing roles and the changing capacities of actors and introduce the two main angles that are central to this thesis: the nature of interactions between state actors in the international political economy and the nature of their interactions with firms.

In the second section, the concept of state economic functions is introduced as a way of creating a level playing field upon which the actions of actors in IPE can be assessed. It is argued that all modern industrialised states are concerned with the provision of state economic functions to their constituencies. Furthermore, it is argued that, despite the effects of globalisation and internationalisation of production on the capacities of actors, the relationship between states and firms remains central to states' ability to provide their constituencies with state economic functions, but that their

¹ Smith (1937:460).
² Howell and Wolff (1992a:5).
relative action capacities as well as strategies have undergone some significant changes as a result of globalisation and internationalisation.

In the third section, the concept of strategic action as well as the forms of strategic action that are at work in today's international political economy are investigated. The concept of strategic action that is presented here is a means by which actors in the international political economy attempt to fulfil state economic functions for their constituencies. By way of a literature review, the chapter identifies of the ways in which existing international political economy approaches have dealt with issues relating to the performance of state economic functions. The findings are then summarised into a comprehensive framework for the evaluation of strategic action capacities.

1.1. Setting the Stage: Interstate Rivalry in IPE

State rivalry is one of the most consistent features of the global political economy, with priorities predominantly defined in geopolitical terms. In the past, states sought to improve their national welfare by both the conquest of territory through the use of military force (i.e. to conduct a war in order to gain access to another state's resources and natural assets) and through economic development sustained by foreign trade. Against a background of world-wide structural change including globalisation, internationalisation, the emergence of transnational firms, and the end of the old two-superpower system, however, the conduct of war ceased in its importance as a means of increasing national welfare, giving way to foreign trade as the main means for achieving such objectives and an increasing entanglement of commercial policy considerations with wider foreign and security concerns.

1.1.1 The Shift to the Economic Battlefield

The security links that evolved after the Second World War between the major industrialised nations developed a magnitude that reduced the possibilities for war. In the wake of these security ties, economic, political and social interactions among the main industrial states grew to unprecedented degrees and were facilitated and
strengthened by increasing globalisation and the internationalisation of production. Europe, North America and Japan may have been competitors in the marketplace, divided by their divergent commercial and financial interests, but they did not permit themselves to forget that they shared a common interest in maintaining security links. Hence, economic rivalries, no matter how potentially explosive, were never allowed seriously to endanger the underlying foundations of the Western Alliance. On the other hand, even areas of 'hard' security are increasingly penetrated by economics⁴, with the result that foreign policy is by now largely driven by trade and investment considerations. Given the unstable economic and political state of the Soviet Union in the late 1990s, there is further reason to believe that the security links will continue to matter. Nevertheless, with the waning of the Soviet threat the perceived value of the postwar alliance system started to erode and gave way to an intensification of national self-interest at the local, national and regional level. With states devoting less attention to collective interests, they were increasingly tempted to 'free-ride' in international economic relations. Therefore, despite security considerations still being a means of identifying the centres of international power, the growing importance of trade considerations seems almost irreversible.

The picture of inter-state rivalry that we are confronted with is thus one that is largely played out on what has sometimes been called the 'economic battlefield'. Since states are competing more for the means to create wealth within their territory than for power over territory (Stopford and Strange, 1991), a situation has developed in which conflicts between states increasingly arise in environments that seem strategic. These include most visibly high-technology sectors, but are certainly not confined to these sectors since, as it is argued below, a global economy and the rise in regional regulation of markets render all sectors of the economy subject to a much larger playing field. As Bhagwati (1991:16) explains, with expanding trade and investment the globalised world economy has turned into a veritable spider's web, 'where everyone is now in everybody else's backyard, making import competition in one's own market and export competition in the other's market and in third markets ever more fierce'.

³ Holm and Sorensen (1995) even described the emergence of 'post-modern states' between which warfare is unthinkable.

⁴ For the distinction between 'soft' and 'hard' power see Hoffmann (1966).
1.1.2 Sources of Trade Friction

The argument concerning a shift of conflict to the economic battleground makes trade frictions the main site for inter-state rivalry. Access to markets has become one of the crucial sources of friction in today's global economy. Under the broad title of issues of market access, a whole host of potential frictions can be identified, including the application of tariff and non-tariff trade barriers, the use of anti-dumping and countervailing duties, rules of origin, import quotas, government procurement, industrial subsidies and targeting, standards and testing procedures, research and development (R&D) policies, intellectual property protection and traditional forms of government intervention and national principles underlying trade and competition policy. While many national trade remedies, including anti-dumping and countervailing duty laws, act more as a buffer or interface mechanism between different economic systems than as a response to traditional trade barriers (Jackson, 1989:220-1), the rules of a market place now take a special position in the considerations of all market participants and have increasingly become subject to considerable controversy. National differences in these rules can be both a barrier to trade and transnational investment and a source of competitive advantage or disadvantage for companies in particular markets. From this list of trade barriers, it becomes apparent that trade barriers encompass trade policy instruments which go far beyond traditional border measures and fall into the realm of commercial policy instruments.

A second category of trade conflict emanates from national differences in a wide variety of policies and institutions that affect the terms of international competition. Here, numerous issues affecting the global regulation of trade are at stake and conflicts arise in arenas such as the General Agreement on Tariffs and Trade (GATT), now the World Trade Organisation (WTO), or the Organisation for Economic Cooperation and Development (OECD). Moreover, as a consequence of the dramatic growth of trade and transnational investment, the concept of trade conflict needs to be broadened in order to encompass national structural differences, since even when not designed to advantage one set of national producers over another, national structural differences play a role in these conflicts. Broad structural differences influence the nature and terms of international competition in two ways. Firstly, structural differences affect the accessibility of different national markets to foreign
competitors. Posing very real structural impediments, national differences in regulatory institutions, in antitrust laws and their enforcement may have large though not necessarily intended effects on the ability of foreign firms to compete in a particular national market. Secondly, structural differences create different incentive environments and behavioural tendencies for firms of different nationalities. As Tyson (1992:31) and Ostry (1990) note, competition between firms gestated in different national systems is, to some extent, competition among the systems themselves.

1.1.3 The State and 'its' Firms: Triangular Diplomacy and the Rise of Regulation

Since technology, intellectual investment, and corporate culture have become the main driving forces behind the creation of wealth. These factors are now also intrinsically linked to state action and conflict in the global economy. As a result, world trade is presently much more dynamic and no longer confined to the static principle of comparative advantage (Porter, 1998) and a state's competitive advantage is not only a function of its factor endowment, but also a function of strategic interactions between firms and government and between them and the firms and governments of other nations.

For states, these developments implied a general reduction of sovereignty. Governance in the international system used to be constructed around the principle of sovereign statehood, with sovereignty according each state supreme, comprehensive and exclusive role over its territorial jurisdiction. Owing largely to the growth of transnational firms, the meaning of sovereignty has changed to encompass the retention of state influence in a given area of regulation, since transnational firms have deprived contemporary states not only complete and exclusive control of the national currency and associated capital markets, but also of many sectors of production. Fearing that if they do not provide sufficiently appealing regulatory conditions then firms will desert them, contemporary states depend on transnational firms to provide them with important revenues, including for instance new technologies for the creation of new value-adding production activities as well as employment opportunities. Subsequently, the role of government is progressively shifting towards the provision of an appropriate enabling environment for private enterprise and assistance in expanding their business activities into new markets. In
the words of Cox (1993:260) states have become 'transmission belts from the global to the national economic spheres'.

Given the increased movement of factors around the globe and the subsequent increase in the importance of creating a suitable environment for businesses to operate in, globalisation has contributed to making the area of regulatory policy-making one of increasing importance. Accordingly, the regulation of a common market increasingly moved into the centre of foreign economic policy-making. Since business and states are intrinsically linked in the creation of wealth, it is one of the basic premises of this thesis that policy-making with strategic objectives is increasingly taking place on what Bressand and Nicolaides (1990) called the 'regulatory middle ground'. Here, the changing nature of rules and rule-making processes shape interaction processes between the actors involved. The increasingly complex patterns of interaction, reflecting the domestic-international linkages and mutual dependencies among policy-participants, have been described by Strange and Stopford (1991) as 'triangular diplomacy', with firms pursuing their own agendas and governments pursuing international competitiveness and greater market shares. As it is on the regulatory middle ground where transnational strategies and economic diplomacy meet, regulation cannot simply be regarded as being a mere technical appendage of the political sphere. Rather, regulation can be perceived as 'a central steering mechanism overlapping with both the political and the economic sphere as traditionally defined and contributing to the blurring of borders between them' (Bressand and Nicolaides, 1990:31).

1.1.4 The State, Multilateralism and Regionalism

The diminishment of state sovereignty was also influenced by a growth of multilateral governance arrangements after 1945 (see for instance Keohane, 1990; Ruggie, 1992, and contributions to Ruggie, 1993). In abandoning unilateral approaches for collective regulation of various aspects of world political and economic affairs, governments have played key roles in variously facilitating, curbing and otherwise shaping transnational activities. Cases of collective economic management have developed

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5 Regulation, as it is used here, covers all rules governing market interactions short of macro-economic steering by governments.
among governments of the most industrialised countries and include the Bank for International Settlements (BIS), the OECD, the Group of Seven (G-7) consultations, as well as world-wide organisations such as the International Monetary Fund (IMF), the World Bank, the GATT and its successor the World Trade Organisation (WTO). On various occasions these collective initiatives have given states the opportunity to establish greater surveillance of and control over transborder processes. For instance, governments have used G-7 consultations and IMF meetings to enhance their efforts to achieve targets related to inflation, employment, interest levels, balance of payments etc. Nevertheless, in multilateral initiatives also limited state's sovereignty and authority in the pursuit of greater initiative vis-à-vis transnational business. For instance, the IMF and World Bank can exercise a great influence on a government's monetary and fiscal policy when designing and monitoring structural adjustment programmes. The WTO, on the other hand, commits members to alter their statutes and procedures to conform with world trade law. Moreover, in trade disputes, a WTO ruling is binding unless every member of the organisation votes to overturn the judgement. In these ways and in others, many decisions concerning the regulatory environment for trade and investment now come to rather than from the state.

A different facet of multilateralism can be found in regional economic integration and regional co-operation (see for instance Ohmae, 1993, 1995; Rosecrance, 1991; Taylor, 1993; Schott, 1991). Since the late 1980s, the world has witnessed a resurgence of regionalism in world politics. The number, scope, and diversity of regionalist schemes have grown significantly since the last major regionalist 'wave' in the 1960s. Then, Nye (1968) pointed to two major classes of regionalist activity: on the one hand, micro-economic organisations involving formal economic activity; and on the other, macro-regional organisations concerned with controlling conflict. Today, micro-regional schemes for economic integration stand together with arguments for macro-economic or 'bloc regionalism' built around the most prominent trading places, the EC, the US and Japan, and the regional trade agreements associated and supported by them. In pursuing integration with other (neighbouring) economies, states not only seek protection from stiff competition by more productive competitors from third countries, but also seek the modernisation of their own economies in the face of increasing competition from new internal competitors. Depending on the size of the gaps in competitiveness, the determination of the pursuit of these aims varies in its
degrees. If the competitive advantages of third countries are large, the protective function of integration dominates. Under pressure from a hegemonial power or in the case of a domination of competitive sectors within an integrated economic space the modernisation function dominates (Junne, 1996). The EC/EU, the North American Free Trade Agreement (NAFTA) and the Asian Pacific Economic Cooperation (APEC) are the most prominent examples of states using international agreements as a means of pursuing domestic economic goals within a regional framework, with the EC/EU being the most advanced experiment into regional integration. In the system of quasi trading blocs that emerged in the world economy, each member thrives to achieve their goals in a competitive-co-operative three way economic game, or, in other words, in a head-to-head race for economic superiority (Thurow, 1992).

1.1.5 The Changing Role of the State

Increasing globalisation and internationalisation of production have also led to recurring speculation about the role of the state in the world economy, with many writers arguing that the logic of modern economic development is making states increasingly powerless to control their economic well-being, if not redundant. While Kindleberger suggested in the late 1960s that 'the nation state is just about through as an economic unit', today authors like Ohmae (1995) and Naisbitt (1994) advance the case that, with the rise of globalisation, the state had seen its day. On the other hand, authors such as Hirst and Thompson (1996) or Zysman (1996) refute these arguments, arguing that the effects of globalisation on the state have been exaggerated and that states maintain many crucial capacities for governance. According to Julius (1997), the net effect of globalisation on governments is likely to be an increasing concentration of their efforts on a smaller set of more critical tasks, including the creation of an environment that enables firms to flourish, the provision of legal, justice and price stability as well as infrastructure services. Similarly, Strange (1996) described important shifts in the quality as well as quantity of state power and authority and Cerny (1989) traced the transition from the welfare state to the 'competition state' in advanced industrial economies, with governments attempting to

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6 Already early in the twentieth century both Leninists and certain liberal internationalists forecasted the demise of the state. Later this century, functionalist theory of international integration reiterated this prediction and in the 1970s the argument was recycled by some versions of what was called 'transnationalism'.

7 Quoted from Murray (1971:85).
respond, shape and control growing international interpenetration. Weiss (1997: 13) points to the adaptability of states and their differential capacity, built on historically framed national institutions and explains that:

the problem with the 'powerlessness' argument of states is not that it is wrong about the new constraints on governments' capacity to make and implement policy. Rather it is the assumption that such constraints are absolute rather than relative, and that they represent 'the end of history' rather than an evolving history of state adaptation to both external and internal challenges.

Consequently, she advances an image of states adapting and reconstituting themselves in order to respond to the pressures of globalisation and internationalisation less by relying on their own resources than by assuming a dominant role in coalitions of states, transnational institutions and private-sector alliances in domestic markets. What emerges is a view of the relationship between the state and the global economy in terms of subtle interplays of continuity and change, mainly characterised by broad underlying continuity in so far as the state and interstate relations persist at the core of governance arrangements in IPE. Nevertheless, there is a notable change in the character of the state with regard to its capacities, its constituencies, its policy-making process, policy content and the strategies it pursues.

Given that the main object of this investigation is the EC, which by no means can be analysed in terms of a state-centric analysis, this leaves the analyst with the conceptual problem of having to find a platform or vehicle to analyse the interactions between the main actors in the international political economy. In order to bridge this gap, the following section makes a case for using the concept of the capacity of performing state economic functions in order to create a level playing field. Taking into account the effects of globalisation and internationalisation of relative actor capacities, this will be done on a general level in order to show that the concept of state economic functions enables us to move away from (in the case of the EC restricting) state-centric analysis.

1.2. The Concept of State Economic Functions

Since there is an increasing non-coincidence of firms and states in the territorial sense, the rapid expansion of international firms has raised problems concerning the
relationship between political and economic organisation. In the early 1970s, Murray made an attempt to deal with this problem by analysing the relationship between the state and firms in terms of the performance of state economic functions. He suggested that:

capitalism cannot be analysed as a system without taking account of the role of the state, and that, more particularly, in the process of capitalist production and reproduction the state has certain economic functions which it will always perform, though in different forms and to different extents. (Murray, 1971: 87)

In his model, state economic functions for any given capital or coherent body of capitals did not need to be exercised by a single authority, though he assumed that there generally would be a common authority. Furthermore, the body or bodies that perform these state economic functions were not necessarily the governing authorities of nation states. In using the term state economic functions, he referred to what he called the 'economic res publica', i.e. those economic matters that are public, external to individual private capitals (Murray, 1991: 88).

State economic functions, according to Murray (1971: 87-92) encompass the states' role in guaranteeing property rights, economic liberalisation, economic orchestration, input provision, intervention for social consensus, and the management of external relations. The guaranteeing of property rights is backed by the forces of law and is one of the primary functions of the state. In modern times, intellectual property rights or fishery rights are just two interesting areas of application. In economic liberalisation the function of the state involves the establishment of conditions for free and competitive exchange among the actors of a market place. Hence, the state is concerned with the abolition of restrictions on the four freedoms, as well as the standardisation of currency, economic law and product safety standards. Murray himself cites the Common Market, as established through the Treaty of Rome, as an example of such liberalisation (Murray, 1971: 88). Within advanced industrial countries economic liberalisation is primarily regressive in character and, amongst others, takes the form of anti-monopoly legislation, action against restrictive practices and other barriers to trade. In the area of economic orchestration the function of the state includes the regulation of business cycles as well as economic planning and steering. The role of public bodies in this case contrasts with their retiring role in
economic liberalisation and is a more active form of intervention. A fourth state function is the provision of input. Here, public agencies have the function of securing the availability of labour, land, capital, technology, economic infrastructure, and general manufactured goods. The state has furthermore the function of intervening for social consensus. Here the state is concerned with the mollyfication of the most disruptive effects of economic processes on the national constituencies. This area involves state activity directed at the negative effects of disruptions such as the effects of pollution, wide regional disparities, or unequal work conditions. Lastly, the state has the function to manage the external relations of a market place. Since there is no closed economic system in an increasingly interdependent world, the organisation of the market and political interest spheres of a system vis-à-vis foreign systems is a prime function of states. In respect to business, the public bodies have both an aggressive and a defensive function. The first is designed to help domestic businesses in their expansion into foreign markets and includes the dismantling of discriminatory practices in other economic areas, i.e. tariff and non-tariff barriers to trade, as well as generally supporting the activities of businesses in foreign markets. The latter consists of defending market-dominating positions of domestic business relative to foreign business, and thus involves for instance maintenance of discriminations against foreign competitors, tariffs, or maintaining preferential trading agreements favourable to domestic business. As the instruments used in the performance of state economic functions, Murray (1971:92-3) short-lists military power, aid or foreign public assistance (used to assist national firms engaged in foreign competition through lowering costs or, by threatening to withdraw established aid flows, to protect the property rights of domestic firms abroad as well as to induce the receiving country to lower trade discriminations), commercial sanctions, financial sanctions in terms of the blocking of funds, and government controls within the domestic territory (such as reserving certain sectors for domestic industry and the prevention of particular take-overs or discriminatory buying policies).

Building on Murray's framework, it is argued that in an increasingly globalised and internationalised world state actors have to concentrate on the provision of state economic functions vis-à-vis their constituencies in order to secure their economic well-being. It is assumed that although all state actors are concerned with the performance of these state economic functions, they may not perform the same ones
and may differ in the strategies applied in order to perform these. Moreover, differences among state actors in their internal preferences and political institutions have an impact on the overall performance of state economic functions. As the processes of globalisation and internationalisation affect the action capacities of all actors to a greater or lesser extent and in different ways, it is therefore proposed to concentrate on the concept of state economic functions as it enables the analyst to move away from traditional state-centric analysis and to create an analytical level playing field upon which inter-state rivalry/competition in today's international political economy is carried out and can be evaluated. In particular, in the context of an investigation into the EC's strategic action capacities (in chapter two), the concept of state economic functions offers a way of analysing the presence and impact of the non-state entity of the EC in an increasingly globalised economy that nonetheless continues to be quantitatively dominated by the interplay of state actors.

First, however, the concept of state economic functions needs to be brought into the context of interactions in the international political economy on a general level. Taking into account that the nature of commercial interactions has undergone some significant developments since Murray suggested his framework, the framework needs to be adapted to the the circumstances of the current IPE. Using the concept of state economic functions as an analytical tool therefore requires a more detailed analysis of the relationship between the main actors, governments and firms, linked as they are in the formulation and implementation of wealth-creating policies. In particular, attention has to be given to the changes that this relationship underwent and to implications for their capacities under conditions of increasing globalisation and internationalisation.

1.2.1 The Relationship between States and Business

The relationship between the state and business is traditionally at the very heart of wealth-creating policies. As has been argued above, increasing globalisation and internationalisation have two important consequences on the relationship between the two: firstly, business has outgrown national boundaries, thereby creating tensions

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8 This approach is nevertheless limited to assessing advanced and industrialised states as it degenerates somewhat when it comes to less developed countries and newly developed countries.
between the way the world is organised politically and the way it is organised economically. Secondly, globalisation has led to a reduction of national autonomy in the determination of wealth-creating policies, as a consequence of which the process of generating and implementing wealth-creating policies have been re-configured. In other words, though governments and businesses remain intrinsically linked in wealth-creating policies, the nature and forms of interactions between them have been redefined. At the same time that governments not only find it increasingly difficult to legislate effectively on behalf of the national electorate and to intervene in the process of wealth-creation, firms generally enjoy greater freedom in the determination of their strategies.

The argument of globalisation holds that there is a general tendency toward transnationalism, implying that firms have become footloose and detach themselves from their traditional national state institutional environment should these hinder, rather than support them sufficiently in their business activity, or fail to provide them with an environment that enables their activities to flourish. Under such circumstances, the argument goes, firms simply switch their operating environment by moving their business activity into a different environment. States and national governments are forced to watch powerlessly. It is the view of this author that such arguments are exaggerated. For a start, the number of truly transnational firms is relatively small. Secondly, there are studies that show that the importance of the homebase remains the rule, not the exception (Hirst and Thompson, 1996; Sally, 1996). Subsequently, there is a suggestion that the advantages of maintaining a firm home or regional base may actually be stronger than ever and perhaps for most companies outweigh those of gains from going global. Third, while money and finance can certainly be regarded as global in scope and practice, the same can certainly not be said of production, trade or corporate practice, all of which are not yet as mobile as the former (Zysman, 1996; Gummet, 1996). Fourth, while firms can threaten to exit a given economy, there are many reasons to believe that firms are not simply undifferentiated corporate actors, but are closely linked to their suppliers and banks as well as they are intimately engaged in the formulation and implementation of public policies (Porter, 1998:126-8). In a nutshell, national embeddedness still matters. What changed, however, is firms' ability to play 'sophisticated political
games', which has increased and opened up their room for manoeuvre in their interactions with governments.

The globalisation argument holds that states have become virtually powerless to make policy choices (Ohmae, 1995; Naisbitt, 1994), i.e. that they are victims of globalisation. The view adopted here sees the notion of the powerless state as misleading, since states have always existed under circumstances of continuity and change, requiring them to engage in a constant bargaining relationship with society. Since states are organisations that would like to survive, they are forced to change, adapt and bargain with societal and economic actors. As Tilly (1985:172) noted in his work on European state building, leaders of nascent states engaged in war with adjacent powerholders, needed to extract resources from local producers and traders, forcing them to establish regular access to capitalists who could supply and arrange credit. As capitalists were capable of movement, it was important for state officials to form alliances with various social classes and to foster capital accumulation. They were thus confronted with a double-edged imperative of having to harness domestic wealth so as to strengthen the state's foreign position, and to do so in a way that would not scare off capitalists or diminish economic growth. The logic of the state bargaining with society is no less relevant for an analysis of states in the contemporary IPE. There is a constant pressure for national adjustment to international change, produced by constant differential change. As Gilpin (1981:13) noted:

In every international system there are continual occurrences of political, economic and technological changes that promise gains and losses for one or another actors ... In every system, therefore, a process of disequilibrium and adjustment is constantly taking place.

This differential change may involve system-wide economic upheavals, such as the oil crisis in the 1970s, or may be more gradual, as in the changing competitive position of particular industrial sectors in advanced industrialised economies. The state will therefore either generate new opportunities for aggressive domestic response to international change or will generate pressure for defensive action to preserve existing domestic arrangements (Gilpin, 1981; see also Jones, 1981; Vasquez and Mansbach, 1983). Rather than counterposing nation state and globalisation as
antinomies, globalisation is therefore seen here as a by-product of states promoting the internationalisation strategies of businesses and sometimes 'internationalising' state capacities (Weiss, 1997).

The argument thus put forward here concerning the power of states in a globalised world emphasises the following points (cf. Weiss, 1997:18-26): Firstly, state adaptation rather than a decline of functions. The capacity for domestic adjustment strategy does not stand or fall with macro-economic capacity, rather it rests on industrial strategy and the ability of policy-making authorities to mobilise savings and investment and to promote their deployment for the generation of higher value-added activities. Furthermore, a state's capacity for a co-ordinated and strategic response primarily rests on institutional arrangements. The institutional arrangements bring together state and industry in close, albeit not tension-free, co-operation and underpin rapid structural change and technological learning (Weiss, 1997:18-20). Secondly, that strong states are facilitators and not victims of internationalisation. States are not simply victims, but may well be facilitators of so-called globalisation. Evidence drawn from East Asia in particular (Weiss, 1997:18-20) suggests that some states are acting increasingly as catalysts for the internationalisation strategies of businesses. Japan and other newly industrialised countries (NICs) provide a wide array of incentives to finance and assist overseas operations, promote technological alliances between national and foreign firms, and encourage regional relocation of production networks. While it is not suggested that all states are engaged in facilitating the internationalisation of business, the point is that the most industrially dynamic and highly co-ordinated market economies are and that this attests to state adaptiveness. Thirdly, states are undergoing changes in their power and capacities, but these have to do with the reconstruction of power around the consolidation of domestic and international linkages (and not with the diminution of state power and capacities). To the extent that states are seeking to adapt and reconstitute themselves they can be seen as catalytic states that seek to achieve their goals by using collaborative power arrangements to create more real control over their economies and by assuming a dominant role in a coalition of states, transnational institutions and businesses. Thus the notion of catalytic states is used to highlight the tendency of states to seek adaptation to new challenges by forging or developing partnerships with other state and non-state actors. These coalitions take place primarily on the regional and
international level between states (examples of which include the EC/EU, NAFTA and APEC), but also between states and businesses (examples of which can be found particularly in East Asia, but also in the EC's market access initiative). The responses of states to the pressures of globalisation have therefore not been uniform, but varied according to political and institutional differences and have generally involved the pursuit of two strategies, namely the strengthening of power alliances both upwards (inter-state coalitions) and downwards (state-business alliances) (Weiss, 1997:24-6).

It emerges that in the globalised world the most successful states will be those which can improve their conventional power resources with collaborative power and engage with other states and businesses to form co-operative agreements and form interest coalitions for action on changing issue areas (Weiss, 1997:26). As the relationship between firms and government is at the very heart of state capacity and wealth-creating policies, it is the most important partnership for state actors. One important feature of the globalised international political economy is that interactions between the two increasingly shifted to the 'regulatory middleground' (Bressand and Nicolaïdis, 1990), where transnational strategies and economic diplomacy meet in order to write the rules of a market place. Rules now tend to be both generated by actors as an intrinsic part of the routine of economic interactions and tailored to the specific interactions to which they apply. As a result, it is not only political decisions that matter in the writing of the rules of a market place, but also the logic of customised regulatory interactions as they bring together public and private actors into synergetic interactions. Regulating any aspect of economic life in a market place thus brings together public and private actors in internal and strategic bargaining games. Moreover, regulatory policy-making does not only shape the running of market places, but also has an external dimension as it supplements commercial policy instruments, such as the setting of tariffs and countervailing trade measures. Consequently, it is argued here that regulatory policy-making and commercial policy instruments have become complementary means of pursuing internally generated objectives of a (territorial) market place. The latter attracts considerably more attention as they are the stuff of international trade disputes due to their often aggressive and protectionist use. It is therefore suggested that regulatory policy-making and the application of commercial policy instruments be viewed as the tools of inter-state rivalry.
Up to this point, it has been argued that globalisation and internationalisation have affected the action capacities of actors and changed the nature of interactions between them. It has been stressed that state actors have adapted the functions they perform, acting as facilitators of the internationalisation strategies of domestic actors and consolidating national and regional networks in order to perform state economic functions. Furthermore, it has been argued that state actors' capacities crucially rest on industrial policy, institutional arrangements and the capacity to promote business activities abroad. In the course of this reconfiguration process, state actors have moved away from power politics based purely on national resources and have reconstructed their capacities around the consolidation of domestic and international linkages. In the pursuit of state economic functions, state actors have therefore come to act as catalysts, using collaborative power arrangements. The shift away from the use of national power resources to the use of collaborative power arrangements implies an increased reliance on bargaining, involving an increased set of actors and international institutions, and the consideration of a different set of factors in the determination of wealth-creating policies. Consequently, state actors have to devise a set of often complex strategies in order to pursue state economic functions. It is this reliance on strategies and strategic action capacities that will now be analysed.

1.3. The Concept of Strategic Action in IPE

The conception of the state as a strategic actor goes back at least as far Machiavelli and is at the heart of the realist version of international relations. Realist tradition, however, has primarily been concerned with the state's struggle for power, wealth and survival, whereas this thesis has made a case for concentrating on the provision of state economic functions given the changing nature of interactions between actors in the international political economy and the entanglement of commercial policy considerations with wider foreign policy and security concerns. It is thus concerned with the idea of purposive actors in the international political economy, lodged between national and international arenas and pursing state economic functions via regulatory, commercial and industrial policy-making. The remainder of this chapter is devoted to developing a comprehensive framework for the evaluation of the strategic action capacities of actors in the international political economy.
1.3.1 Forms of Strategic Action in IPE

The notion of strategy has traditionally been applied to warfare between states, but today it is also applied to all sorts of economic situations and commercial games (Brodie, 1968:281). In his seminal work, *The Strategy of Conflict*, Schelling (1960:15) defines a strategy as one that:

> takes conflict for granted, but also assumes common interests between the adversaries; it assumes a 'rational' value-maximising mode of behaviour; and it focuses on the fact that each participant's best choice of action depends on what he expects the other to do, and that 'strategic behaviour' is concerned with influencing one's choice by working on his expectation of how one's own behaviour is related to his'. (Quotation marks in the original).

Adopted to the purpose of this study, Schelling's definition implies that world-wide interdependence structures interactions and that interactions are characterised by the co-existence of conflict and common interests. The assumed 'rational' value-maximising mode of behaviour reduces the scope of using military resources in the pursuit of state economic functions. Thus, war is only one option, but may not be an option at all. Given that adversaries are experienced in dealing with one another, the choice of the course of action will take potential (expected) counter-responses into account and is mainly concerned with getting others to do what they would otherwise not do.

Flamm (1996) identified three distinct though related forms of state strategic action in the international political economy. The first one holds that states may adopt strategic policies in order to protect their national defence base. Such an argument posits that in a given economy there are some sectors of eminent importance for the national defence base. The rationale of these policies under conditions of globalisation are certainly questionable, since economic realities render any attempt to achieve a broad self-sufficiency too costly to sustain and the developments in communications and transport make it increasingly difficult to speak of purely national capacities (cf. Flamm, 1996). Yet they are still commonly found in the 1990s. The second and probably best known concept of strategic action is based on Schelling's (1960) *Strategy of Conflict* and is derived from the field of game theory. It defines strategic actions as those actions that are intended to influence the moves of other players. Schelling's approach recently found its application in an investigation of transatlantic
bargaining processes by Meunier (1997), which showed that in these negotiations a strength in the EC's negotiation stance can be found that is derived from the Commission's inability to seal deals. In other words, the institutional constraints of the EC can - somewhat paradoxically - also be used to achieve strategic objectives. The third type of strategic action is also derived from Schelling's *Strategy of Conflict* and finds its expression in the pursuit of strategic trade policies. The theory of strategic trade policies has been developed by scholars like Krugman (1986) and, like the first conception, it posits the existence of sectors of strategic importance in a given economy. The difference is that these sectors are not necessarily linked to defence, but deemed to be of central importance to the functioning of an economy due to their linkages with other sectors. Again, its economic feasibility and justification is questionable (Flamm 1996: 372-3). Yet it has also been acknowledged that under certain conditions, namely the existence of trade barriers in oligopolistic sectors and the case of spill-overs creating externalities that result in economic benefits, strategic trade policies appear justifiable and feasible. Designed to alter the behaviour of foreign companies and governments in what is deemed to be a strategic environment, they are mostly found in oligopolistic sectors, where the number of market actors making independent decisions is relatively small (for example aviation), or in so-called infant industries (high-technology sectors). Nevertheless, they also find application in sectors with numerous market actors and a special importance to the self-sufficiency of the economy as a whole (for example telecommunications).

In the previous two sections of this chapter, the analysis was placed in the context of increasing globalisation and internationalisation, with actors forced to adopt a set of strategies in order to perform state economic functions. It therefore follows that the problems in a states' political and economic position within the larger international environment are a basic source of state behaviour and international conflict. The nexus of the internal and the external has been the subject of previous studies attempting to explain international outcomes of conflict through the development of detailed bargaining models. For instance, in their work *Conflict Among Nations: Bargaining, Decision-Making and System Structure in International Crises*, Snyder and Diesing (1977) showed that the maneuvering of states within national and international arenas can be conceived of as controlled by strategies that states develop to cope with adaptation problems. Inspired by Schelling's (1968) work on strategic
bargaining and Young's (1968) work on bargaining during international crisis, this work presented a theory of international crisis behaviour, conceived chiefly as bargaining behaviour, and included the effects of international system structures and the decision-making activities of the actors on the bargaining process. They conceive of both 'the international system and domestic systems as embracing different sets of relatively static factors that constrain and shape the dynamic processes of interstate bargaining and internal decision-making' (Snyder and Diesing, 1977:31). The domestic factors they had in mind were 'such things as national style in foreign policy, governmental structures, political party philosophies, bureaucratic roles, the personalities of decision-makers and public opinion' (Snyder and Diesing, 1977:31). External systemic variables, on the other hand, affect the bargaining process through their impact on the minds of decision-makers and stand in relation to the internal variables as sources of 'general compulsions and constraints that establish the range of choice within which the internal forces peculiar to each state combine to produce decisions' (Snyder and Diesing, 1977:31). Subsequently, the actors concerned with the provision of state economic functions can be perceived as strategists in the context of domestic and international arenas. Furthermore, there are limits to their freedom of action imposed by domestic and international structural constraints.

1.3.2 Identifying the Parameters of Strategic Action Capacities

In order to generate a research framework that allows for the evaluation of strategic action capacities of actors in IPE, domestic and international constraints and factors that determine the capacity of actors to pursue state economic functions need to be investigated further. For this reason, analysis now turns to the literature on IPE and foreign economic policy-making (FEP), from which additional insights can be derived concerning the factors that should be taken into account in order to evaluate strategic action capacities. In order to manage the vast and complex material that is available, the existing approaches are grouped into five categories consisting of systemic/structural approaches, societal approaches, institutionalist approaches, statist approaches, and cognitive and belief-centred approaches (see Mercado, 1995). Collectively, these identify a range of political, market and social variables at international and domestic levels of analysis. The purpose of this review is not so much to provide a detailed discussion of the validity, shortcomings or merits of these
approaches, but rather to identify the key parameters on which an evaluation of strategic action capacities should rest.

1.3.2.1 Systemic/Structural Approaches

These approaches work from the 'outside-in' and focus on the sovereign state as the principal actor, i.e. as a rational and unitary actor (Waltz, 1979), and theoretical propositions are derived from the inter-relationships between states for whom opportunities are afforded and constraints imposed by their relative capabilities or power as units in an 'anarchic' international system (cf. Ikenberry et al., 1988:3). In the study of FEP, emphasis is placed on the international forces and relative state capacities in an 'anarchic' international system that limits the action capacities of states (structural realism) and the extent to which states are limited in their international pursuits by external institutions (neo-liberal institutionalism). Here, the international political economy is conceived as a system of institutional and structural constraints that limit the choices of states in the international arena (Ramesh, 1994:79). The size of its economy and the scale of trade interdependence as well as structural strength determine the position a state occupies in the international sphere.

According to structural-realist analysis, foreign economic policy rests with the realist premise that international relations are a 'recurring struggle for wealth and power among independent actors in a state of anarchy' (Gilpin, 1981:7). For example, Krasner (1976) suggests that foreign economic policy is primarily set to increase economic and competitive power in accordance with state priorities and the pursuit of the national interest and that a nation's trade policy reflects its foreign policy. One variant of realism, hegemonic stability theory, asserts that a concentration of power resources in a single state will lead to stability and openness in the international economy and that the desire and capacity of states to create an open trading system can be attributed to the existence of a hegemonic power (Kindleberger, 1973, Lake 1988, Gowa, 1993). However, controversy has arisen over many aspects of hegemonic stability theory (Strange, 1987). In particular, the role of the hegemon can be seen in two different lights (Snidal, 1985), contributing to a split in the literature between a coercive view of the hegemon and a more benign one. The key features of this perspective are thus the relegation of economic policy-making to a wider foreign
policy and security interests, the notion of hegemony, and the assumption that states in positions of strength can persuade weaker states to do what they would not otherwise do.

Neo-liberal institutionalist theory also places great emphasis on the necessity of a hegemon for the provision of international public goods, but draws particular attention to systemic limits on state behaviour relating to the existence of exogeneous institutions as opposed to capabilities and interests alone. The structure of institutions, such as the GATT and the IMF, is described as 'persistent and connected sets of rules (formal and informal) that prescribe behaviour rules, constrain activity, and shape expectations' (Keohane, 1989:163). This structure, which draws attention to the constraining role played by institutions such as the GATT, the legal framework governing trade, and to the relative capacities of states to set, enforce and act outside of GATT codes, does not determine state behaviour, but limits policy choices and constrains what states can do in the international arena in relation to state capacities. Ramesh (1994:80), for instance, points out that the GATT sets the parameters of the signatory states' choices in trade policy and that the extent to which states are circumscribed by international institutions varies according to their position in the international political economy. Again, the position and protectionist capacity of states is determined by the size of the economy and the form and level of trade dependence. Subsequently, smaller and trade-dependent economies are vulnerable to retaliation by trading partners and constrained in their capacity to impose trade barriers ruled out under the GATT. Conversely, larger economies enjoy greater freedom of action from institutionalised international rules and greater coercive power.

Stressing how states are driven by the pursuit of power and wealth (in other words the fulfilment of state economic functions), structural realist and liberal institutional approaches are an essential component for any analysis of strategic action capacities as they show how states are constrained by both their relative capacities vis-à-vis other states and international institutionalised rules and codes. The impact of domestic politics is not taken into consideration by these approaches, apart from a few exceptions that incorporate domestic market and domestic political variables (for instance Lake, 1988). They generally fail to explain why particular policy outcomes
emerge in a universe of possible outcomes conditioned by structural forces and institutionalised orders.

1.3.2.2 Society-Centred Approaches

Society-centred approaches generally take an 'insight-out' approach. In highlighting the importance of domestic politics in explaining outcomes, approaches grouped under this headline encompass the study of markets, micro-politics and socio-economic interests and subsequently relax the notion of the state as a unitary actor. In contrast to the 'outside-in' way of analysis of systemic and global/structural approaches, these approaches reverse the process and analyse the demands of corporate actors and sectors in changing macro-market conditions on government.

There are two distinct approaches in this field. The first approach aims at explaining government behaviour and responsiveness to societal pressures in terms of organised societal coalitions that underpin political administrations (Gourevitch 1986). The anchor point of this approach is the effective control of government and policy by identified dominant social coalitions. Here, government receptivity to private interests is dependent upon changes in coalitions and the composition and interests of a coalition at a given time. The second approach, and one adopted more widely, is essentially a micropolitical analysis focusing on firstly, interest group studies and corporate preference models, and secondly, on explanations of producer group pressures for protection, showing that corporate groups are often driven by market conditions. These public choice approaches concentrate on the distribution of tariff and trade restrictions and on the character of trade and import policies and interpret political action, i.e. corporate lobbying and the actions of politicians, as utility maximising behaviour in the face of shifting market conditions.

Magee and Young (1987), for instance, suggest that macro-economic factors such as cyclical variables (i.e. unemployment levels, real exchange and inflation rates), shifting factor endowments and terms of trade underpin domestic lobbying. Subsequently, when inflation increases, domestic forces oppose trade restrictions. Conversely, rising unemployment has the opposite effect. Milner (1988a, b), on the other hand, developed an explanation of industrial lobbying and preference-ordering
that postulates competition between protectionist and anti-protectionist interests. In analysing US trade policies, she identifies macro-economic pressures and changing degrees of international economic integration as influencing corporate trade preferences. Here, inter-industry variations in terms of a degree of support for protectionist intervention are explained through the key variables of international linkage and export reliance. As domestic market conditions worsen for industries focused upon the home market and increased import penetration erodes those indigenous industries' market shares, incentives for lobbying for protection are great. Yet even in industries which face heightened import penetration an interest is maintained in open exchange that in many cases is powerful enough to stimulate counter-demands against protectionist policies and actions (Milner, 1988:361-2).

There is a strong case for the value of a sectoral approach in considering the influence of transnational relations (see also Strange, 1976; or Underhill, 1990:188-92), but Milner brings the point home:

[the] proliferation of domestic policy structures indicates that trade policy is not made within one structure. Many economic actors are involved, and they bring their complaints and pressures to bear on different political actors. Moreover, no single, coherent national trade policy exists. The policy relating to one sector of the economy may differ completely from that concerning another. Moreover, for each of these industries, the influence of Congress, the executive, and the International Trade Commission varies. A knowledge of the relevant domestic actors and their trade preferences is essential to understanding the influence of the particular policy structure for that sector on the policy outcome. (Milner, 1988b:359-60)

On the whole, society-centred approaches identify domestic political structure, characterised by rent-seeking by politicians and special interests, as important variables of trade policy. Moreover, they advance a case for identifying industrial profiles and macro-economic conditions as they are favourable or unfavourable for protection. As such, they capture in some sense at least the balance of political forces that enter the trade policy-making process and provide us with greater knowledge of the political expression of protectionist and free-trade interests. Society-centred approaches are clearly complementary to systemic and global approaches. In the context of the study of actors' strategic action capacities, they enlarge the focus to the identification of domestic decision-making structures and sectoral industrial profiles,
changing macro-market conditions, and the competition between protectionist and free-trade interests of socio-economic actors.

### 1.3.2.3 Statist Approaches

Statist theories of FEP focus on executive actors, state strength, and the defence of the national interest. According to Cowhey (1990:225), statist theory holds that:

> an elite group of executive branch institutions and officials tries to steer foreign policy in accord with the dictates of the competitive environment of international relations. Domestic politics may sometimes thwart their efforts but the dynamics of these institutional guardians of foreign policy provide the continuity and direction of the heart of foreign economic policy.

It is thus an analysis that highlights how key state actors may, under international and internal constraints, be prominent figures in the shaping of policies and subsequently focuses on goal-purposive behaviour and personal ambition of key individuals. Furthermore, it treats the state as an actor seeking a national interest formed not by social pressures or a bargaining game between social forces and elements of the state, but according to autonomous ideologies, preferences and perceptions of the state elite. Confronted with the preferences of social actors, the ideological and policy preferences of decision-makers are seen as generally transcendent and autonomous from social pressures.

Nevertheless, their capacity to steer policy along the lines of their autonomous preferences relates fundamentally to the strength of the state in question. The strength of a state, according to Krasner (1978) and Zysman (1983) is a function of the degree of centralisation of state structures, the insulation of the executive from other actors, and the centrality and autonomy of bureaucratic organisations capable of programmatic policy planning. In this context, static theory applies a weak/strong state concept, with Krasner (1978) showing the authority of the executive in so-called 'weak' states where the subject of policy is highly strategic. Here, the foreign economic policy area is one of the key policy domains, with Mastanduno (1988) pointing out that if trade issues are judged to be of direct national security significance, state officials are likely to enjoy even greater authority.
Ikenberry's (1986) study of the state and its strategies of adjustment justifies particular attention. It generally falls into the realm of statist analysis because of its focus on state elites as the crucial actors within the adjustment process of states in IPE. Focusing on the maneuvering of states between national and international arenas, he explores the basis upon which adjustment choices are made and identifies two dimensions along which these choices are made, i.e. the location of adjustment (international or domestic arenas) and offensive and defensive strategies (Ikenberry, 1986:57-9). The strategy of offensive international adjustment involves the creation of new rules of the game for international interactions in bodies such as the GATT. Defensive international adjustment strategies focus on the mitigation of adverse effects of international economic change. Here, international agreements are used in order to protect existing domestic industries, with a number of countries co-operating by means such as the negotiation of trade quotas and orderly market arrangements. A domestic offensive strategy aims at changing the structure of national industries and institutions in an effort to cope with new international realities. This may involve phasing out or encouraging the growth of particular industries or creating new institutions and arrangements that facilitate domestic economic adjustment. On the one hand, this strategy may involve vigorous and anticipatory government action, such as investment in research and development or devices to encourage or coerce private firms to alter their behaviour in order to gain an advantage over competitors. On the other hand, the government may abstain from intervention, let market forces run their course and act as a 'gate keeper'. Domestic defensive adjustment is of a protectionist nature, seeks to avoid change, and comes in the form of erecting barriers to international competition or other forms of change. Where choices are available, the study predicts that state elites will adopt these strategies in the same sequence as they are presented here. This preference ranking predicts what states will seek to achieve, but there are domestic and international structural constraints that determine what is possible. Furthermore, structure ultimately limits adjustment strategy. The term structure is defined from the perspective of the actor itself. Subsequently,
Some states will find their domestic institutions and groups less tractable than others. Structural properties attached to these differences in the configuration of their domestic economic and political institutions...provide powerful constraints on the exercise of state action. (Ikenberry, 1986:65)

Yet, the concentration of statist theory on the relationship between executive official and state structure and on the goal-purposive behaviour of the executive, leaves open the question as to the role of intra-institutional dynamics and bureaucratic politics in commercial policy-making and negotiations. Frieden (1988:88), for instance refutes the autonomy of state actors from societal demands and argues that the national interest is not a blank slate written upon at will, but is 'internally determined by the socio-economic evolution of the nation in question'. Similarly, the notion of strong and weak states is challenged by several studies (for instance Milner, 1988a and 1988b), showing that in so-called strong states legislatures' specialised interests have reversed the judgements of state officials and blocked their power to shape outcomes.

There is also a branch of statist literature that encompasses institutionalist ideas in an essentially state-centric analysis (for instance Skocpol, 1985; Goldstein, 1989, 1993; and Ikenberry, 1988a and 1988b), but these do not fully account for organisational bases and complex bureaucratic policies of trade policy making. Although these encompass the view that institutions have a major effect on the process of domestic politics and that institutional structure is influential upon foreign economic policy, they are primarily concerned with the 'state as an actor' rather than the 'state as a structure'. Static literature may take the analytical middleground between reducing foreign economic policy to bureaucratic politics and externally-driven rational governance (Cowhey, 1990:229), but it does not necessarily account for the bureaucratic layer of the state. For example, given that the EC policy-making system, as shown by Patterson (1983), is characterised by bureaucratic policy-making, there is a case for a fuller institutional approach to the understanding of trade policies, including as a central element an attention to inter-organisational or 'intra-branch' politics and to bureaucratic organisation within institutional complexes.

1.3.2.4 Cognitive Approaches

The cognitive perspective begins with the premise that 'political behaviour is partly a function of leader's and public's values, policy beliefs, and ideologies, and that
differences and changes in these ideas will shift policies accordingly' and assumes that 'policy ideas, while affected by material interests, are not simply reducible to them; values and beliefs have more complex origins and can have independent effects on policy content' (Odell, 1990:149). As Goldstein and Keohane (1993:12) point out:

By ordering the world, ideas may shape agendas, which can profoundly shape outcomes. Insofar as ideas put blinders on people, reducing the number of conceivable options, they serve as switchmen, not only by turning action onto certain tracks rather than others...but also by obscuring the other tracks from the agent's view.

The idea of a cognitive impact on trade policy formulation is increasingly spreading into trade studies. Rohrlich's (1987) 'cognitive dynamics model', for instance, contends not only that decision-makers' preferences and generally dominant beliefs are important in their definition of a situation, but also that there are broad influential social perceptions or philosophies that 'guide' policy-making. Thus the entire policy-making community is subject to and constrained by an economic culture which legitimates the methods and goals involved in the ordering of the states' economic life. He develops the concept of an economic culture that is the confluence of cultural legacy, historic experience and contemporary circumstance (1987:92). More recently, Haas (1992) and Drake and Nicolaïdes (1992) developed the idea of 'epistemic communities' (communities of experts and technocrats) and stressed the idea of intellectual innovation of policy entrepreneurs and experts as agents in shaping and reshaping the interpretations of decision-makers. The body of literature on epistemic communities represents a valuable complement to competitive and belief-centred approaches by adding specification on how ideas emerge, spread and change. Epistemic communities, interactive with national and transnational bureaucracy, 'function more or less as cognitive baggage handlers as well as gatekeepers governing the entry of new ideas into institutions' (Haas, 1992:27). These channel advice and expertise at times of uncertainty among policy-makers, as shown by developments in international economic co-operation and international trade. For instance, in the field of regulation, where policy and governmental responsibility meet over ever more complex issues, there is convincing evidence of policy-maker's use of networks of communities of specialists9. In specific issue areas, this body of analysis suggests how

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9 See Drake and Nicolaidis (1992) for an example of the influential role of such communities in framing the discussions over international trade in services in the context of the Uruguay Round.
states identify their interests as a function of how their problems are understood and that this understanding is heavily influenced by those to whom they turn for advice and by those who can illuminate the salient dimensions of an issue (Haas, 1992:4). In this view, state interests are seen to have a non-systemic origin and state actors are seen to be 'uncertainty reducers' as well as power and wealth producers. On the other hand, transnational linkages between epistemic communities are identified as a source of international co-operation and internationalised policy co-ordination. Shared beliefs within transnational networks are thus a key factor in enhanced international policy convergence. However, only select issues stimulate sufficient uncertainty among policy-makers to give central importance to the advice of experts in the calculation of state interest. Moreover, it is very likely that leaders will only defer to technical expertise if that expertise dovetails with established objectives, existing preferences and calculated political expediency. Yet, in conditions of uncertainty and in less politically motivated cases, sufficient evidence exists to conclude that epistemic community members can circumscribe boundaries, delimit options, and influence the actual choice of policies.

A similar approach falling into this realm focuses on 'policy frames' and 'policy advocacy coalitions' (Sabatier and Jenkins-Smith, 1993; Sabatier 1998; Dudley and Richardson, 1996, 1999; Rein and Schöns, 1991; Hall, 1993). This approach holds that in the form of 'policy frames' ideas can reshape the way in which actors consider existing policy problems and subsequently 'bias' the options search which follows. A frame is defined by Rein and Schöns (1991:263) as a perspective from which an amorphous, ill-defined problematic situation can be made sense of and acted upon. In this form, ideas can be transplanted across national boundaries and into supranational arenas via interests, which take the form of advocacy coalitions and individual policy entrepreneurs. These approaches suggest that the policy-making process can be structured by a particular set of ideas and that the role played by policy advocacy coalitions can be a useful aid to understand how the flow of new ideas penetrates a particular sector. According to Sabatier (1998:103), policy advocacy coalitions operate within policy subsystems and consist of 'actors from various governmental and private organizations who both (a) share a set of normative and causal beliefs and (b) engage in a non-trivial degree of co-ordinated activity over time'. They strive to translate values, such as interventionist or free-market values, into a material form.
and, in the absence of significant disturbances external to the system, such as changes in socio-economic conditions, system-wide governing coalitions or policy output from other subsystems, tend to be stable over a long period of time (Sabatier, 1993:34). An endogenous factor bringing change into policy advocacy coalitions is the role of policy entrepreneurs, defined as advocates for proposals or the prominence of an idea (Kingdon, 1995:122), who 'perceive the world through a lens consisting of their preexisting beliefs' (Sabatier, 1998:109). Policy entrepreneurs can be found in or out of government, in elected or appointed positions, in interest groups or research organisations, with their defining characteristic being their willingness to invest resources of time, energy, reputation and sometimes money in the hope for a future return (Kingdon, 1995:122).

Specifying further the dynamics inherent in decision making processes and maintaining the focus on key individuals and groups, cognitive approaches provide further insights into how strategic action capacities are formed. They point to the confluence of cultural legacy, historic experience and contemporary circumstance in defining actors economic culture, which legitimises the methods and goals involved in the ordering of the states' economic life. They furthermore draw attention to the ways in which ideas are channeled and acted upon through 'epistemic communities', 'policy advocacy coalitions' and key 'policy entrepreneurs' as they shape the ordering of preferences and objectives. While state actors are seen as having the function of both 'uncertainty reducers' and power and wealth producers, linkages between 'epistemic communities' or 'policy advocacy coalitions' are identified as a source of co-operation and policy-co-ordination.

1.3.2.5 Institutionalist Approaches

Institutionalist approaches advocate the conception of the state as an organisational structure, consisting of institutions of government and rules and laws. While the underlying argument of these approaches is that state structure affects the possibilities of policy outcomes (Skocpol, 1985), i.e. that institutions rather than individuals come first, they focus on the relationship between institutions and their embedded values, on the constraining effect institutions have on state officials, and on the relationship
between institutional structures and international and societal pressures. In its strongest variant, according to Odell (1990:153), institutions are seen to:

establish and defend the particular order and initial distribution of property rights under which market exchanges take place. Individuals' very conceptions of their place and potential in this social order are learned partly from within their particular historical and institutional environment, so that economic liberalization can have fundamentally different effects in different settings. At a minimum, the political behaviour of individuals and industries responds to the constraints and opportunities presented by these institutions. Over the long run, national political institutions may crumble or shift in response to market conditions, new ideas, or international structural change - but the long run may take some time.

The basic assumption upon which institutionalist-led approaches rest are as follows. Firstly, institutions and rules affect the distribution of power of the political actors and help to mould political preferences, interest and outcomes. Institutions hold structural qualities, establishing them as more than mere conduits and enabling them to shape interests, dialogue and the possibilities for successful group action. Hence, state structure is not simply an institutional terrain upon which situated groups compete and through which social and international pressures are channelled. Secondly, domestic organisational structures are a 'historical product', with the effect that policy-making takes place in an institutional setting constituted by individual structures that have emerged episodically within a particular evolution. Thirdly, 'institutional structures, once established, are difficult to change even when underlying social forces continue to evolve' (Ikenberry 1988a:223). They are generally defended and preserved by functionaries and representatives seeking to preserve their own missions. Fourthly, in mature state structures, policy outcomes are influenced by inter-branch dynamics and a contest of ideas and policy innovations within state structures. Here, the institutions of a state provide a setting for policy experts, politicians, and executive officials to generate ideas and policy programmes.

The formal properties and structures of organisation thus matter in institutionalist analysis. In investigating international economic, trade and development strategies as well as US foreign trade policy, institutionalist analysis shows the role of relatively autonomous domestic institutional structure in economic and foreign policy formulation. There is no universal treatment of public institutions or their policy
influence, but a universal assertion of the role of domestic structure in the shaping of foreign economic policy and in particular international trade policy.

Research in this area is historically based and focuses on the institutional dynamics and relations accompanying the development of policy over given periods or on the policy implications of 'institutional shift', often at point of crisis. The most powerful conceptual frameworks in the institutional analysis of FEP are Goldstein (1988, 1989), Ikenberry (1988a,b), Mares (1990) Haggart (1988), and Destler (1986). These incorporate the notion of the state as an actor and realise a more systematic address of socio-group interest and cognitive factors than elsewhere achieved in statist analysis and the traditional FEP literature. However, elements of the institutionalist literature treat the political power and role of ideas as a central variable in the explanation of foreign economic and trade policy outcomes. Goldstein (1988, 1989), in particular, shows how contradictory beliefs in free, fair and redistributive principles have been embedded in a decentralised state structure (the US) of multiple game-playing institutions and bureaucratic organisations and identifies the crucial 'ideas-institution nexus', while Destler (1986) shows the permeation of ideas in the organisational structure.

This body of work has highlighted that in the study of strategic action capacities political institutions should take a central position along the need for focusing on the formal properties and structures of state organisation. It persuasively suggests that political institutions are more than simple mirrors of social forces or passive registers for domestic and international pressure. It also demonstrates how state structures and complex institutionalised relations influence the way that actors perceive interests, enforce normative limits on the range of political dialogue and limit the capacities of actors to influence and/or carry out policies.

1.3.2.6 Summary

In summary, then, from structural/systemic analysis we can derive important insights into the structure of the international environment in which actors operate and interact with one another. Their international environment, characterised by multilateral and bilateral (political, economic) interaction processes between states, structures the
nature of interactions while international institutions provide a 'persistent and connected set of formal and informal rules that prescribe behaviour roles, constrain activity and shape expectations' (Keohane, 1989:163). In order to explain the constraints imposed by the international environment and to qualify the notion of 'anarchy' in the international system, we also have to address the question as to the effectiveness of these international institutions in setting limits to actors' scope for action. Society-centred approaches complement the focus on the international environment and suggest a concentration on the interplay between mobilised socio-economic interest, market forces and societal structure. In particular, we learn of the importance of micropolitical analysis, incorporating most notably the study of changing market conditions and intra-industry variations (characterised by the key variables of international linkages and export reliance), in explaining the influence of organised interests and demands for protection. Statist approaches shed more light on the dynamics inherent in the decision-making processes within domestic structures. They identify goal-purposive behaviour and personal ambition of key individuals as influential factors in the determination of actors interest. In applying the concept of state strength they point to the importance of institutional capacity, here captured by factors such as the degree of centralisation of state structures, the insulation of the executive from other actors, the centrality and autonomy of bureaucratic organisations capable of programmatic policy planning. Fourth, from cognitive approaches to policy and policy changes we learn about the role of ideas and beliefs in policy formation, the relationship between evolving bodies of knowledge, communities of experts and political outcomes, and economic culture as the confluence of cultural legacy, historic experience and contemporary circumstance. Not only is our attention drawn to 'epistemic communities' and the idea of intellectual innovation of policy entrepreneurs and experts as agents in shaping and reshaping the interpretations of decision-makers, but also to the increasing role of regulatory policy-making. This makes the study of the relationship between ideas (as knowledge), state institutional structure, and bureaucratic policies another key element of strategic action capacities. Lastly, institutionalist-led approaches reinforce the need to conceptualise the state as an organisational structure. Given that political institutions should be centralised in explanations of foreign economic policy formulation, this suggests a historically based focus on the institutional dynamics and institutional shift accompanying the development of policy over given periods, especially at points of crisis.
In attempting to explain international trade outcomes these approaches and their contributions, despite their individual limitations, provide us with valuable insights for the study of strategic action capacities. The five perspectives reviewed may all have a certain utility for furthering our understanding, but, when taken in isolation, they are all insufficient to answer the questions posed in the context of this study. Each views actions from a different angle or alternative concentration and as a result of these respective concentrations we learn in greater detail of the policy effects of varied forces. It becomes clear that the performance of state economic functions and strategic action are central to ideas of IPE and FEP. Yet, it transpires that state economic functions and strategic action are concepts that can be applied to all actors in IPE.

1.4 Synthesis: A Research Framework for the Evaluation of Strategic Action Capacities

In this section, the thesis turns to expressing the relationship between the notion of catalytic actors, state economic functions and strategic action and to integrate them into a comprehensive research framework. For this purpose, this section first provides a synthesis of the argument on strategic action and then presents a framework, which integrates the insights into trade policy formulation we have gained, in order to evaluate actors strategic action capacities.

The first strand of my argument is that all state actors in the globalised international political economy pursue state economic functions. To recap, state economic functions include the guaranteeing of property rights, economic liberalisation, economic orchestration, the provision of input, intervention for social consensus and the management of external relations. Although all state actors are concerned with the provision of these, not all of them pursue the same ones and differ in both the extent to which they pursue these and their choice of strategies. This in turn allows a move away from traditional state-centric analysis and, crucially, to incorporate non-state actors such as the EC into our analysis.

The second strand of my argument is that in the pursuit of state economic functions, the actors in IPE rely less on their macro-economic power resources and more on collaborative power arrangements in order to create more real control over the
economies they preside over. Subsequently, they strive to assume a dominant role in coalitions with other state and non-state actors. These coalitions take place primarily on the regional and international level between states and on the domestic level with socio-economic groups. The responses of actors to the pressures of globalisation and internationalisation have certainly not been uniform, but varied according to political and institutional differences and generally involved the pursuit of two strategies, namely the strengthening of power alliances upwards (inter-state coalitions) and/or downwards (state-business alliances). It follows that the most successful actors in the international political economy, measured in terms of their ability to perform state economic functions, are those who complement their conventional power resources with collaborative powers.

Extending the previous point, the third strand of my argument concerns the relationship between the actors in the international political economy and domestic socio-economic actors. This relationship remains at the core of wealth-creating policies. However, while actors in IPE have always been forced to engage in a process of constant dialogue with domestic socio-economic groups, under conditions of increasing globalisation and internationalisation the relationship between the two has been reconfigured given the increased pressure for adjustment. Whereas socio-economic groups now enjoy greater freedom of action, actors in IPE were forced away from the pursuit of power and wealth based on their own resources and now act as catalysts in the pursuit of state economic functions. Their catalytic activities vis-à-vis domestic socio-economic groups include the provision of incentives and support for overseas operations, the promotion of technology alliances, and the encouragement of regional relocation and production networks. Their capacity to provide state economic functions vis-à-vis their constituencies thus relies on industrial policy and the generation of higher value-added activities. Within domestic institutional arrangements and decision-making processes, state and industry are therefore engaged in close, but not tension-free, (regulatory) co-operation.

The fourth strand of my argument is that the main instruments in the pursuit of state economic functions are collaborative power arrangements, regulatory, industrial and competition policy. These forms of domestic policy-making complement foreign trade policy based on conventional commercial policy instruments. The use of military
resources in order to assist business expansion is excluded in this view as a 'rational' value-maximising mode of decision-making is assumed.

The central idea of this thesis is therefore one of purposive and strategic actors in IPE, pursuing the performance of state economic functions *vis-à-vis* their constituencies. Under conditions of globalisation and internationalisation, which have altered traditional means of acquiring wealth based on the conquest for territory through military force, strategic action is the means through which actors strive to perform state economic functions. Actors determine their strategies within a framework compromising a complex set of external and internal structural factors, including the formation of alliances with other actors in IPE and domestic socio-economic actors, and act strategically by relying on their strategic action capacities. It is these strategic action capacities that the argument now turns to.

In the above review of approaches to IPE, it has been asserted that structural constraints (domestic and international) determine strategic action capacities. In considering the extent to which state economic functions can be pursued by any actor in the international political economy, the following range of factors must be considered:

Firstly, the constraints and opportunities afforded by the international environment actors operate in;

Secondly, the institutional capacities of actors (including commercial policy instruments);

Thirdly, the structure and processes affecting the decision-making processes of actors;

Fourthly, constraints and opportunities afforded by the (sectoral) market structure.

One way of organising these research areas is to construct a framework through which the strategic action capacities of actors can be evaluated. In doing so, the existing approaches are integrated into the four broad elements of international relations, institutional capacity, decision-making capacity and sectoral market structure.
The first element of the framework is the international environment actors operate in and from here on reference will be made to international relations. Derived from the systemic/structural and statist approaches to IPE, the international relations of an actor are marked by interactions with international institutions and other actors. International institutions limit policy choices and constrain what actors can do in the international political economy. Actors' relative capacities and freedom of action in their interactions with both international institutions and other actors depend on the size of the economy they represent and the level of trade interdependence. Offensive strategies of actors in this arena involve the creation of new rules of the game for international interactions in bodies such as the GATT. Defensive strategies, on the
other hand, aim at mitigating the adverse affects of international economic change, by using international agreements in order to protect existing domestic industries through trade quotas and orderly market arrangements. Lastly, the existence of a hegemon in the international political economy may limit actors' choices and set additional constraints on actors' freedom of action.

Derived mainly from institutional analysis and linking into the argument concerning collaborative power arrangements made above, the second element of the framework is institutional capacity. Internally, the legal and organisational arrangements of institutions impose constraints on the behaviour of individuals and industries. Analysis is thus focused on their conduct of industrial and competition policy and their interactions with other domestic actors in sectoral decision-making processes in the area of regulatory policy-making. Externally, institutions are entrusted with the conduct of foreign economic policy and international trade policy, suggesting a further focus on the availability and effectiveness of commercial policy-making instruments.

The third element of the framework is decision-making capacity, which is mainly derived from societal and cognitive approaches to IPE and also links into the argument concerning collaborative power arrangements. Here, we refer to the location of the decision-making within the institutional structure of an actor and the nature of interactions of domestic actors. Since trade policy is not made within one single structure, decision-making capacity is differentiated according to the sector of the economy and the actors involved in the process. Analysis here concentrates on the structure of sectoral decision-making processes, the positions, roles and capacities of domestic actors within it, and the preferences they hold. Within the structure of sectoral decision-making processes, interaction processes between the actors are influenced by the economic culture of the sectoral policy-making process as well as by the contest of ideas and philosophies held by the actors. The latter are channeled through epistemic communities, policy advocacy coalitions and individual policy entrepreneurs, with the boundaries between them being fluid and membership potentially overlapping. Decision-making processes within domestic structures are closely connected and interactive with sectoral market structure and institutional capacity, because the former bears directly on the preferences of domestic actors.
participating in the decision-making process and the latter shapes the course of the internal bargaining process.

The fourth element of the framework is *market structure* and is derived from society-centred approaches to IPE. The need to treat market structure on a sectoral basis emanates from the fact that the trade policy of an actor is not uniform, but differentiated according to the sectors of the economy. This area is highly interactive with the decision-making process as changes in the economic conditions affecting the sector under investigation bear directly on the preferences of the actors involved and their behaviour. Analysis here thus concentrates on general characteristics of a sector, macro-economic variables affecting the sector (unemployment levels, real exchange, inflation rates, changes in the business cycle), the sectoral distribution of tariffs and trade restrictions, the degree of international integration, international linkages of the sector and export reliance.

To conclude this section, it has been asserted that state actors in IPE act strategically in order to provide their constituencies with state economic functions. Any actor's strategic action capacities in the pursuit of state economic functions can be appreciated by evaluating actor's international relations, their domestic decision making capacity, their institutional capacity and the sectoral market structure, while analysis benefits from adopting a sectoral approach. The (strategic) instruments employed in the pursuit of state economic functions are collaborative power arrangements with other international actors and domestic socio-economic actors; regulatory, industrial and competition policy, and conventional foreign trade (commercial) policy instruments.

Conclusions

Placed into the context of globalisation and internationalisation, the opening chapter has provided a sketch of the nature of inter-state competition in IPE and the processes involved. It has been asserted that the processes of globalisation and internationalisation have led to a shift in the strategies pursued by actors in order to improve their national economic situation. It is argued that as a result, and rather than by relying on their own power resources and military means, actors in IPE are now
relying on a mix of conventional foreign trade instruments and collaborative power arrangements with other domestic and international actors in order to provide state economic functions. Actors in the international political economy are therefore perceived as purposive and strategic actors pursuing state economic functions. Drawing on a review of existing approaches to IPE, a framework for the evaluation of strategic action capacities has been generated that can be applied to any actor in the international political economy. In the following chapter, the ways in which the EC's presence in IPE can be investigated through this approach will be explored.
CHAPTER TWO: THE EC AND STRATEGIC ACTION

Introduction

In the previous chapter, it has been asserted that state actors in a changing international political economy are acting strategically in order to provide their respective constituencies with state economic functions. Furthermore, a framework has been developed in order to evaluate their strategic action capacities in the IPE. In this chapter, the thesis turns to an exploration of how the EC can be investigated through the approach adopted in chapter one. Following on from chapter one, this chapter examines the EC's role in a changing international political economy and its action capacities in the pursuit of state economic functions. As it is essential to take account of the fact that in the case of the EC we are dealing with an 'unusual' provider of state economic functions, a conceptualisation of the EC is generated by way of a literature review of previous approaches to the study of the EC (section 2.1). This conceptualisation then informs subsequent sections on the EC as a provider of state economic functions (section 2.2) and the exploration of the EC through the research framework (section 2.3). The results of the exploration of the EC's strategic action capacities are evaluated and summarised in section 2.4 and a case study approach outlined in the section 2.5.

2.1 Conceptualising the EC

Since its inception, the EC has evolved into an important economic and political player. Yet it still carries the label of an 'incomplete political system' (Wallace, 1996:541). Given that it is neither a state, nor a straightforward supranational organisation or an intergovernmental regime, its international status is naturally ambiguous (Hill, 1993). On the one hand, in the context of its foreign policy, Hill (1993:315) has pointed to the 'capability-expectations' gap, arguing that the EC 'has been talked up - to a point that it is not capable of fulfilling the new expectations ... held of it'. On the other hand, authors such as Allen and Smith have suggested that the disparity between the EC's economic weight and its capacity to exercise power through state-like policies is not necessarily as disabling as might be thought (Allen and Smith, 1990; Smith, 1994a). While the EC has state-like competences in key areas of external commercial policy, the basis of the distinctive institutional and
political structures and processes upon which it conducts its foreign and foreign economic policy resist direct comparison with the usual attributes of state governance. In addition, there is the conceptual problem that the EC has been approached from two distinct but overlapping perspectives, i.e. an international relations perspective and a comparative politics perspective, with concentrations on the study of European integration and on the analysis of EC politics respectively. As subfields of political science they have a certain amount of literature in common, but because of their focus on diametrically opposed areas of the discipline their respective discourse has grown apart (Hix, 1994:23). As a consequence, international relations approaches may be more appropriate in areas where Member States remain sovereign, whereas comparative politics approaches may be more applicable in areas in which decisions involve transnational actors as well. In the following, a conceptualisation of the EC that can be used in order to inform the exploration of the EC's strategic action capacities in subsequent sections is generated from a brief review of the literature.

In the 1960s, realism dominated the study of International Relations (IR) and the debate about how to understand the EC formed part of a more general debate on the nature of the international system. The central piece of work was Hans Morgenthau's (1960) Politics Among Nations which emphasised that the central role of states as unitary actors pursuing clearly defined national interests in conflict with other states. Structural realism sees the international system, in which states calculate the effect of their actions on the reactions of other states, as the primary constraint on state autonomy. Realism has been subject to much criticism due to its concentration on state autonomy. Its contribution to the understanding of European integration was consequently limited.

When applied to IR, pluralism, an analysis that stressed the importance of the decision-making process on decision makers challenged realist assumptions that states could be treated as homogeneous actors and the view that national interest was somehow independent of the political process. The state was dissected to reveal the role of interest groups and bureaucratic actors in the process of formulating what constituted the national interest (Little and Smith, 1991:182-211). As a consequence of the extension of activities of these internal actors and their involvement in transnational networks, pluralists argued that the autonomy of decision-makers was
restricted. Pluralism went on to argue that interest groups and bureaucratic actors also extended their activities beyond the boundaries of the state, with interest organisations interacting in transnational networks that had a separate existence from official state-to-state contact and bureaucrats maintaining routine contact with their counterparts in other states through participation in international organisations such as the IMF and regional organisations such as the EC. Pluralist approaches, such as Deutsch et al. (1957) and Jacob and Toscano (1964), were widely criticised but influential on subsequent work on European integration.

As just one part of a wider pluralist critique of realist assumptions, neofunctionalism subsequently dominated the study of the EC in the 1960s. Pioneered by Ernst Haas (1958, 1968), neo-functionalism is an explanatory theory that aspires to prediction. It asserts functional, political and geographical spill-over effects that would have a snowball-like dynamic and would spill into other areas and sectors once the first steps towards integration were taken. Interest groups, which by way of interaction with other participants would come to appreciate the benefits of integration, and the Commission, in the role of a bureaucratic actor that manipulates the pressures that arise from sectoral integration, were seen as the crucial actors in the policy-making process. National governments were seen as having very little autonomy and, as a result of their position between domestic and supranational pressures, would be obliged to agree to more and more integration. As the ECSC 'spilled-over' into the EEC providing a good example of 'sectoral spill-over', a growing number of EFTA countries applied for EEC membership indicating the beginning of 'regional spill-over', and interest groups mobilised around the issue of CAP evidencing 'political spill-over', it initially appeared that neo-functionalism had rather neatly encapsulated the process of European integration. However, with the negative effects of De Gaulle vetoing UK membership and the 1973 oil crisis on both political spill over and on sectoral spill-over, the study of European integration in terms of neo-functionalism became less fashionable and in the US entered a 'doldrums period' (Caporaso and Keeler, 1995:36). In recognising that integration was not a an inexplorable process, in which governments found themselves caught up, but a process that could spill 'back' and 'around', several authors (Lindberg and Scheingold, 1970; Nye, 1968; Schmitter, 1970) then attempted to revitalise neo-functionalism by revising Haas' original work and succeeded in providing many insights into the process of European integration as
well as the basis for latter studies of both the integration process and the functioning of the EC as a polity or system of governance.

*Intergovernmentalism*, a critique of neofunctionalism put forward by Hoffmann (1964, 1966) draws on realist assumptions but maintains that states are uniquely powerful actors in the process of European integration. Spill-overs would only happen in technical functional sectors, but not spill over into the areas of so-called high politics (national security and defence). By questioning the logic of neofunctionalist's spill-over effects, the intergovernmentalist's assumption is that actors are all of the same weight. While stressing the legal sovereignty and political legitimacy of states, authors in this tradition argue that the process of European integration was essentially intergovernmental and that states have much more power than neofunctionalists believed. With European integration stagnating in the late 1960s and early 1970s and the automaticity of spill-over failing to materialise, the intergovernmentalist school of thought gathered momentum and also let to re-orientation of scholars to the use of old and new approaches. In the 1990s, intergovernmentalism was further developed by Moravcsik (1991), who in considering supranational institutionalism (with explanatory factors such as pressure from the European Parliament (EP) and the European Court of Justice (EJC), lobbying by transnational business interests, and the political entrepreneurship of the Commission) and intergovernmental institutionalism (stressing lowest common denominator bargaining between states and the protection of sovereignty in 'history-making' decisions or major integrative advances) as broad explanations that further European integration re-asserted the notion that states are the most powerful actors in decision-making processes. He stressed the importance of domestic politics in influencing the changing interests of states, but maintained that governments played two-level games as part of an international bargaining process (cf. Putnam 1988). He later developed the theoretical underpinnings of his approach and labelled it 'liberal intergovernmentalism' (Moravcsik, 1993), arguing that the EC could be explained with reference to general theories of IR as an example of a successful international regime.

In the 1990s, neofunctionalism experienced another revival with authors such as Sandholtz and Zysman (1989:96) asserting that the success of the 1992 programme and the signing of the SEA suggests that neofunctionalism might still be of
explanatory force. This claim was derived from both the role of the Commission as a central bureaucratic actor manipulating circumstances to further integration and exercising policy leadership as well as the role played by leading industrialists in launching and sustaining the Single Market programme by putting pressure on Member State governments (see also Agnelli, 1989; Green-Cowles, 1995a, 1995b). The revived perspective also took account of some of the earlier criticism that it had focused on the regional level to the neglect of the wider international system. In this context, Sandholtz and Zysman (1989: 127) pointed out that the success of the 1992 programme has to be seen against the background of changing international and domestic conditions, the rise of Japan, the relative decline of the US, and apparent failure of existing national economic policies. Subsequently, they concluded that 'structural situations create the context of choice and cast up problems to be resolved, but they do not dictate the decisions and strategies' and suggested that the global setting can be understood in neo-realist terms, but the political processes triggered by changes in the system must be analysed in other than structural terms.

**Institutionalist** approaches to FEP analysis are premised on the conception of the state as an organisational structure consisting of institutions of government and sets of rules and laws. The base line argument is that state structure affects the possibilities for policy outcomes (Skocpol, 1985). While IR based institutionalist approaches emphasise the neutrality of institutions (Hix, 1994:10-12), recent work drawing on comparative politics focuses on policy-making within institutions and shows how EC institutions have indeed influenced agenda setting, policy formulation and implementation processes (Peters, 1994; Sbragia, 1992, Bulmer, 1994, Peterson, 1995a, b) In uncovering the role played by European institutions and assessing their interactions with each other and with others within the policy process, these approaches offer a conceptualisation of the EC system as a polity characterised by a multi-tiered system of governance with dense and dynamic networks of institutional actors, organisations, and bureaucracies in which ideas and interests are forceful cross-currents at several levels. The study of political institutions is also a central pillar of scholars like Weiler (1982, 1996) and Wincott (1995, 1996) who advocate a case for paying attention to the importance of law to any study of the European integration process. In particular, they argued that the role of the ECJ and the impact of European law making in the integration process had fashioned a constitutional
framework in the EC that required further examination as legal and institutional elements condition both the magnitude and the spatial scope of integration. These approaches assert that the political system of the EC rests on a fairly firm legal basis, with the main elements of the EC's 'constitution' being the 'undisputed supremacy clause', the direct influence of EC regulations and immediate enforceability of certain directives, the growing case law rights of EC citizens, and the EC's powers of judicial review of all other organs of the EC. Dehousse and Weiler (1990:242) thus made the point that ‘[n]either the nature of the European Community nor its role in the Europe of today can be understood without a reference to its legal and institutional structure.’

The work on transnational relations by IR scholars reveals a multi-levelled, institutionalised process of complex relations and domestic structures cutting across 'domestic-international' and 'state-society' divisions. Here, some scholars have used policy networks as a metaphor to describe the EC/EU, characterising it as a 'set of networks' or 'network form of organisation (Bressand and Nicolaidis, 1990, Keohane and Hoffmann, 1991:13; Wallace, 1990b:19; Schneider et al., 1994; Peterson, 1992, 1995; Kassim, 1994). Grown out of increasing dissatisfaction with the neo-functionalist-intergovernmentalist dichotomy to study European governance, the concept of multi-level governance is probably the most prominent approach that developed (Marks, 1993; Marks et al., 1996, Marks, Hooghe and Blank, 1996). It is asserted that the functioning of the EC policy-making process is complex and characterised by a multiplicity of linkages and interactions connecting a large number and variety of public and private actors at and across several levels. Approaches located in this field suggest the critical importance of a nexus of public and private actors, policy ideas, and interests in a multi-level setting, but allow for distinctions between different policy sectors and networks across the EC. Networks imply clusters of organised actors, representing a host of variable public and private organisations and acting at and across the various levels, that interact with one another and have a stake in outcomes in particular policy sectors. The multi-level and cross-level interactions identified by policy network approaches include domestic interactions, i.e. between government and societal actors at the domestic level, transnational interactions, i.e. between governments on the intergovernmental level, and diagonal interactions (Schneider et al., 1994), between types of actors situated on different levels. As networks are dominated by different actors or institutions depending on the
degree of integration, resource dependency, rights of initiative, roles and competences, these approaches give the institutions of the EC considerable importance as actors in their own right. Yet these are located within a set of complex arenas and geared towards the intermediation or reconciliation of interests and the sharing of information. As Peterson (1995b:400) points out, policy network approaches are particularly useful to explaining policy-shaping decisions at a relatively low level where the Commission usually must allow national governments, private actors and other EC institutions a voice in policy formulation and where it encourages the development of fora for the facilitation of bargaining and resource exchanges. While the notion of separable if overlapping policy networks across different sectors provides for some flexibility in order to capture the variances of EC policy-making, these approaches also allows for the incorporation of the role of ideas, knowledge and expertise (Richardson, 1996:4).

Since the EC/EU belies comparisons with the state, the conceptual tools that have conventionally been applied to the analysis of foreign in the international system appear unsuited to explore the EC/EU's complex policy process (Smith, 1994a:284-8; Allen and Smith, 1990). In effect, the EC in many respects is acting like a state, but crucially it has no government. Moreover, no single theory can explain EU governance at all levels of analysis (Richardson, 1996:4-5; Peterson, 1995a). While broad approaches such as neo-functionalism and state-centric intergovernmentalist approaches are useful to explain 'history-making' decisions, they lose their explanatory power when it comes to 'policy setting' or 'policy shaping' decisions. Therefore, in order to incorporate the roles and capacities of all participating actors, the nature of interactions in dense information and co-operation networks across national borders, the effect of the European institutions on the policy-making process and the impact of law making, it is useful to conceptualise the EC as a multi-level structure of governance, with private, governmental, transnational and supranational actors dealing with each other in highly complex networks of varying density, as well as horizontal and vertical depth (Risse-Kappen, 1996:62-3).

2.2 The EC as a Provider of State Economic Functions
That the EC has indeed emerged as a provider of state economic functions can be demonstrated by taking a broad look at its activities\(^\text{10}\). The EC's concern with the guaranteeing of property rights backed by the force of law can be observed in the gradual development of the legal structures and practices of EC law (see Weiler 1982; Hartley, 1988; Kapstein and van Themat, 1990). Although the guaranteeing of property rights is mainly upheld through national legislation, the EC, related to its economic activity as laid down in Art 3 EEC Treaty, nevertheless touches on these issues for instance in the area of intellectual property rights. The influence the EC can exercise by speaking with one voice \textit{vis-à-vis} the rest of the world in defending these property rights is considerably greater than a single Member States' power to press for the regulation of these increasingly more important issues. Derived from Art. 3 EEC Treaty, the role of the EC in \textit{economic liberalisation} is clearly visible. The EC operates a system that ensures that competition in the internal market, characterised by the abolition of obstacles to the free movement the four flows among the Member States, is not distorted. With the Common/Single Market and the development of an economic and monetary union (EMU) as examples \textit{par excellence}, the double process of the abolition of restrictions and standardisation has been the principle characteristic of the role of the EC ever since the establishment of the EEC treaty (see Heidensohn, 1996; Pelkmans and Winter, 1988, Swann, 1992). The EC's activities in respect to \textit{economic orchestration} and the \textit{provision of input} is clearly visible from its activities in industrial policies. The steel sector, for instance, is a clear example of a sector in which the EC has acted in order to mitigate the effects of the business cycle and worked towards the harmonisation of production. The fact that the EC plays a key role in areas such as high-technology, transport and industry in order to secure the EC's international competitiveness (see Nicolaides, 1993b; Swann, 1992; N'Guyen and Owen, 1992), provides further substance of the view that the EC has increasingly become the level on which many state economic functions are provided. The EC is of course also active in the area of \textit{intervention for social consensus} (see Leibfried, 1993; Ferge and Kohlberg, 1992), as for instance its activities surrounding the

\(^{10}\) It should be noted here that this is not the first time that the EC's presence or activeness in the international system has been approached by looking at the functions it performs. For instance, Hill (1993: 310-15) identifies four functions the Community performs (the stabilising of Western Europe, managing world trade, principle voice of the developed world in relations with the South, and providing a second Western voice in international diplomacy) and six which it might perform in the future (replacing the USSR in the global balance of power, regional pacification, global intervention, mediation of conflicts, bridge between rich and poor, and joint supervision of the world economy).
structural and regional funds show (Armstrong, 1993). Lastly, the management of external relations is of course the prime function of the EC. It performs this role on the basis of its exclusive competence in the field of commercial policy-making and exercises it by speaking with one voice in fora such as the GATT and negotiations with other states.

This broad look at the activities the EC shows that it emerged as a provider of state economic functions. Of course, just like any other actor concerned with the provision of state economic functions, the EC varies in ability and extent to which these functions are performed. While economic liberalisation and the management of external relation are at the very centre of its activities, it performs others indirectly and in shared competences with the Member States, and differs in the strategies applied in order to perform them. Furthermore, it can be argued that the EC-level is also the most suitable level to provide state functions for Member States and European businesses alike.

Firstly, the single most important reason for resorting to the EC as providers of economic functions is that co-ordinating preferences within the framework of the EC gives both Member States and domestic business much greater weight in the face of competition from other players in the world economy. Failing or feeling unable to counteract the demands of internationalisation and globalisation on their national competitiveness, Member State governments and business alike therefore turned their attention to the EC-level for the provision of state economic functions. Within the complex mix of factors that determined the course of European integration, increased economic interdependence and the need for modernisation played a crucial role in increasing the momentum for integration, resulting in the slow and complex process of upgrading the EC's capacity to perform state economic functions. The inclusion of more and more economies certainly adds to the complexity of decision-making processes and causes co-ordination problems within the EC, yet the size and importance of the European market provide for a very significant incentive for all involved actors to deal with these problems as part of a co-ordination process.

Secondly, the established decision-making structures in the EC provide for a basic co-ordination mechanism to deal with competitive pressures. Indeed, from the very
beginning of European integration, the decision-making structures within the EC have already been used as a basis to deal with competitive pressures. The complex web of formal and informal networks that has developed over the past 40 or so years has led to the establishment of institutionalised forms of exchange between policy participants and provides for a long common experience in dealing with one another. Facilitated by moves towards the establishment of a common European market, intra-European co-ordination of policies involving actors from various levels has over time become a reality in more and more sectors, facilitating the assertion of 'European' preferences in the world economy.

Thirdly, the existence of international market failures, such as negative externalities and monopoly power, failures of information or insufficient provision of public goods, require the co-ordination of policies on a higher level. Today, the pressures on national competitiveness are derived from inside the EC through the construction and functioning of the Internal Market, the EC's main competitors in the trade triangle, the emerging newly industrialised countries and segments of industrial goods from Eastern Europe. However, the roots of competitive pressures can be traced back to the enormously increased volume of world trade, the internationalisation of production, and fluctuations and uncertainties associated with currency exchange rates and international monetary arrangements. Dealing with these effectively is beyond the scope of national governments given the vast amounts of information that are needed in order to shape policies in a global and interdependent world. National governments transfer powers to the EC because they are unwilling or incapable of taking into account the international effects of their actions, have insufficient knowledge of other player's intentions, cannot cope with the high costs of organising and monitoring the required level of policy co-ordination, and tend to distrust other's inclination to implement joint agreements. Linked to this point, there is of course the very logic of regional integration, namely the perception that net gains are producible for a group of countries from a unified or integrated conduct of certain policy instruments (tariff, commercial, fiscal or even monetary).

Lastly, there is no other appropriate level that could provide state economic functions more effectively. The potential conflicts between Western Europe, the US and Japan
within the OECD make it unlikely that it is possible to perform state economic functions in a better way than on the EC-level in the foreseeable future.

Although much of the initial thrust for European integration stemmed from factors related to the desire to secure peace and security in Europe (see section 3.2), the competitive pressures that governments face in an increasingly globalised world economy thus triggered the 'retreat of the state' in Europe (cf. Strange, 1996) and the actions of the Member States of the EC especially since the mid-1980s provide for a powerful example of this trend. Not possessing the political and economic resources to continue meaningfully to shape the direction of political and economic development in line with national preferences, the Member States reinforced the momentum for integration and gradually delegated more competences to the EC. There is, as has been shown, a powerful rationale for the management of state economic functions at the EC-level, but the process of transferring competences in order to enable the EC to pursue state economic functions has necessarily been a slow and by no means linear process. Of course, this is not to argue that the EC has emerged as the sole provider of these functions or that the EC is better suited to deliver state economic functions per se. Rather, it is suggested that the EC has emerged as a 'parallel' or 'joint' provider of state economic functions and that this is reflected in the overall shift of competences in more and more sectors to the EC level and the increase of EC regulatory policy-making. The conceptualisation of the EC as a complex and multi-level system of governance already suggests that the provision of state economic functions is shared between the EC and the Member States. Since the desire to control their economic and political destiny sets limits to the Member States' willingness to transfer competences and because the perceived national interest by Member States often counteracts the Community interest in areas under EC competence, the provision of state economic is therefore naturally contested. Notwithstanding these issues concerning competence and effectiveness, it appears that in the light of the changes in the global economy state economic functions will continue to be provided in shared competence between the EC and Member States.
2.3 Exploring the EC's Strategic Action Capacities

In this section, the research framework for the evaluation of strategic action capacities is applied to the case of the EC. Based on the conceptualisation of the EC as a system of governance, the EC as an actor in IPE is analysed following the four elements set out in the research framework, i.e. the international relations of the EC, the EC's institutional capacity, its decision-making capacity and the its market structure. It should be noted that due to the interconnectedness of the four elements, it is inevitable that certain overlaps occur in the analysis. Moreover, although an effort has been made to account for the evolution of the EC in the treatment of each element, the exploration of the EC in terms of the framework can only be indicative and provide for a snap shot as in the case of the EC. Furthermore, the exploration of the EC in terms of the research framework can only be indicative and provide for a snapshot as in the case of the EC the analyst is dealing with what has sometimes been called an actor sui generis.

2.3.1 The EC's International Relations

The size of the combined European economies naturally makes the EC a major international player. Like its competitors in the international political economy, however, the EC in its strategic planning and decision-making must accommodate a set of pressures and constraints stipulated by the nature of the international system it operates in. In the determination of its strategies, the EC therefore has to consider a number of international pressures and developments, including macroeconomic developments, trends in commercial practices, and new issues in international trade (such as trade related investment measures and intellectual property rights, a set of external codes and trade regimes primarily associated with the GATT/WTO, and the trade policies of others major players). Within the international environment, the EC is engaged in interactions with many other actors. These are taking place in many fora: within international frameworks, with other regional groupings, and single states. A helpful way of conceptualising this set of relationships on a general level is to think of the EC's relations with the global system as concerning the 'politics of compatibility'; to think of the EC's relations with developing countries as concerning
'politics of dependency'; and to think of the EC's relation with industrial nations as concerning 'politics of interdependence and interpenetrating' (Smith 1999:282).

2.3.1.1 The EC's Economic Weight in the World

EC trade policy is carried out in a highly interdependent world that is characterised by a substantial volume of international trade, to which the EC contributes substantially. Figures from the WTO\textsuperscript{11}, which include both intra-Community trade and extra-Community trade, show the place of the EC in the world economy: In 1995, the Member States of the EC accounted for 41.5 percent of the world's exports, by value, as against 26.6 percent for Asia, 15.9 percent for North America, 4.6 percent for Latin America, 2.9 percent for the Middle East, 3.1 percent for the Central and Eastern European Countries (CEECS) and the former USSR, and 2.1 percent for Africa. In 1995, six of the EC's Member States were ranked among the world's 10 leading exporters and importers of goods, with Germany just behind the US with a global market share of 10.1 percent. In terms of commercial services, seven Member States of the EC were in the top ten.

In direct investment, the international importance of the EC finds further enhancement. In 1994, the 15 Member States received the equivalent of ECU 20 billion in direct investment from the world. Over the period 1992-4, the main investors in the EC were the US (51.1 percent), the four EFTA states, (17.1 percent) and southern and east Asia, including Japan (10.4 percent). The rest of the world accounted for 21.4 percent of direct investment in the EC's 15 Member States. Nevertheless, as a result of the attractiveness of emerging markets, such figures may be misleading in the sense that, although still impressive, the EC's importance both as a source of and destination for international foreign direct investment is declining, as is the case for all members of the Trade Triangle. The EC now invests more abroad (ECU 21.6 billion in 1994, as compared with 24.4 billion in 1993, but 17.8 billion in 1992), than foreigners do in the EC. North America alone accounted for 43.3 percent of EC investment abroad between 1992 and 1994. If internal investments were included (ECU 37.4 billion in 1994), the importance of Europe would be even greater.

\textsuperscript{11} The data presented in the following three paragraphs is quoted from the Commission (1997). Other accounts that detail the EC's economic weight in the world include Tsoukalis (1993), Dent (1997) and Heidensohn (1996).
The majority of European trade is still conducted with the developed industrialised countries, yet their share is continuously decreasing. In the last decade, these countries lost about 10 percent in market share in the EC15, although they still accounted for more than 40 percent of EC15 imports and exports. The US is the main trading partner by quite a long way, accounting for almost one fifth of the EC's exports (18.3 percent) and imports (19.4 percent) in 1996. Japan alone accounts for 9.1 percent of exports and 5.7 percent of imports. Statistically, the shift towards less trade with old industrialised countries is re-enforced by recent enlargements of the EC (the number of EFTA countries was reduced as well as their share in EC trade), because the integration of new Member States both increased the overall volume of foreign trade and reduced intra-zone trade. In general, the global trade balance of the EC15, which in 1991 showed a deficit of 70.2 billion, has been positive since 1993, with constant and regular increases since then (+ ECU 3.2 billion in 1994, + ECU 26 billion in 1995, and +ECU 43.9 billion in 1996).

There are a number of factors related to the economic weight of the EC worth considering in evaluating the EC's significance in international trade. Firstly, the single most important feature of the way in which the EC conducts itself in international trade is that it acts as a single bloc, implying that it is able to bring its very considerable economic weight as outlined above to bear on other actors. Secondly, in terms of population its Single Market with over 340 million people, is much larger than both the US market and the Japanese market (around 250 and 125 million respectively) and the size and economic importance of the Single Market increasingly enables the EC to press for reciprocity in its relations with its competitors. Considering the old axiom in world politics that posits that those who control access to the biggest markets write the rules of trade, the establishment of the Single European Market theoretically gives the Europeans a strategic advantage in race for economic superiority (Thurow, 1992). Already in the 1980s, the SEA and the White Paper on the Internal Market (COM(85) 310 of 14 June 1985) enabled the EC to call for reciprocity in the context of the second banking directive. The power to give or deny access to the Single Market as well as the power to shape and structure competition within it, thus provides the EC with great strategic international leverage. While reciprocity generally improves the likelihood of co-operation among states, it can also be argued that in cases of an unequal distribution of powers (i.e. unequal
market sizes) reciprocity improves the chances for co-operation in terms of forcing others into concessions and changes in the way others conduct their trade policies, especially vis-à-vis smaller competitors. Nonetheless, among the Big Three, equivalence of measures and actions seems to have become the basis of interaction given that these three dominate the world economy and, to a greater or lesser extent, are able to exercise roughly the same amount of power. Thirdly, the EC, like its main competitors, can exercise what Nye (1990:191) termed 'soft-power', i.e. it can structure a situation in a way that other actors develop preferences or define their interests in a way consistent with those of the EC. Of course, this 'soft power' connects directly with the notion of strategy developed in section 1.3.1, which defines 'strategic behaviour' as behaviour concerned with influencing other's choices. Soft power, in contrast to hard power (i.e. military might), is buttressed on factors such as the size and institutional magnitude of a given economy in the international system.

Although Nye argues that the US has more 'co-optive' power than others in the international system, the notion of 'co-optive' power clearly increasingly applies to the EC and can be witnessed in the way the EC exercises power in its relationship with EFTA countries, third world countries, or CEECs. Fourthly, with the provision of the Maastricht Treaty calling for the establishment of a single European currency in order to complement the Single Market, European integration has gained a further dimension and so has the EC's capacity for strategic action as it adds to the weight that the EC can exert internationally through its Single Market. Internally, the Euro has the effect of facilitating European businesses' expansion into other Member State markets, increasing investment and promoting convergence between European economies by intensifying competition and forcing the modernisation of Member State economies. Externally, the Euro from the outset had the potential to profoundly change the existing monetary order, thereby threatening both the dominant positions of the Dollar and the Yen (Nelson and Kenberry, 1993; Cerny, 1993). Since EMU is still far from its conclusion and remains a highly politicised issue, it is difficult to estimate its final implications in detail, but it must be appreciated that the project of establishing a single European currency has already contributed to the magnitude of the EC. Fifthly, many of the countries and groupings with which the EC negotiates on trade matters are heavily reliant on the its market for their exports, either for reasons of geography (in the case of non-members from within Europe and including CEECs), or for reasons of historical linkage (most notably former French and UK colonies).
Furthermore, the EC has uses trade concessions and sanctions in order to shape international developments. For instance, in granting GSP status to South Africa following the success of the apartheid movement it handed out a reward for political achievements, whereas in the case of Serbia and Montenegro it applied trade sanctions as a form of protest or leverage. This of course underlines the intersection of commercial policy-making with wider foreign policy and security considerations.

As for constraints of the EC in international relations, the degree of international competitive pressure contributes to the EC's commercial calculations and policy initiatives. Over the last decade, the EC has lost market share in a range of manufactured products both in high-technology and labour intensive, low R&D sectors, with its strength seeming to lie in the upmarket end of relatively weak demand sectors (textiles, clothing, footwear, furniture and motor vehicles), select areas of dynamic merchandise trade (industrial machinery, chemicals and pharmaceuticals), and a range of commercial services (Tsoukalis, 1993:256). The existence of a global trading deficit in merchandising with the rest of the world between 1987 and 1993 and associated protectionist pressures had a considerable impact in the EC's trading calculations and strategy. Furthermore, the fact that Member States vary in their trade specialisation patterns and levels of national employment, output and payments patterns, of course bears on sectoral policy-making and strategy along the lines of protectionist and free-trade pressures respectively. Since these variations bear on firm and Member State trade preferences, they are subsequently also an aspect of the regional economic environment and a source of policy pressure. Lastly, it should be considered that macroeconomic conditions of the day, at national, regional and international levels, have a significant impact on the minds of policy-makers in the EC. As the WTO (1995) pointed out, in 1993/1994 overall trade developments in the EC were 'strongly influenced by a number of macroeconomic developments: first, the EC recession and the ensuing recovery; secondly, the strong pick-up in world trade outside the EC; and thirdly, competitive positions reflecting exchange rate movements'.
2.3.1.2 Multilateral Relations

The multilateral trade regime imposes effective limitations on the EC's freedom of action in the areas of tariff protection, non-tariff barriers, safeguards and unilateral remedies. The EC speaks with one voice in multilateral negotiations such as the OECD and the GATT. Within the GATT, the EC has also a special status in that it signed a number of international trade agreements despite the fact that the individual Member States and not the EC are the contracting parties to the GATT. Like other signatories of the GATT, the EC is obliged to transpose principles of multilateral agreements into the EC legislation. After each Round, the new GATT rules become part of the EC 'acquis communitaire' via amendments of and additions to EC law and the restraining effects of GATT rules on EC policy-makers increased considerably with the deepening of the internal market (Pelkmans and Carzaniga, 1996:95). Moreover, several of its legal codes, practices and instruments have been developed in the context of the EC's membership of the GATT as well as under threat of censure and penalty by GATT panels. It has also been the case that EC trade policy has followed the leadership of the US, as can be seen in the US initiative on multilateral trade talks and their focus in the early to mid-1980s. On the other hand, the EC, under pressure of lobbies and in the knowledge that GATT rules were weakly enforced, has deviated from and indeed contravened GATT codes in a wide range of areas, including quantitative restrictions, safeguards and discriminatory treatments. For instance, over the period 1980-92, the EC was involved in more than two-fifths of all GATT Art. XXIII complaints (GATT, 1993:233-4), but in the GATT Uruguay Round, experience with and confidence in the SEM enabled the EC to initiate and exercise leadership in fields such as services (Paemen and Busch, 1995). The rules and norms upheld and developed by the GATT therefore govern the EC's (and others) interactions in IPE and help to shape its behaviour by proscribing and discouraging certain actions and promoting others. Yet the EC is not constrained or driven to the extent that its actions are simply determined by GATT provisions. While international institutions limit its policy choices and constrains what the EC can do in the international arena, there is thus also a significant amount of freedom for action and leverage the EC can exercise in its international environment.
2.3.1.3 The EC's System of Trade Agreements

A second layer of interactions between the EC and its international environment is the complex system of trade arrangements, set up over the years and encompassing the EC's regional periphery as well as trade agreements with countries further away. Here, a pyramid of preferences establishes a hierarchy of 'friends', 'lesser friends' and 'foes'. The closest in terms of proximity is the European Economic Area (EEA), which in the beginning of 1994 replaced the bilateral agreements that had been in force with the EC and the EFTA states since 1972. EFTA has enormous commercial importance to the EC. Exports from the EC to the US and Japan combined amount to less than EC exports to EFTA. According to Heidensohn (1996), in 1992 EFTA absorbed one quarter of the EC's exports (in comparison, the US and Japan absorbed 22 percent) and provided nearly a quarter on all imports to the EC (the US provided for 18 and Japan for 11 percent). While the EC clearly holds the upper hand in its relations with EFTA countries, as it is the most important trading partner of EFTA states, the idea behind the EEA was to enable EFTA countries to participate in the benefits derived from the SEM. The prospect that the EC increasingly absorbs these countries holds out the promise of enormous long-run benefits, since enlargement will enhance the size of the Single Market, the economies of scale which can be achieved by European industry, and the political and economic weight of the EC in the world. Yet the incorporation of more and more economies into the EC, raise fundamental question as to the future direction of European integration and questions relating to the effectiveness of the decision-making process.

Other trade and co-operation agreements of the EC can generally by distinguished by preferential and non-preferential agreements. A group of Mediterranean countries, including Algeria, Egypt, Jordan, Lebanon, Morocco, Syria and Tunisia) benefit from a preferential co-operation agreement with the EC, which allows them, inter alia, free access for industrial products and raw materials to the Single Market without reciprocal obligations. The Lomé Convention, is another preferential agreement that allows developing countries (ACP countries) to enter industrial and agricultural products unless they are covered by the CAP, which they usually are. Of course, the non-preferential co-operation agreements with developing countries in Asia and Latin America are even more limited in scope. Nevertheless, these countries benefit from
the EC's generalised system of preferences (GSP), which, though subject to quantitative ceilings and safeguard provisions, offers duty-free access to the EC for a wide range of manufactured and semi-manufactured goods. Again derived from its economic weight, the leverage the EC can exercise on these small states is considerable and with trial and error the EC has eventually induced many countries to liberalise their trade policies.

2.3.1.4 EC-US Relations

The EC's relationship with the US is traditionally close and has been subject to large amount of research (Hocking and Smith, 1997; Peterson, 1993, 1996; Smith and Woolcock, 1993; Featherstone and Ginsberg, 1996; Coffey, 1993; Smith, 1998; Woolcock, 1991)\(^{12}\). Transatlantic economic relations consist of a huge number of political, cultural and military-strategic ties. In particular, European economic structures are, as a result of American involvement in Europe after the Second World War, inspired and organised according to the American model and closely interconnected with the latter. The security ties that surrounded the transatlantic relationship provided the basis for the establishment of close economic ties between them (Sandholtz & Zysman, 1989:101; Smith, 1992:105).

EC-US relations are highly institutionalised, with Transatlantic dialogue taking place on numerous levels: within NATO institutions, in international economic organisations, within the framework of the G-7. EC-US dialogue used to be held between European Political Cooperation (EPC) and the US. Due to the inconsistent policies of EPC, however, the US was often able to make use of a 'strategy of manoeuvre'. Like Japan, the US could manipulate the individual Member States through bilateral agreements, make use of the ties which result from the binding of the EC to NATO and use multilateral nature of the EC (Santoro, 1989:107f). Since 1990, the Transatlantic Declaration forms the basis of regular consultations of EC institutions with the American government and administration (Peterson, 1996). The Transatlantic Declaration then provided for a new foundation of EC-US relations and assured the good-will of the US for EC steps towards further integration as well as

\(^{12}\) Because of the overriding role and capacity of the US in the international system, the thesis concentrates on EC-US relations.
marking a new step towards the status of completely equal partners (Krenzler and Kaiser, 1991:371). Devuyst (1991:28) points out that European aversion to blunt American attempts at interference in EC affairs is one of the reasons why the EC decided not to enter into a legally binding treaty with the US which would have given the US a formal voice in EC decision-making. Since 1995, EC-US relations take place in the context of the Transatlantic Agenda and the EU-US Action Plan. Here, specifically the process of communication between the EC and the US, as opposed to communication between Member States and the US, was instrumental in concluding these agreements (Smith, 1998:570). Although the institutionalisation of EC-US relations suggests a picture of strategic consensus between the EC-US (Smith, 1998:571), the relationship between the EC and the US characterised by both elements of co-operation and conflict.

Disputes between the EC and the US have a long history and arise mainly in the economic and trade area. Highly politicised trade issues therefore play a great role in EC-US relations, with the EC and the US clashing heavily on selected trade issues especially in the context of the GATT. On issues such as agriculture, aerospace, steel and the SEM, GATT litigation has indeed been dominated by EC-US trade disputes as both have been particularly active in the 1980s in bringing complaints against each other (Woolcock, 1991, Coffey, 1993). Given the intensity of trade interdependence and interpretation between them, however, it is not surprising at all that there will be a continuous flow of disputes between them (Smith, 1995). The EC's trade with the US is broadly based and there are no cases in which trade in one sector is of overwhelming importance to EC-US relations. The size and importance of the US market makes it important to virtually all sectors of industry within the EC and vice versa (Woolcock, 1991:7) Contogeorgis (1989:88) argued that since the percentage of trade exchanges between the EC and the US which have suffered from protectionist measures accounted for less than 2% of the total trade involved, this proves that trade between the EC and the US was 'almost entirely free of problems'. As the recent banana dispute demonstrated, this statement simplifies the issue, but it nevertheless helps to understand that trade disputes can be 'fashionable' given that certain issues draw over-proportional attention that may lead the general public to underestimate how close and effective relations are. Hence, both sides are well aware of the
vulnerability that results from their close economic ties, especially since the SEM lifted the EC on the same level in economic terms.

The US has traditionally been the most important single actor in the global economy, capable of exercising its influence in a hegemonic fashion in bilateral and multilateral relations. The emphasis of US trade policy has been on the promotion of competition as an end in itself. Given the role of the US as the 'prime mover' in eight successive GATT Rounds, its trade policy can generally be viewed as pursuing the goal of multilateral trade liberalisation, involving the extension of multilateral discipline into sectors such as agriculture, textiles, services, and intellectual property. Moreover, the GATT system itself can be regarded as a reflection of US domestic trade law, designed to foster trade liberalisation, but under certain circumstances capable of granting temporary protection to industries. Notionally, there is not a lot involved in the formulation of trade policy under either the US or the GATT system, as the US ideology of free trade provides that it is imperative to maintain open borders, but provides little if any direction. Since its dominant laissez-faire ideology 'does not provide guidance as to what should be done so much as guidance as to what should not be done' (Wolff, 1992:488), however, US trade policy formulation has become dominated by domestic producer interest.

In practice, US trade policies since the 1980s can thus more accurately be described as a mix of multilateralism, bilateralism and unilateralism (Heidensohn, 1996:127). US bilateralism is evident in the numerous measures that the US have taken in order to force other countries to 'voluntarily' restrain their exports to the US. On the other hand, given its tendency to unilaterally decide what constitutes unfair trade practice and to expect other countries to liberalise their trade with the US on a unilateral basis, US trade policy has been described as 'aggressive unilateralism' (Bhagwhati and Patric, 1990; Bayard and Elliott, 1992). The apparent modification of US trade policy over time has been explained by two factors (Ostrey, 1990:90): Firstly, US trade policy is a response to pressures by strong US sectoral pressure groups, calling for either the protection of domestic markets and the opening of third country markets or for the reduction of the US trade deficit. Secondly, although an open trading system has been the overall goal of US trade policy, the openness in world trade has been linked to the principle of a 'level playing field'. Therefore, failure or unwillingness by
other countries to reduce their trade barriers or to eliminate export promoting strategies (in particular export subsidies) have often provided a rationale for the US government to develop and maintain a trade regime that protected its domestic industries from what was labelled 'unfair' competition.

The US dominant economic power is reflected in both its commercial weaponry and the system of trade and co-operation agreements that ties other states to the US. As for the latter, trade agreements and arrangements were formed with Israel in 1985, with Canada in 1989, with 24 Caribbean countries in 1983 and 1990 (based on the Caribbean Economic Recovery Act of 1983 and the Caribbean Economic Recovery Expansion Act of 1990), with four Andean countries in 1991 (granting trade preferences to Bolivia, Columbia, Ecuador, and with Peru on the basis of the 1991 Andean Trade Preferences Act). In 1994, the US also created the North American Free Trade Agreement (NAFTA), a free-trade area compromising the US, Canada and Mexico. Equally, the US has used award or denial of MFN status as a trade policy instrument by maintaining substantial differences between MFN and non-MFN tariffs. As for the first, over the years the US has introduced a number of trade acts that enabled the administration to take protectionist measures\textsuperscript{13}. Increased protectionism and aggressive unilateralism, however, became possible on the basis of amendments to section 301 of the 1974 Trade Act. While only about one tenth of all section 301 actions actually resulted in the US taking retaliatory actions (Bayard and Elliott, 1992:689), Japan and particularly the EC found themselves as the targets of 301 actions. No other single country has recourse to similar trade policy weaponry, and in addition to these aggressive trade policy instruments, the US has applied a large number of measures and strategies to improve its exports, including import duties, export subsidies, anti-dumping duties, import quotas, and VRAs.

2.3.2 The EC's Institutional Capacity

Understanding the particular qualities and content of the EC's institutional capacity for trade policy formulation requires an appreciation of the unique aspects of its internal structures, processes and policies, and of its unique representation of by now

\textsuperscript{13}Including the 1930 Tariff Act, the 1962 Trade Expansion Act, the 1974 Trade Act, the 1979 Trade Agreements Act, the 1984 and Trade and Tariff Act, the 1985 Food Security Act, and the 1990 Customs and Tariff Act.
15 national economies. What has emerged in the case of the EC is not simply a model of policy formulation and management that is extremely institutional by international comparison, but one in which internalised policy agreements and processes (such as consultation mechanisms, formal procedures, voting rules, inter-organisational dynamics and actor bargaining) have a significant influence on trade policy outcomes (Devuyst, 1992; Howell et al, 1992; Hayes, 1993; Collinson, 1999).

The Common Commercial Policy (CCP) has been designed to attain the two broad objectives of ensuring efficient international specialisation and promoting an open world system. These two goals are not necessarily compatible and in the 1980s the Community found it increasingly difficult to reconcile the two in a world dominated by intra-industry trade, natural oligopolies and market rigidities (Yannopoulos, 1986:451-4, Smith 1994b:251). In general, the EC derives its trade policy authority from the 1951 Treaty of Paris, establishing the ECSC, and the 1957 Treaty of Rome, establishing the EEC14 Yet there are some tensions between the ECSC and EEC Treaty regarding commercial policy as Art. 71 ECSC explicitly mentions that in matters of commercial policy the powers of the Member States are not affected. Over time, this has created a number of uncertainties, not least because of the sensitive nature of industrial and competition policy and their increasing international ramifications (Kapstein and van Themat, 1990; Mény and Wright, 1987; Benyon and Bourgeois, 1984). From a trade policy standpoint, however, the EEC Treaty is more significant as it provides for the establishment of a customs union among the Member States with a common external tariff and the progressive elimination of intra-Community barriers to the four freedoms. The question of competence is a central one in EC commercial policy-making and given the nature of the interplay of EC institutions in the formulation of EC commercial policy the EC encountered some difficulties in moving towards a comprehensive and coherent policy over the years. Since the inception of the EEC in the Treaty of Rome, the Member States have progressively invested the Commission with an almost exclusive competence in the area of external economic relations15. The term almost is used because the Maastricht

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14 It should be noted that the Treaty Articles referred to in the following stem from the original Treaties and have been re-numbered under TEU and further re-numbered under the Amsterdam Treaty.

15 Progress towards the goal of eventual integration of the Member State economies stalled following the completion of the customs union and momentum was only regained during the 1980s with the adoption of the 1985 White Paper and the 1987 SEA.
Treaty did not bring any further expansion of the Commission's competences and because some areas of commercial policy making are subject to shared competences between the Member States and the Commission (see below). Nevertheless, the EC possesses a range of common trade policy powers and instruments akin to those of the most powerful states in the global political economy.

2.3.2.1 The EC's Commercial Competences

Art. 113 EEC is the centrepiece of the Treaty of Rome and establishes a CCP based on uniform principles, the conclusion of tariff and trade agreements and measures to protect trade. It empowers the Commission to make recommendations on overall trade policy to the national representatives in the Council of Ministers, while the Member States accept de jure the limitation of their rights to independent negotiation in this area. Together with the provisions of Art. 116 EEC, which establishes that the Member States shall proceed only by common action within the framework of international organisations of an economic character concerning matters of particular interest to the Common Market (dropped under the Maastricht Treaty), these two articles have been supported by a number of further articles. Since the EC's inception, their initial provisions have, in due course, been supplemented by case law, periodically revised import regulations and restrictions, and major treaty revisions (most notably the SEA and the TEU). Central to the EC's competence in the area of commercial policy-making are furthermore Art. 3-9 (the establishment of the CET), Art. 110 (definition of purposes), Art. 112 (aid for exports), and Art. 115 (safeguards and the deflection of trade). The substance of these articles has remained unchanged since the Treaty of Rome. Moreover, the EC's influence and authority in this area is extended further under Art. 131 (enabling trade and aid benefits to former colonies and overseas territories), Art. 228 (negotiation of trade and tariff accords with non-members), Art. 229 (inter-institutional management) and Art. 238 (association agreements with non-members).

2.3.2.1.1 Procedure: Tensions between the EC and the Member States

In procedures relating to both commercial policy-making and regulatory policy-making in the EC, we witness the tensions between the Commission and the Member
States. The Commission must conduct its negotiations in consultations with a special Committee of Member States (the Art. 113 Committee). Where agreements with third countries are to be negotiated, the Commission makes recommendations to the Council, which can then authorise the Commission to open the necessary negotiations (Art. 228). Any agreement negotiated by the Commission has to be approved by a unanimous Council decision. Since Art. 113 does not limit the type of action that may be taken, the EC may use any form of legislative act authorised under Art. 189, i.e. regulations, directives, or decisions to implement policies in this area. While regulations directly become EC law and decisions are binding only on the parties addressed (Member States, companies or individuals), directives set compulsory objectives that Member States must translate into national legislation. Recommendations and opinions have no binding effect.

In the past, the EC's sole competence in the area of commercial policy-making has been challenged by the Member States on several occasions and on selected issues. This usually concerned issues where their national interests are not served and resulted in internal crises and confusion for negotiation partners. However, while legal cases in 1971 and 1976 have affirmed the effective exclusivity of EC competence in virtually all matters of commercial policy, the Court of Justice (EJC Court Opinion 1/94 of 15 November 1994) provided some clarity as to the exact scope of EC competence in commercial matters in the light of the expansion of multilateral codes and negotiations into areas where integration and harmonisation are as yet incomplete. The Court ruled that though the exclusive competence in the trade of goods and agriculture is firmly established under EC law, its full competence to sign multilateral codes on behalf of the Member States in certain aspects of transfrontier services trade and intellectual property rights is not yet fully established. Despite the EC's comprehensive commercial policy mandate, this leaves the EC with an anomaly in its external representation (Hilf, 1995:247). For instance, the EC represented the Member States in GATT negotiations in some areas such as the codes on technical standards and anti-dumping. In other areas, such as air transport services, the EC has a clear responsibility to ensure the establishment of the Single Market, but lacks a corresponding mandate with respect to trade with the rest of the world. The EJC's key 1/94 ruling therefore set the stage for future disputes over competences and may well
affect the future effectiveness of the EC in international trade negotiations (Meunier, 1997:45).

There are also certain areas that allow for Member State deviations from EC policy. Actions taken under Art. 113 to implement the CCP are proposed by the Commission to the Council and must be adopted by the Council by a qualified majority\(^{16}\). Since the Council needs to achieve unanimity in order to deviate from a Commission proposal, the Commission's power is considerable (Nicolaides, 1993a). On the basis of Art. 115, however, which allows for such deviations only in cases where a Member State faces economic difficulties in applying EC policy, Member States may obtain the permission of the Commission to deviate from their obligation to apply uniform principles or the policies adopted by the EC as a whole. While this has resulted in a number of cases where Member States restricted imports of certain sensitive products such as steel, textiles, footwear and some electronics products, the removal of internal border controls under the Single Market Programme made the administration of nationally administered import restrictions virtually ineffective. Furthermore, Art 133 declares that the common commercial policy shall be based on uniform principles. Since the article does not offer a precise definition of the scope of policies, this has meant that Member States retained some autonomy in concluding certain arrangements with third countries. While no Member State can enter into any bilateral agreement with third countries in an area that falls under the competence of the EC, in areas where there is no exclusive Community competence, arrangements have to be undertaken by the EC and the Member States as 'mixed agreements'.

Obtaining a negotiation mandate is another important issue which reflects the tensions between Commission and Member States and the room for debate about the Commission's rights and obligations is considerable (Smith, 1994b:253). Even when no mandate is required, the Commission must still obtain authorisation to commence negotiations with third countries. Since in order to reach a common position a process of internal bargaining needs to take place, the EC faces some disadvantages (Yannopolous, 1986:461): Firstly, compromises are usually struck at the lowest

\(^{16}\) Since the 1987 SEA, agreements must also receive the assent of the EP (Art. 238). The Council can also approve agreements with third countries on the basis of Art. 235, which requires only the favourable opinion of the EP. For example, the Association Agreements with East European countries were negotiated on the basis of Art. 238, while their predecessors, the more narrow Trade and Cooperation Agreements, were based on Art. 235.
common denominator, which is often a protectionist, i.e. conflictual, position. Secondly, commercial policy issues are often linked to internal policy issues, which often leads to the externalisation of the resulting conflicts and pressures. As the common commercial policy is the result of a political bargain, policy positions are often rigid and inflexible, and therefore difficult to adjust. As a consequence, the Commission is often regarded as an inflexible negotiator and dealing with the EC in international fora can often become complex and time-consuming. Since EC competence is not a static concept (Smith 1994b:254), the Commission in practice frequently negotiates without a mandate, 'ostensibly conducting 'talks' in its area of competence but actually addressing and resolving trade issues' (Howell et al., 1992:407).

The ambiguity contained in the EC's institutional capacity reveals a lack of coherence in external trade policies and perhaps helps to explain the EC's reluctance to use GATT dispute procedures during the 1980s. The EC thus often gave the impression that 'it prefer[ed] 'power diplomacy' rather than 'rule diplomacy' in the settlement of international trade disputes' (Yannopoulos, 1986:462). Notwithstanding, Meunier (1997:10) and Howell et al. (1992:401) noted that it might be possible for the EC to use some of its institutional flaws as an external leverage or strategically in order to gain concessions from its negotiating opponents.

### 2.3.2.2 The EC's Commercial Policy Instruments

In addition to the complex web of international trade diplomacy and trade relations (see section 2.3.1.3) and emanating from the essential grant of trade policy competence, the EC pursues its objectives through threatening or applying its wide range of commercial policy instruments. The Community's trade policy is characterised by both elements of free trade and protectionism and it is important to keep in mind that the EC's trade policy has not only been determined by historical influences and the international political economy, but also by the 'tortuous process of integration' Pelkmans and Carzaniga, 1996:81). Furthermore, in view of the present study, it is important to note that there are sectoral differences in the application of commercial policy instruments. Thus, the following section provides a selective overview of the EC's major commercial policy instruments (for a more detailed
analysis of EC commercial instruments see GATT, 1993; Nicolaidis, 1993a, Commission, 1993).

During the first decades of its existence, the Commission's implementation of trade policy did not differ dramatically from the prior practices of some of the larger Member States (Howell et al. 1992:410). It concluded preferential EC-wide agreements with former European colonies, which superseded comparable arrangements between the colonies and the mother countries, reached discriminatory bilateral arrangements restricting trade with a number of third countries and utilised little-publicised 'understandings' to regulate market shares and pricing policies in a number of key sectors. However, while the development of the EC's commercial policy instruments faced problems relating to a slow progress of harmonisation and Member State reluctance to transfer to EC institutions, the Community for a long time lacked commercial policy instruments that were appropriate responses to the trade distorting policies of other countries (Yannopoulos, 1986:454-60). In addition, the EC was criticised by writers and the GATT alike for its propensity to work out bilateral and sectoral deals as these undermined and posed a threat to the multilateral system (GATT, 1991; Paterson, 1983:230-1). In the late 1980s, however, with the Single Market Initiative and the ascendancy of economic liberals within the Commission, the Commission's policy instruments were modified and the EC's trade diplomacy of back-room deals was replaced by a regime emphasising legal mechanisms with a larger degree of transparency (Howell et al., 1992:410). In due course, an array of new trade and trade related rules were put into place as well as existing mechanisms, such as anti-dumping law, were utilised more vigorously.

The Common Customs Tariff (CCT) used to be the single most important trade policy instrument. It covers all imported goods into the EC and is applied on a most-favoured nation basis to all GATT members unless special bilateral agreements provide for more favourable treatment. The importance of tariffs has diminished as a consequence of reductions negotiated during successive GATT rounds. Since the EC has stuck to the GATT aim of binding tariffs (i.e. ensuring that tariffs can only go down and not up) and because tariff levels have been reduced so substantially, the CCT has lost its importance as an effective and flexible policy instrument.
With the reduction in importance of the CCT, quantitative restrictions and Voluntary Restraint Agreements (VRAs) became increasingly important and were used in order to curb third country imports. Legally questionable under the GATT, restrictions on imports have largely been remnants of Member States' trade regimes from before the enactment of the EEC Treaty and have therefore been levied at the national level. At the end of the 1980s, the Member States restricted imports of more than 120 industrial products, with France and Italy accounting for virtually all of them (Heidensohn, 1996:5). On the basis of the Single Market Programme, the EC in the early 1990s started to 'communize' previous national restrictions, with cases including bananas and a temporary car consensus with Japan. In a shift-away from 'residual' national restrictions to a system of EC-wide restrictions and Community administration, national restriction invoked under Art. 115 are thus hardly authorised anymore, while the Single Market now makes an effective administration of both virtually impossible (Nicolaidis, 1993a). Nevertheless, quantitative measures remain a weapon in the Commission's trade arsenal and it has fought in the GATT safeguards negotiations to preserve its freedom of action in this area (Howell, et al. 1992:418). VRAs, on the other hand, have to be eliminated or have to comply with the GATT Uruguay Round agreement on 'grey-area measures' within four years from 1 January 1995 (GATT, 1994).

Despite this shift, the Member States retain the possibility to request the Commission to put in place import surveillance measures where imports may cause difficulties for indigenous industries or the Community interest requires it. In practice, such measures usually follow specific requests from anxious producers or manufacturers and frequently lead to the imposition of trade defence measures. In cases of urgency, the Commission can immediately impose quantitative restrictions, but measures can potentially be amended or revoked by qualified majority. Importantly, surveillance measures are attractive to policy-makers not only because they are less overtly protectionist, but also because the Commission has the authority to impose such measures without Council approval (Howell, et al., 1992:419). Moreover, as Murphy (1990:56) points out, the initiation of surveillance measures alone may encourage third countries to voluntary curb their exports to the EC.
Given that protection via tariffs, quantitative restrictions and VRAs are increasingly proscribed by the GATT/WTO, the choice falls on the three instruments of contingent protection - antidumping actions, safeguards and compensatory measures (Pelkmans and Carzaniga, 1996:89). While the recent changes introduced by the Uruguay Round to the GATT Anti-Dumping Code did not entail radical modifications of EC anti-dumping procedures, the threat or application of anti-dumping legislation is the most used trade defence instrument of the EC and central to its commercial policy making. EC anti-dumping action has traditionally taken the form of penalty duties with, since basic regulation 2423/88/EEC and decision 2424/88/ESCS (L209 of 2 August 1988a and b), multiple examples of tariff imposition at often prohibitive rates. Between 1980 and 1991, the EC initiated 440 anti-dumping investigations, of which 330 were terminated with a positive finding (Nicolaides, 1993a). In the 1990s, the EC continues to be one of the most frequent users of anti-dumping procedures (WTO, 1996:63), wielding them as a (strategic) weapon against what are deemed or proven 'unfair' imports and against import penetration in vulnerable industries. Anti-dumping measures are the most frequently used trade instrument of the EC, although it only applies to less than 1 percent of its trade (COM(96) 146fin. of 8 May 1996:3). Commission officials see anti-dumping law as a key policy tool and in some of its anti-dumping decisions, such as the 1988 case of Japanese and East Asian photocopiers, the Commission has indeed referred to the strategic importance of industries (Howell, et al. 1992:414). Ultimately, producers exporting into the EC who have reason to believe that they might be accused of dumping have a strong incentive to raise prices or to modify their competitive practices in order to avoid anti-dumping action. As the 1991 GATT Trade Policy Review (GATT, 1991:70-75) pointed out, exporters into the EC have largely preferred to enter VRAs in order to avoid anti-dumping action. However, as it is the Council of Ministers that has the final say on anti-dumping actions, there is an internal political edge to the Commission administration of anti-dumping action, posing a problem to the Commission's otherwise mechanical and legalistic processing of these measures. Although the anti-dumping instrument has undergone some modifications in recent years towards a speedier and smoother operation, it remains the case that any provisional duties become definite only after majority vote in the Council, if now by simple as opposed to qualified majority. This implies that in contrast to before its reform, and despite the increasing importance of the Community interest (Kempton, 1996), the coalition of
northern free-trade states (UK, the Netherlands, Denmark and Germany) cannot block the imposition of anti-dumping duties anymore.

Safeguards and countervailing duty actions have been used more sparingly than anti-dumping actions. In the period 1960-89, there were only 17 safeguard actions, affecting mostly agricultural or textile products (Nicolaides, 1993a). Since the 1990s, these measures have been firmly established under GATT/WTO provisions, with the remainder of the 1990s being an effective period of transition towards their elimination in many areas. While Regulation No. 3283/94 (L349 of 22 December 1994) now governs countervailing and anti-dumping action and provides definitions of subsidies, the EC has nevertheless incorporated safeguard provisions into preferential trade agreements such as the Europe Agreements (EAs). In general and reflecting its internal state-aids regime which reflects Member States' greater propensity to subsidise than their American and Japanese counterparts, the EC believes that subsidies should be looked at on the basis of the distortive effect they have on a market (Pelkman and Carzaniga, 1996:89).

In connection with the regulatory impact of the SEM, the Commission in recent years has put increasing emphasis on local content requirements and rules of origin. The EC has used rules of origin since 1968 and operates specific rules for about 14 products (Nicolaides, 1993a). These have emerged as a significant policy instrument and their use is likely to increase because of the key role they play in the implementation of other trade and industrial measures (Howell, et al., 1992:412). In connection to anti-dumping rules, they have, as the cases of photocopiers and screwdriver plants illustrate, been used to force investment in the EC by third country suppliers wishing to avoid punitive action. They have also become central to EC competition vis-à-vis Japan and to the EC's trade regime vis-à-vis third countries as all bilateral preferential trade agreements require the determination of origin.

In the 1980s, the EC created a different type of commercial instrument, designed to remove specific problems of export markets and subsequently of an aggressive (market-opening) character. Similar to the powers conferred upon the US President by the 1974 US Trade Act and partly designed in response to US sanctions against the EC because of its exports of materials for the construction of the Siberian gas pipeline
(Schoneveld, 1992), the New Commercial Policy Instrument established by regulation No 2641/84/EEC (L252 of 20 September 1984) gave the EC the means to take retaliatory action against illicit commercial practice. It is strictly GATT conforming and remained so in the 1994 revision (L56 of 6 March 1996). The trade barriers regulation (TBR), established by regulation No. 3286/94 (L308 of 29 July 1996), provides EC industries and enterprises, as well as Member States, with access to a procedure by which they can request the EC to obtain the enforcement of international trade rules where non-EC countries are adopting or maintaining trade barriers. It differs from other EC trade policy instruments as it is applicable to a much wider range of situations, is not confined to the defence of the internal market, and is not primarily intended to result in measures imposed at the EC's frontiers. Both have been used sparingly to date (see section 8.3.2).

2.3.3 The EC's Decision-Making Capacity

Given the conceptualisation of the EC/EU as a complex and multi-level system of governance with varying stakeholders across sectors and time, the focus of this section can only be on the broad features that characterise the EC decision-making system. Following a number of initial observations on the EC decision-making system that help to further illuminate the capacities of the EC in this area, this section analyses first the co-ordination of preferences within the EC decision-making process and then the roles, capacities and strategies of the main actors (Commission, Member States and Firms).

The EC/EU has acquired for itself at least the policy-making attributes of a modern state and this across an increasingly wide range of policy sectors. However, rather than amassing extensive and autonomous political authority, the EC/EU has gradually altered the exercise of national political authority by enmeshing the Member States in a web of collaboration and co-operation (Laffan, O'Donnell and Smith, 1999:85). With a high proportion of what used to be regarded as purely domestic policy-making now taking place on the Community level\(^\text{17}\), it becomes apparent that the locus of decision has shifted (Richardson, 1996:3) and this is reflected in the stupendous growth in EC regulatory policy-making since the 1960s. The growth of the EC as a

\(^{17}\) According to estimates of the German industry association, 60 percent of all legislation affecting industry is now made in Brussels, and not London, Paris or Bonn. Quoted from Cowles (1995c:1).
'regulatory state' has received considerable attention in recent years (for instance Majone, 1990; 1996) and nowhere more than in the EC do regulations constitute and define the market (Wilks, 1996:539). Although regulatory policy competences have not straight-forwardly been transferred to the Community level (see Hancher, 1996:66), the number of directives and regulations produced in Brussels increased almost exponentially. For example, by 1970 the average of directives and regulations produced in Brussels was 25 directives and 600 regulations per year. In 1991, Brussels issued 1,564 directives and regulations (Majone, 1996:57). This quantitative growth can be explained by the prevalence of 'regulatory failure' at the international level and the low credibility of intergovernmental agreements that increases the willingness of Member States to delegate regulatory powers to the EC. Similarly, the transfer of regulatory powers to the Commission, by making stringent regulation more credible, improves both the behaviour of regulated firms and the strictness of enforcement (Majone, 1996:271).

Given that since its inception the EC decision-making system is characterised by continuing flux in terms of membership, policy competence, policy style and evolution, different sets of actors or factors have become dominant during different phases in the EC's development (Lodge, 1993:1). Moreover, ever since the SEA the process of policy-making has become increasingly 'internationalised' or 'Europeanised' (Andersen and Eliassen, 1993; Laffan, O'Donnell and Smith, 1999), with many domestic more actors operating in multiple areas and the 'nested games' (Tsebelis, 1990) within national arenas augmented by transnational 'connected games' (Marks et al., 1996). As a large array of firms, interest organisations, regions, cities and other actors have new strategic opportunities within the system, outcomes in the EC decision-making system are not purely the result of interstate bargaining among the Member States anymore. Considering the operations and influence of non-Community firms within the Internal Market (e.g. the influence of the American Chamber of Commerce), the emergence of complex global alignments of firms and cross-cutting interests that participate in EC decision-making, the identification of a 'European interest' within this complex system is by no means guaranteed (Strange, 1998; see below). Thus the EC policy-making process has increasingly developed into a series of strategic bargaining games, with all participating actors having the opportunity to pursue a number of strategies in order to maximise their gains. The
bargaining strength and capacities of actors vary over time and issue areas and depend on institutional arrangements and economic conditions. We are thus dealing with what game theory calls a 'mixed motive game' when analysing EC decision-making processes.

With the relationships between the key institutions still in a state of flux, the EC decision-making system, though being quantitatively productive, cannot be regarded to be a stable one (Richardson, 1996: 4). In general, decision-making in the EC takes place within an institutional system that centres on the four major institutions, the Commission, the Council of Ministers, the European Court of Justice (EJC) and the European Parliament (EP) and a number of associated dynamics. These have been well characterised in a number of studies (for instance Wallace et al., 1983; Lodge, 1993, Richardson, 1996, Laffan, O'Donnell, and Smith, 1999). This basic model of EC decision-making is differentiated in the various policy-making areas and shows some flexibility and variety, depending on decision-type, but is centred on the major governing institutions. Importantly, the institutions of the EC function as active components of this system, holding institutional interest, agendas and distinct action capacities and play an active role in the identification, formulation and promotion of ideas and interests.

2.3.3.1 The Co-ordination Process

Since the late 1970s, the Commission fostered the development of transnational networks and set up networks of experts, including for instance academics and business leaders, to monitor and advise the Commission on various parts of its work. Dominated by technocratic rationality and based on specialised technical knowledge, established negotiation styles and networks within the EC can reduce the complexity of the co-ordination process and fashion the co-ordination process positively. Co-ordination within these networks can vary along a continuum from 'policy-communities' to 'issue networks' (Peterson, 1995a). The process of accommodating the various interests participating in EC decision-making varies according to the institutional conditions and the specific phase of decision-making. The Commission, under the institutional conditions of the EC, functions as a gatekeeper and largely determines Member States chances to shape regulatory policy-making according to
their own traditions. A recent way of analysing the co-ordination process that takes place in the EC has been presented by Héretier (1996). She found a pattern of co-ordination that includes the strategic 'first mover', a phase of 'problem solving' in the early stages of drafting, and the linked pattern of 'negative co-ordination, bargaining and compensation' that dominates the formal decision-making process.

After a 'first mover' has defined the problem in co-operation with the Commission, suggested a way of dealing with it and set the agenda\(^{18}\), a phase of 'problem-solving' occurs where actors concentrate on joint production and at least temporarily put aside distributive issues. In the problem-solving stage, technical, scientific and legal experts, interested in pragmatic problem-solving, dominate the scene. Expert committees, advisory committees, expert groups, conferences, seminars and workshops are all being used by the Commission to institutionalise the EC's consultation process. The advantages of these are twofold: on the one hand, they aid consensus-building, on the other, they can make the various policy stakeholders accept a certain frame (cf. Rein and Schön, 1991, quoted in Mazey and Richardson, 1996:210) for the solution of policy problems. Here, some specific institutional conditions of EC policy-making facilitate problem-solving: Firstly, working groups and committees do not make decisions, they simply have a consultative function. Secondly, it is ultimately the Commission that chooses between proposals and sets the agenda for the Council. Thirdly, the long-term nature of many committees and working groups during this stage facilitates development of 'epistemic communities' as well as mutual learning among national experts. During this stage, dominated by technocratic rationality and based on specialised technical knowledge, problems tend to be shared.

Once the Commission has decided on a policy proposal, it is put forward for a decision in the Commission as a whole and then in the Council and the EP. Focusing on specific costs and benefits, the process of negative co-ordination, bargaining and compensation begins. Should an issue be considered as redistributive, the decision-making process rapidly becomes polarised, with clear-cut lines of conflict. Once the relative positions are clear, a bargaining process begins and compensations for the

\(^{18}\) On the dynamics and advantages of the 'first mover' see Héretier(1996:151-4).
possible losers are being considered (Scharpf, 1993:68). If there is only a choice between 'yes' and 'no' and monetary compensation seems unacceptable (Scharpf, 1993:70), a package deal may be struck in which a trade-off of benefits is sought over different issue areas. The more issues areas are involved in such a package deal, the higher the political level at which negotiations are conducted.

If compensation in order to buy off opposition to a package deal has been agreed upon, the difficult process of considering whether the costs and benefits accruing to the various actors from different issue areas are equally and fairly distributed begins (Scharpf, 1993:77). Here, the long-term nature of negotiations within EC decision-making processes helps in so far as each actor can expect to be compensated for a concession in future negotiations. This diffuse reciprocity works through informal mechanisms which are rooted in the competition among Member States and works to balance costs and benefits over issues and time (Héretier, 1996:157). The institutional memory of the EC system of governance functions very well as the Member States jealously keep a record of when and to whom concessions have been made. The long-term nature of bargaining processes in the EC ensures that the participants think twice before ruthlessly maximising their gains. In addition, the stable institutional framework of EC decision-making ensures that Member States are economical in their opposition to proposed measures, since they know that they cannot constantly oppose all kinds of issues (Peters, 1992). Usually, the Member States first carefully decide on which issues they can make concessions, which are negotiable and which can be sacrificed altogether, and then strategically support those closest to their heart and which offer the highest economic and regulatory pay-off.

Other institutional features of the EC decision-making machine also help to shape the co-ordination process positively. Voting rules affect the extent to which stakeholders are willing to make concessions. For instance, qualified majority voting, where applicable, helps to anticipate possible opposing coalitions and therefore helps to speed up negotiations (Scharpf, 1992:25). Similarly, the Council Presidency can prepare package deals by setting the agenda, attaching priority to certain issues and arranging the list of items to be discussed. Mutual efficiency gains will thus be the result of an implicit consensus that collaboration does pay off despite considerable
conflicts. The interest in securing mutual gains and avoiding individual losses therefore ensures the continuation of bargaining games.

Measured quantitatively, i.e. in terms of the amount of regulations and decisions that are produced in Brussels, the EC's decision-making capacity is considerable. Policy and issue networks and their inherent dynamics and co-ordination procedures ensure the functioning of the decision-making process. Nevertheless, the decision-making system that has developed in the EC is not stable, characterised by complexity, ambiguity, and constant compromise and decisions are often the result of hard fought internal negotiations and ultimately of compromise (Howell, et al, 1992:401). In order to investigate the EC's decision-making capacity further, analysis now turns to the main actors (Commission, Member States and firms), their capacities and roles within the decision-making process, as well as to the strategies they pursue in the strategic bargaining game.

2.3.3.2 The Commission

Reflecting the Commission's firm location at the very heart of the EC decision-making process, virtually every major EC policy in recent years has been associated in some way with the Commission (Peterson, 1995a; Cini, 1996; Nugent, 1996). Given that the majority of policies are technical and regulatory politics and associated with the Commission, the central position of the Commission becomes even clearer. The single most important feature of the Commission's central position in the EC decision-making system is its right of initiating legislation. It is very likely that legislation proposed by the Commission will eventually be adopted. There are a number of reasons for this: firstly, the Commission is unlikely to table any proposal unless it finds the approval of the Member States. Secondly, securing unanimity for rejection among the Member States has become difficult since the introduction of increasingly more majority voting. Thirdly, the Commission has the exclusive power to amend or withdraw a proposal at any stage of the legislative process. Notwithstanding, the Commission must ensure the common interest of the EC (as perceived by the Commission), but it is not compelled to seek or follow instructions from the Member States. In exercising its wide-ranging rule-making, supervisory, executive, managerial and bureaucratic functions, it does not simply execute the EEC Treaty, but interprets its spirit in a bold manner. It also exercises an important role as
mediator in inter-institutional dealings with the Council and the EP, which is part of its exercise of legislative authority in the EC.

Based on its bureaucratic and political functions, the Commission exercises the role of a leader and policy entrepreneur. This implies that the Commission has to base its leadership on some formal or informal recognition. Formal recognition can be acquired by being handed the official mandate to act on behalf of the Community in a given policy-making area, i.e. Member States delegate competences to the EC, whereas informal recognition can be acquired by displaying superior problem-solving skills. In the latter case, it is probable that the main thrust for the Commission to take up a leadership role in a given sector comes from the firm level since the Commission is the only agency to perform this role. However, it has been noted that although the Commission has extensive administrative responsibilities, its capacity for policy management is considerably weaker than its capacity for policy entrepreneurship. Yet, in recent years a growing emphasis has been placed on the management and effectiveness of the Commission (Laffan, O'Donnell, and Smith, 1999:81).

In performing its leadership role, the Commission is relying on its resources. Nugent (1996) identified these as its constitutional powers, the background and skill of the Commissioners, its knowledge and expertise, its impartiality and neutrality, the engine role it performs in the integration process, the position of the President, relative cohesion of the Commission and its strategic position in the EC/EU system. While these resources undergo change over time, the Commission's leadership capacities are restrained by three aspects of the Commission's operating context. Firstly, the perception of the need for policy activity at the EC level, which depends on the political climate in Member States and the politicisation of issues within them. Secondly, the perceptions of the Member States as regards the role that the Commission should play. This often depends on whether Member States perceive the Commission's activity as 'doing a good job' and varies considerably according to national interests and priorities. Third, the institutional context in which the Commission operates contains a bias towards intergovernmental decision-making.

Within its operating contexts and given its position in the often 'messy' distribution of powers in the EC policy-making process, however, the Commission has had to learn
to play strategic games in order to achieve policy innovations. There are, as Nugent (1996:620) points out, occasions when the Commission 'plants' an initiative of its own with another institution if it is more likely to result in a policy advance. Yet it is often difficult to disentangle these from the complex decision-making process in the EC, in which inputs come from many sections of the policy-making arena. Similarly, the Commission also takes strategic decisions concerning the Treaty provisions it uses in order to advance proposals in the legislative process. In the context of the SEM, the Commission under Delors took advantage of a convergence of Member State interests and reasserted itself as a source of policy innovation (Laffan, O'Donnell, and Smith, 1999:78; Cini, 1996:77-81). Here, the Commission adopted an approach that has been compared to a 'Russian doll' strategy, which implied 'iterated episodes of strategic action to seize upon openings in the political opportunity structure, resource accumulation through success, and reinvestment of these resources in new actions to capitalise on new opportunities (Ross, 1995:39, quoted in Laffan, O'Donnell, and Smith, 1999:78).

The Commission's ability to successfully co-ordinate internal preferences becomes more complicated the larger the number of stakeholders and the more conflictual the preferences they hold are. The outcome of the co-ordination process also depends on the capacities and strategies of the stakeholders, which can include bluffs and threats. It is important that an accepted solution to a significant problem can be translated by the Commission into binding law. In other words, it must be capable of ensuring the compliance of the stakeholders. This is obviously even more important in sectors or policy-making areas where the Commission's competences are less clearly regulated. What follows is not only that the more regulated the Commission's competences, the more capable it is to introduce its own preferences into the bargaining game, but also the more internationally recognised the Commission will be as the 'flagship' of European trade preferences. The Commission therefore improves its own credibility by preventing the capture of the public policy process by partial interests and ensuring an equal distribution of gains among all stakeholders, and especially the Member States, in the policy-making process. This raises the issue of the generation of the common interest. Given the complexity of the EC policy-making process, opinions may obviously differ as to what objectives should be pursued and which policy is mutually beneficial to all interests. Compared to its international competitors, the
generation of a common interest appears even more contested in the EC. Though it is not possible to address all the problems relating to the generation of common interests within the present study, it seems that the Commission's leadership initiatives only need to rest on some conception of the common interest, as these will be naturally contested. Given the relative changes in powers of actors over time, it also highlights the importance of internal coalition-building between actors. An optimal promotion of the common interest therefore requires creativity, teamwork and a trusting exchange of information; in other words, a problem-solving negotiation style on part of the Commission.

2.3.3.3 The Member States

The Member States' main influence on the EC decision-making process is of course through the Council of Ministers, which is often described as a supreme body united in defending national sovereignty against supranational incursion, i.e. a break to further integration. Yet there are also other channels, including the European Council (and particularly the Council Presidency), Coreper, and the Art. 133 Committee, that are used by the Member States to influence the decision-making process. The Council, which is effectively the legislature of the EC (or co-legislature with the EP in areas that fall under the co-decision procedure), is the main place of interaction and competition among the Member States since virtually all proposals that touch on politically important/sensitive issues need Council approval in order to be adopted. Although the Council can only act on the basis of proposals forwarded by the Commission, in practice ways have been found that allow the Council a significant policy initiation role. According to Nugent (1994:124-5), these include using Art. 152 EC Treaty; the political weight the Member States can exercise through opinions, recommendations, and agreements; the exploitation of grey policy-making areas by moving into them; the Council machinery and particularly the Council Presidency; and Member States increasing willingness to base aspects of their co-operation on non-binding agreements and understandings rather than the EC law.

Apart from the constraints brought upon the capacities of the Member States by globalisation and internationalisation, their formal capacities have also been limited by the guarantee of the four freedoms within the Single Market. Thus they have
authority today to resolve economic or economically generated problems according to their preferences than 20 years ago (Scharpf, 1994:219). For instance, the increased scope of EC legislation and industrial policy initiatives have increased the difficulties encountered by states to have their policy preferences translated into policy. Here, Member State initiatives aimed at achieving global competitiveness for domestic industries have been constraint by EC competition regulations as the convergence criteria contained in the Treaty on European Union (TEU) restricted their ability to fund industrial policies by means of deficit budgeting or increasing indebtedness. Incidentally, this also called into question the whole rationale for the maintenance of public ownership in industrial sectors. Furthermore, in some sectors the EC has been able to reshape the domestic political landscape, not only altering the behaviour of domestic actors, but also promoting the development of new ones. As a result, Member State governments often find themselves restrained by the behaviour of firms, which has altered as a result of the increasing relevance of EC legislation in sectors. On the one hand, Member States find themselves confronted with alliances between the Commission and domestic actors (e.g. such as French broadcasters that led the French government to back down from its intention to increase national quotas on French television from 40 to 50 percent). On the other, the re-orientation of domestic actors to Brussels brought with it an increasing transnationalisation of some interest representations. These push for European solutions to what they perceive as EC-level problems and further restrict the ability of Member States to act individually (Menon and Hayward, 1996:268-70).

Given this loosened relationship with domestic actors, the Member States have to increase their control over the external environment, i.e. the EC, and engage in regulatory competition with other Member States (Héretier, 1996). Since the Member State governments are not monolithic, they cannot hope to negotiate EC decision-making except by constantly seeking and forging alliances with other Member State governments, with factions within governing coalitions, governments departments and with bureaucratic, political and economic elites within and across national boundaries, within the EC and the Commission. (Lodge, 1993:15)
The nature of the decision-making process thus places a premium on the particular alignments of groups of Member States on particular issues. The divisions among Member States can occur along multiple lines and influence their preferences and voting behaviour. Amongst others, classic lines of division include big vs. small states, centre vs. periphery states and pro vs. anti-supranationalism states (Lodge, 1993:3). However, there are no blocs of Member States that vote across the whole spectrum of issues. Nevertheless, as concerns industrial policy and trade, the original six core group is split along a rough North-South axis. For instance, observers such as Howell et al. (1992:395) point out that the affluent northern states (Germany, Denmark, the UK, the Netherlands and occasionally Luxembourg) tended to advocate liberal trade policies as well as limits on government support for industry. On the other hand, southern Member States (Italy and France) tended to advocate more protectionist policies, limits on foreign investment and a distinct preference and practice of large-scale subsidisation to promote key industries. This latter group has been strengthened by the accession of Spain, Portugal and Greece, which tend to be more protectionist in outlook.

The Member States therefore remain central actors in EC-decision-making processes, especially where so-called 'history-making' decisions are concerned (Peterson, 1995a). Yet they are forced to achieve their goals less by relying on their own resources. Rather they pursue their objectives by assuming a dominant role in the relationships with other Member States, transnational institutions and corporate actors, where they try to operationalise or replace their 'powerlessness' by acting strategically within their institutional environment.

2.3.3.4 Firms

The prominent position of firms in EC decision-making processes can in part be attributed to the increased scope of the Commission's regulatory and distributive competence, institutional changes that have facilitated direct lobbying, and the economic developments that made the EC the practical level of negotiation (Coen:1997:106). The EC policy-making process is very open to lobbying and a number of recent studies have revealed the crucial role that firms and interest groups play in the EC policy-making process. While Maria Green Cowles (1995a, 1995b) has
shown the growing importance of business leaders in the grander vision of Europe, others studied the increasing access of firms to the technical committees of the Commission (Gardner, 1991; Mazey and Richardson, 1993, 1996). Although most of the literature has concentrated on European collective action and broad-based interest group representation (for instance Greenwood et al, 1992; McLaughlin and Jordan, 1993) there is also a developing strand of literature focusing on the individual political interests of firms in the political process (McLaughlin et al, 1993, Grant et al., 1989, Coen, 1997; Cowles, 1995c). While it was suggested as early as 1980 that there has been a 'linkage between the extent to which Community policies exist in a given sector and the degree of co-operation and integration reached by European interest groups in that sector' (Kirchner, 1980:115), it has recently been shown that as a result of integration have adjusted their lobbying activities to the EC level in the course of the 1980s in order 'shoot where the ducks are' (Mazey and Richardson, 1996:200). Despite their intersection at all stages of the EC policy-making system, companies regard the Commission as 'best value' (Coen 1997:40), because the Commission has the crucial privilege of initialising legislation and generally welcomes the views and expertise of firms due to its limited resources (Hull, 1993:83). For firms wishing to influence EC decision-making it seems important to identify and make contacts with the correct level in the Commission. However, in contrast to the findings of national studies, observers argue that it is not the top level contacts, but the medium and particularly the low-level contacts, i.e. those officials that actually draft the legislation, which are of most importance in the EC (Andersen and Eliassen, 1993:390).

The relationship between firms and the Commission is institutionalised and these institutionalised relations ensure that firm representatives negotiate regularly with Commission officials to promote or withdraw particular legislation or distributive policies. The Commission has been very receptive to the input of businesses into the EC policy-making process, partly because it saw business participation as a countervailing influence to the Member States and partly because the understaffed Commission needed the input of firms to carry out its work (Mazey and Richardson, 1996). Apart from technical advise and expertise, firms, and especially large firms and multinationals, increasingly negotiate with the Commission on political matters and are capable of what Coen (1997) termed 'sophisticated political games'. For example,
the Common Market was largely developed without the input and support of business, but in the early 1980s the situation changed when the members of the European Round Table of Industrialists (ERT) developed a new relationship with the Commission, met directly government leaders, and conducted private campaigns to launch the Single Market Programme (Cowles, 1995c:1; Coen, 1997; also Sandholtz and Zysmann, 1989). The ERT 'is recognised for its agenda-setting power in the EU. As a strategic player in EC matters, the ERT serves as 'an idea generator' in a number of regulatory areas such as social policy, employment and telecommunications' (Cowles, 1995c:12; italics and quotation marks in the original). Similar to the ERT, large firms can get items onto the Commission's agenda or veto the pursuit of specific policies. For example, the 'warnings' by large firms such like Daimler Benz they would be forced to take investment elsewhere due to high wages and inflexible working practices in the EC have played a role in the Commission's decision not to pursue stronger social policy measures in the mid-1990s. The political influence that particularly large firms exert on the process of European integration has been followed up by market actions in the form of a surge of business deals, mergers and ventures. Firms give the European project an additional momentum and, in doing so, change and restructure the structure of competition (Boddewyn and Brewer, 1994).

Though many of these actions were merely a response to business problems that inevitably would have had to be addressed, the process took on a life of its own, leading to the establishment of both an ever growing number of intra-European alliances and increasingly more 'European' firms. Although the Single Market programme only reinforced an on-going process that can be traced back to 1960s, it had the important effect that even in France, a country with a history of state-led efforts to secure national autonomy on the firm level, the formation of cross-national businesses became accepted, highlighting the change of government attitude towards the SEM all across the Member States as a result of the powerful influence of the business community (Sandholtz and Zysmann, 1992:92-3).

Despite the increasing importance of the EC in co-ordinating the policy-process, the relationship between national decision-makers and firms nevertheless remains close (McLaughlin et al. 1993). There are two main reasons for this: On the one hand, companies have an interest in continuing to benefit from established interaction with national policy-communities. There are a variety of reasons that can help to explain
this: firstly, these interactions are often channels that are readily available and based on long-term relationships between business and national decision-makers. Secondly, Member States have not delegated all powers to the EC, with the result that there is a need to continue close relations with business in some sectors. Thirdly, in a situation where EC policies do not favour a specific firm, the national level may prove helpful in order to seek amendments. Fourthly, in some sectors the fate of an entire region may be dependent upon the continuation of a firm's operation. Fifthly, Member States can be helpful in assisting the lobbying activities of firms. In some Member States, such as Germany, there have been long traditions of incorporating business groups into decision-making processes most Member States. Others, such as France, have reacted to these changes and established similar patterns in order to facilitate the exchange of information between groups, officials and ministers at the Member State level. On the other hand, it is desirable if not essential to maintain good relations with national officials since national agendas are often quickly translated into European agendas (Héritier, 1996). As part of their strategies, Member States themselves often seek an extension of their national regulations to the European level in order to achieve and create competitive advantages for the national industry. Member states are constantly engaged in such regulatory competition, yet seemingly only successful when their approach corresponds to the policy preferences of the Commission (Héretier et al.; 1994). As a consequence, a focus on either the EC-level or the Member State-level could be a risky strategy for businesses.

It has been pointed out in the previous chapter that trade policy now is a bundle of industrial and regulatory policies and that there is a close link between the activities of firms and national or international regulatory regimes. However, in the EC and elsewhere, the business community is not a unified community and therefore holds divergent preferences and pursues divergent strategies in order to maximise their gains. Since firms are not all pursuing either market-opening or market-closing objectives, they are adding to the complexity of the co-ordination process. Their preferences are contingent on factors such as the nature of the firm and competition in the sectors concerned, and dependent on the individual company's structure of production. While some may have anti-protectionist preferences as a result of their cross border-production, technology transfers and intra-firm trade, others may seek protection from their home governments as a result of traditional links with the
national economy, where they enjoy the benefits of close links to national government agencies (Milner, 1988a). In the case of large multinational firms, it is indeed possible that they pursue simultaneous market-opening and market closing strategies as their embeddedness varies between nations and regions (Sally, 1995).

It becomes apparent that there is a strong institutionalised and sometimes 'symbiotic' relationship between the Commission and firms. This relationship is not only concerned with mere technical co-operation, but also incorporates elements of political influence and can work against or in favour of the Commission's preferences. The relationship is furthermore complicated by the fact that firms keep their options open and maintain strong links with the national level and the fact that firms have competing preferences.

In summary, the EC has developed a very productive decision-making system, with a long-term co-ordination process ensuring the distribution of gains. The structure of the EC decision-making process determines the extent to which certain actors can shape policy decisions and succeed in the pursuit of their objectives. As the model of policy-making we are confronting in the case of the EC is highly complex, multi-levelled and varied depending on policy areas, the action capacities and bargaining powers of individual actors or institutions also vary from one policy area to the next. The formal and informal procedures and co-ordination mechanisms according to which policy is made define which actors participate in the process in one specific issue area, in which ways, and with what bargaining power.

### 2.3.4 The EC in World Markets

Today, the EC is an advanced common market and set to become an economic and monetary union. Whereas in the mid-1960s the EC consisted of a basic form of internal liberalisation and a common agricultural regime, in the late 1990 the EU oversees extensive liberalisation and market regulation and a range of economic policies. The fact that the EC has established a CCP in connection to the Common Market does not imply that all goods and markets in the EC are treated equally. Externally, the CCP establishes a CET for all products and sectors of the Common Market, but there are variations for individual products despite the reductions
achieved in successive GATT rounds that resulted in an estimated average tariff on industrial goods of 4.7 percent in 1987 (McDonald and Dearden, 19912:148). Furthermore, there is also a distinction between market and industry. Even when there are segmented national markets, production is integrated internationally for many goods. In some sectors, some incumbent firms wish to preserve the geographic segmentation of the SEM, since the resulting price differentials produce high profits (e.g. airlines and cars). Thus, truly EC-wide markets are more common in commodities or intermediate inputs, than in consumer goods and many markets and industries remain national or even local (Laffan, O'Donnell and Smith, 1999:115).

Liberalisation of trade in the EC has been accompanied by extensive efforts to harmonise national policies and to create common policies. Yet within the EC a high concentration and asymmetrical market structures occur frequently (de Jong, 1993). In order to create a Single Market within Europe, all barriers to the flow of the four freedoms have to be eliminated. While tariff and import quotas had virtually been abolished for intra-European trade by the late 1970s, however, other barriers to trade continued to impede Europe's internal trade up the establishment of the 1992 SEM. The free movement of the four freedoms between the Member State economies was hindered by the existence of diverse national rules, regulations, taxation, and subsidy frameworks. This market segmentation in the EC was a result of cultural and regional factors leading to different qualities and specifications being demanded for goods and services (Davis et al., 1989). The main problem was the difficulty of reaching agreement about a whole host of non-tariff barriers (NTBs). The EC attempted to eliminate these NTBs by creating a set of European laws and regulations to govern all aspects of economic activity and to create European standards for products. However, Member States could veto any proposal they thought was detrimental to their economies and little progress was made. Indeed, the large array of non-tariff barriers that existed in the period between 1958 and 1992 was a clear indication that the Member States were in the process of completing rather than having already achieved a customs union (Heidensohn, 1996:33).

Though characterised by some inconsistencies especially in these sectors, the major thrust of the Commission's policy during the late 1980s and 1990s has therefore been on the liberalisation of the European market place. Sectors that were traditionally
state-owned monopolies, such as telecommunications, water, energy and banking, were by no means exempt from the Commission's liberalisation efforts and ambitions. The manifestation of this drive was the development of the SEM. It enabled the EC to develop a major capacity in regulatory policy and standard setting and can be regarded as a large-scale example of strategic trade policy. Internally, the SEM has been of an enormous magnitude: it brought to an end endless debates over harmonisation, established a new regulatory approach at the EC-level, began a process of deregulation and liberalisation, and resulted in a strong emphasis on competition policy for reasons of transparency in the newly established market place. In particular, the SEM reduced the obstacles to the creation of European industries and, to a lesser degree, it made the segmentation of the market more difficult (Kay, 1990: 22-3).

With market access as a crucial issue in the global economy, the SEM has an equally important external dimension which can be used as a powerful weapon or a source of influence as well as being a magnet for non-members in the global economy (for instance Thurow, 1992, Smith, 1999). Thus, the SEM not only raised important issues concerning the regulation of specific sectors within the EC, but also concerning the multilateral environment. Many of the areas in which the Single Market had most effect, such as regulatory issues and services, were also negotiated with the GATT Uruguay Round (Woolcock and Hocking, 1996; Paemen and Busch, 1995; Murphy, 1990a,b). Nevertheless, the establishment of decision-making bodies in key economic areas entangled the EC immediately in the development of the global political economy and the integration process therefore had an external dimension from the very beginning (Smith 1999: 276). On the basis of this strong link between the 'internal' and the 'external', the EC evolved in the context of the global market place but has also consistently been in tension with it. Furthermore, EC trade policy cannot be seen as independent from other external policies (e.g. development policy) or from the range of internal EC sectoral policies (e.g. agriculture) and functional policies (e.g. competition and industrial policy). This presents the Member State governments and EC institutions with the difficult task of finding a coherent and non-contradictory strategies in each of these areas (O'Donnell, 1994: 84; Brittan, 1992; Bourgeois, 1993).

A first obvious tension results from the founding principles and objectives contained in the EEC Treaty. Although Art. 110 EEC stakes out that the EC's is committed to a
A consistent source of tension with the global economy can be found in the EC's sectoral trade policies. The common external policy of the EC has not always been concerned with the promotion of a free and open world trading system and the EC has often been engaged in protecting so-called sun-set industries or infant industries (such as for instance steel and semi-conductors). Although the GATT has always been a cornerstone of EC trade policy, the last four decades have been characterised by numerous sectoral trade policies that undercut multilateral objectives or violate GATT principles. Indeed, the evolution of EC trade policy has been characterised by 'a propensity for sector-specific solutions, resulting in large differences in the levels of protection across industries (GATT, 1991: 8-9). The fact that the Member States of the EC show variations in their trade specialisation patterns has a significant impact on EC trade policy-making and strategy (see Heidensohn, 1996; Tsoukalis, 1993). These specialisation patterns are of course linked to special interests and corporate lobbying. Producers and interest groups have influenced policy debates and contribute to the establishment of specific sectoral policies, which span from the CAP to the special provisions for 'sensitive industries' in recent EAs. Although a large number of European industries have established powerful associations for affecting policy at the EC level, it has been observed that 'only the sectoral interests opposing liberalisation have consistently followed the intricacies of trade diplomacy' (Woolcock, 1993:295). Leading to the establishment of specific sectoral policies and regimes, specialisation

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19 The forerunner of the EEC, i.e. the ECSC Treaty, is not a customs union but a free trade area and obtained a waiver under GATT Art. 25.
patterns and special interests result in contested sectoral policies and profoundly influence the EC's external policies. The EC has aimed at pursuing a common external trade policy, but as a number of national restrictions on imports have been in place as recently as 1992, it cannot be said that it has reached the stage where a harmonised approach to trade policy has been achieved (Heidensohn, 1996:60).

The EC's trade policy thus varies from sector to sector, with a number of sectors that, for strategic reasons, have been subjected to managed trade and selective industrial policies. These highly politicised and internationally contested sectors include most notably agriculture, electrical and electronic products, iron and steel, textiles, clothing and footwear, and transport equipment. During the 1970s and 1980s, the increasing exposure of domestic industry to international competition and the increasing salience of high-technology sectors produced a trend within the EC to intervene in these industries (McGuire, 1999:81-3). As Japanese and other Asian states made significant inroads into traditional industries (e.g. cars, steel, shipbuilding, and textiles), and American and Japanese firms were pushing EC firms out of a variety of electronic sectors, the EC responded by increasing its protection. Given the absence of tariffs as an effective means to protect European firms, the EC's use of anti-dumping measures, national quantitative restrictions and VRAs proliferated substantially (see section 2.3.2.2) while an active interventionist view was taken towards the competitive enhancement of European high technology. In contrast to the ECSC Treaty, the EEC does not endow the Commission with explicit powers to promote research, development or industry and the Member States implemented a variety of national industrial policies (see Beije et al. 1987). The EEC Treaty provided a range of policy powers that could be used to create a regulatory framework and helped shape the market environment, but no general policy framework was established for either industrial or technological policy. Since the Commission until the SEA could only operate through unanimous decisions of the Council of Ministers, it was often hostage to any national interest considered of over-riding importance (Sharp, 1993:202). Regionally concentrated adjustment problems in particular made it socially and politically difficult to prevent distortive sectoral policies and aids by the Member States. The Commission resorted to sector-specific policies, such as the surveillance of state aids and crisis cartels, adjustment assistance from structural funds when
declining sectors were geographically concentrated and trade policy in order to secure the competitiveness of firms in these sectors.

Another set of tensions can be found in the complex interplay of various functional EC policies, i.e. trade policy, industrial policy, the Internal Market policies and competition policy. These complement or conflict with each other (Pelkmans, 1997:187). For example, aiming at industrial change, industrial policies could be part of internal market provisions, competition policy, trade policy or trade policy initiatives aimed at technology and other areas. Notwithstanding the strong tradition of industrial policies among the Member States and Europe in general, the Commission in the 1990s has been moving away from selective industrial policies and towards a co-ordinated industrial policy (Kassim and Menon, 1996). The Maastricht Treaty contains Art. 130, which focuses on 'conditions necessary for the competitiveness of the Community's industry', but little if any basis for dirigisme or 'picking winners' can be derived from this. Therefore, the emphasis is now on competition and consultation and co-operation between the Member States. Specific EC measures are only allowed in support of action taken in the Member States, and such measures are to be adopted with unanimity. In the areas in which Member States envisaged a form of political or administrative power to intervene in respect of competition, the Commission has exercised a 'frighteningly efficient' competition policy on the basis of the omnipotence of DG IV (Cohen, 1996:139-40). For instance, in the famous De Havilland case and the opening up of the telecommunications sector, one can see evidence for the Commission's success in challenging the industrial policy ambitions of the Member States. Nonetheless, the politicisation of some policies has sometimes weakened EC control over competition policy, with the Commission clashing with the Member States on issues such as state aids.

While these policies exert simultaneous pressures on the competitive process in the Single Market, their influence also extends into the global economy. For instance, the desire for economic cohesion at the EC-level, expressed in EC regional policy, various programmes for social action and elements of industrial policy, affects the EC's approach to multilateral negotiations on policy instruments such as for instance subsidies. Here, the EC finds itself in a situation where 'it supports a policy of controlling trade distorting effects of such measures but defends their use per se as
legitimate policy instruments' (Woolcock, 1993:294). Similarly, the SEM automatically confers trading benefits through, *inter alia*, the removal of internal trade barriers and frontiers controls and the mutual recognition of standards. Thus, wherever an intra-Community regime is established, it has to be decided whether this regime should be extended to third countries (O'Donnell, 1994:85).

2.4 Evaluation of the Research Framework for the Case of the EC

Although the above application of the research framework was predominately aimed at exploring the EC's strategic action capacities, it also provided further evidence for the EC's development into a provider of state economic functions and the complex context in which the EC pursues them. Especially in the exploration of the EC's institutional capacity and the EC's decision-making capacity, the view put forward of the EC and the Member States as 'parallel' or 'joint' provider of state economic functions is further substantiated, with firms possessing a considerable amount of freedom to pursue their objectives by utilising multiple strategies. The broad exploration of the EC's strategic action capacities thus shows that the EC has the credentials to be a major player in the IPE and that its strategic action capacities are rivalled only by those of the US. Individually, none of the Member States would be able to develop a magnitude or leverage comparable to that of the EC. Based on the size of the internal market and the associated right to grant or deny access to it and the application of commercial policy instruments, the EC can influence the actions of most other players, be it through bilateral or multilateral channels. Table 2 shows the research framework applied to the case of the EC.
Combined Member State economies and size of SEM make EC major player in IPE

System of trade preferences divides between friends, lesser friends and foes

GATT sets certain limits to EC actions

US is most powerful actor in IPE (former hegemon), but high limits of trade interdependence set certain limits to US freedom of action

Advanced common market

Fragmented market structures and sectoral regimes

Tensions with global markets in certain sectors

Quantitatively productive, but highly complex system of governance

Decision-making process is series of strategic bargaining games as capacities of actors vary over areas, issues and over time

Co-ordination process based on coalition building and side-payments

Table 2: The EC's Strategic Action Capacities

The size of the combined European economies and the large internal market naturally makes the EC a major international actor. Speaking with one voice in multilateral and bilateral relations, the EC can exercise considerable power over other actors in the global economy and press for reciprocity and trade liberalisation. Its system of trade preferences effectively establishes a hierarchy of 'friends', 'lesser friends' and 'foes' and the EC uses trade concessions and sanctions to shape international developments. The GATT sets some limits to the EC's freedom of action and policy choices, but neither are EC actions driven by GATT provisions, nor is it always adhering to the
GATT. While the EC developed legal codes, practices and instruments alongside the GATT and transfers new GATT rules into the *acquis communitaire*, it has also contravened GATT codes in a wide range of areas. However, the EC's freedom of action and power degenerates in relations with the US. Based on factors such its military might, its powerful trade legislation, its system of trade preferences and role as prime mover of successive GATT Rounds, the former hegemon remains the most powerful actor in the global economy. Although highly institutionalised and underpinned by numerous military, political and economic ties, EC-US relations are often characterised by highly politicised conflicts over selected trade issues. The US dominated the relationship up to the late 1980s, but in the 1990s the EC, based on the development of the SEM and associated developments, was able to assert itself much more vis-à-vis the US on both the bilateral and multilateral level.

The EC's institutional capacities have undergone a significant development since its inception. Because the CCP contains conflictual objectives and because of uncertainties created by some tensions between the ECSC and the EEC Treaty, the EC has encountered some difficulties in moving to a coherent and comprehensive CCP. Although the Member States have progressively invested the Commission with an almost exclusive competence in the area of external economic relations, they have also frequently challenged the EC's competence in the course of the EC's development, particularly when their national interest was not served by common policies. This has not only resulted in a proliferation of national restrictions to imports of selective products during the 1980s, but also in special regimes in sectors where the EC's competence is not fully established. Moreover, the internal problems of the Member States are often externalised and result in protectionist and inflexible negotiation mandates for the Commission. Here, the Commission in practice often conducts 'talks' in areas of its competence that address and resolve some issues. In the 1980s, the complexities involved in EC commercial policy-making and resulting sectoral variations have therefore led to a preference for 'power diplomacy' rather than 'rule diplomacy'. Because of the reluctance of the Member States to transfer powers to the EC-level, the EC was slow to develop its commercial policy instruments. In the late 1980s, however, new trade and trade related rules were put in place and existing mechanisms were utilised more rigorously. Today, the EC presides over an arsenal of
trade policy instruments akin to that of the most powerful states in the global economy.

Over the years, Brussels has developed into the focus of EC decision-making and this is reflected in the EC's policy output and the re-orientation of corporate lobbying activities. Nevertheless, the EC decision-making process is characterised by continuous flux and a series of strategic bargaining games. While different sets of actors have been dominant at different points in time, there are also different sets of actors involved in the different policy areas or issue areas at any given time. A complex-multi-level co-ordination process based on networks and established negotiation styles ensures the functioning and continuity of the system, yet the very complexity of the system often causes EC policies to be characterised by compromise. The Commission is the central actor in the decision-making system and performs a number of roles: gatekeeper for the regulatory ambitions of the Member States; policy entrepreneur; leader and mediator. The Commission is not a neutral actor, but brings its own preferences into the policy process and often interprets the Treaties in a bold manner. Of course, the Commission varies in its capacity to perform these roles and like all other actors involved in EC decision-making, the Commission relies on its resources and acts strategically in order to achieve its objectives. The Member States may have been the crucial actors for most of the history of the EC and still hold important powers, such as control over macroeconomic policies, but over time they have become forced to act strategically in the EC decision-making system. As they find themselves restricted by the actions of the Commission and firms, they too have to pursue their objectives by seeking and forging alliances on issues with other actors. Firms have become an increasingly significant influence on EC policy-making, with their influence ranging from technical to political issues. They intersect at all stages of the EC decision-making processes and maintain institutionalised relationships with both the Commission and the Member States. Due to the Commission's central importance in the legislative process, they have focused their lobbying activities on the Commission and often act as a countervailing influence to the Member States, not only in terms of policy but also in terms of market actions. Notwithstanding, they maintain good relations with the Member States and sometimes act against the Commission's interests.
Although the EC's internal market gradually developed from a common market for coal and steel to a Single European Market where the free flow of the four freedoms is formally established, in reality the EC's market structure remains fragmented with a number of sector-specific regimes that hinders the conduct of a harmonised EC trade policy. The EC oversees market regulation and liberalisation as well as a range of economic policies, but despite an increasing internationalisation of production within the EC, many markets remain regional or local, with some industries and product categories receiving a special treatment. Influenced by factors such as national specialisation patterns, structural change, and perceived strategic interests in some industries, the EC and the Member States particularly in the 1980s have been engaged in the protection of sunset industries or the promotion of infant industries. These sectoral regimes created a number of internal and external tensions for EC policy making. Internally, the range of EC policies (i.e. industrial policies, competition policy, Internal Market policies and trade policies) often clash with one another and affect the EC's foreign economic policy. Externally, the special treatment of some sectors resulted in often highly politicised tensions with the multilateral trading system and other actors in the global economy, notably the US.

While the EC has without doubt developed into the second most important actor in the IPE, there are several constraints on the EC's capacity for strategic action. At least in part these can be attributed to the peculiarities and complexities inherent in the process-based system of governance that is at work in the EC and the segmentation of the EC's market structure. These make an exploration of EC strategic action a very complex and differentiated affair and the very nature of the EC, i.e. its location between changing global and national contexts, the sectoral variations of its trade policies, the complex decision-making process and the changing sets of actors involved, and the on-going development of its institutional capacities, only allows for a broad approximation of the EC's strategic action capacities.

Two central observations that have emerged in this chapter help to take the analysis further: Firstly, the EC's strategic action capacities have undergone significant changes as the EC has evolved. Given the slow institutional development of the EC, the changing capacities of state and non-state actors in the context of increasing globalisation, the gradual development from the common market for coal and steel to
the SEM and the significant changes that occurred in the international environment since the Second World War, the EC's strategic action capacities show significant variations at different points in time. Secondly, despite the foundation of common policies on the Single Market, the EC deals with many trade issues on a sector-specific basis. The determination of sector specific policies and ultimately the EC's capacity to act strategically in these sectors depends on factors such as the market structure of the sector in question, the constellation of preferences across the EC, the institutional framework and regulatory competences of the EC and the constraints set by the international environment in this sector. In order to accommodate these two qualifications in an assessment of the EC's strategic action capacity, it is suggested to apply the research framework to any given sector of the EC and to investigate the following four broad factors over time:

Firstly, the EC's capacity to design and initiate strategic moves as part of its concern for European economic welfare or as a response to adjustment pressures.

Secondly, the EC's capacity to induce specific forms of behaviour in its international environment (including the use of commercial policy instruments).

Thirdly, the EC's capacity to set norms and standards in the interplay with Member States and firms.

Fourthly, the EC's capacity to ensure compliance with negotiated agreements within the Community.

This allows us to investigate the development of the EC into a provider of state economic functions and assess the development of the EC's strategic action capacities at different points of its development. In particular, the investigation of these factors allows for an exploration of the relationship between states and firms that has been asserted in chapter one as crucial for strategic action in the IPE. As has been shown, the provision of state economic functions is a complex process in the case of the EC, with the Member States and the Commission sharing competences in changing constellations over time. The process of making foreign trade policy is characterised by complex interactions between the Commission, the Member States and firms.
Despite the transfer of more and more powers to the EC, the history of the EC is marked by Member State challenges to and derogations from EC policies in order to cater for specific national interests or sectoral interests. Furthermore, the process of foreign trade policy-making is complicated by the interactions of the range of interdependent internal policies pursued by Commission and the Member States. It is therefore suggested that analysing the four factors allows us to capture the interwoven effects associated with internal processes and external constraints as they influence the EC's capacity to act strategically.

2.5 The Case Study Approach: A Longitudinal Study of the Steel Industry

Based on the research framework and in the light of the four factors presented in the previous section, the thesis now moves on to a longitudinal study of the European steel industry. The advantages of a sectoral approach have been highlighted in chapter one and the special characteristics of the steel sector make it an obvious candidate for such an exploration within the proposed framework for a number of reasons:

Firstly, policy-making in the steel sector in the EC and elsewhere is taking place within a context of strong international and domestic economic and industrial constraints. While steel production has always been concentrated in national markets, steel trade became increasingly internationalised in the post-war era and due to an unparalleled demand for steel production during the same time production capacities were continuously expanded by new and old steel-producing countries alike. In the mid-1970s, the post-war boom transformed into a structural crisis resulted in the proliferation of protectionist policies, especially among the old steel-producing countries of Europe and the US. Adjustment was a painful experience for Western European states as the necessary contraction of the steel industry presented them with difficult socio-political, economic and financial choices. While the individual Member States tried to cater for their national interests, the EC became increasingly engaged in the regulation of steel trade and the restructuring of the Member States' steel industries. This constellation led to numerous tensions within the EC and between the EC and the US and the rest of the steel-producing world. This constellation makes the steel industry an obvious candidate for a test of the research framework that has been developed in this thesis.
Secondly, together with the coal sector, the steel sector is one of the core sectors of European integration and rests on a special institutional foundation. In the context of post-war developments in Western Europe, the ECSC has been given an institutional framework that renders more powers to Community institutions than can be found in any other sector. Once the steel sector was exposed to the forces of structural change in the late 1970s, the disparity between ECSC Treaty and EEC Treaty created a considerable deal of tension and confusion within the EC as regards the competence to regulate the industry. Furthermore, in the course of its supranational regulation, the steel sector has experienced considerable changes in policy-making (i.e. initial liberalisation measures during the 1960s, interventionist policy-making in the late 1970 and 1980s, and deregulation and privatisation in the 1990s) and market structure. As it is set to be phased into the SEM by 2002, studying the steel sector thus allows for the study of the institutional tensions that bear on the EC's strategic action capacities in a sector that has been characterised by transition. Moreover, carrying out a longitudinal study of the steel sector allows for the analysis of strategic action capacities from the beginnings of European integration to a point where policy-making in steel almost dovetails with policy-making within the context of today's EU.

Thirdly, the steel sector has traditionally been seen as a strategic sector and continues to attract special attention by policy-makers for a number of interrelated reasons (pseudo nationalistic, economic and financial, and socio-political ones). The high degree of government intervention in the steel industry, whether public or private, despite the supranational regulation of the sector is particularly salient among the European states and makes it a good example to trace the interactions between the Commission, the Member States and firms.

These characteristics feed into the organisation of the remainder of the thesis. The longitudinal case study is organised into three parts and consists of two chapters per part, with each part concluding with an evaluation of the EC's strategic action capacities in steel during the period under investigation. Chapter three shows the characteristics of steel sector in the global economy, the context of the establishment of the ECSC, the market structure of the European steel industry and the institutional and decision-making arrangements that are distinct to the ECSC. Chapter four shows the gradual intensification of EC involvement in the steel sector up until the late
1970s and the Commission's development into a relevant industrial-political actor. The following two parts examine EC-policy-making in steel during the 1980s and the 1990s respectively and maintain an artificial, though conceptually useful, distinction between internal and external EC policy-making.

The first chapters of parts two and three (chapters five and seven) each analyse internal EC policy-making in steel by focusing on EC efforts to regulate and restructure the EC steel sector in response to successive steel crises in the early 1980s and the early 1990s. In analysing market regulation, the focus is on the interactions between the Commission and steel firms, whereas in analysing restructuring efforts, the focus is on interactions between the Commission and the Member States. Chapters 6 and 8 then analyse external EC policy-making in steel and focus on bilateral and multilateral interactions between the EC and the US during the 1980s and 1990s steel crises. The aim in each chapter is to identify the key actions, constraints and results since they will be feeding into an overall evaluation of the EC strategic action capacities in the pursuit of state economic functions.

Conclusions

This chapter has made a starting point in the exploration of the case of the EC as a strategic actor in IPE. Following the general framework set out in chapter one, the chapter showed that the EC has emerged as a provider of state economic functions and that there is indeed a rationale for the provision of state economic functions on the EC level. In the course of the development of the EC, the Member States have increasingly, though reluctantly, rendered more and more competences to the EC. In parallel, the Commission especially in the 1980s has seized upon opportunities to expand its competences. As a result, the EC has emerged as a 'parallel' or 'joint' provider of state economic functions and the above exploration has provided evidence for the ways in which the EC, in the absence of macroeconomic powers, provides state economic functions through what has been termed collaborative power arrangements with the Member States and firms. The EC has also increasingly functioned as a catalyst and the TBR is just one example for the ways in which the EC assists business expansion, with other examples including the promotion of technology alliances and of course the SEM.
The chapter then conceptualised the EC as a complex multi-level system of governance, with actor activity taking place on multiple levels and varying across sectors and over time. Based on this conceptualisation, the chapter then systematically explored the four elements of the research framework. It was found that the EC has evolved into the second most important actor in IPE, with its strategic action capacities second only to the US, but that its capacity to act strategically is subject to certain constraints and shows variations in sectors and over time. In order to trace the development of the EC's strategic action capacities further, a case has been made to undertake a longitudinal study of the European steel sector in the light of four broad factors. The remainder of the thesis is devoted to the detailed analysis of the development of the EC's strategic action capacities in the steel sector.
PART II: TOWARDS STRATEGIC ACTION (FROM THE 1950S TO THE 1970S)

In the opening two chapters, the thesis has been concerned firstly, with the development of a comprehensive framework for the evaluation of strategic action capacities of actors in the international political economy (in chapter one), and secondly, with the application of this framework to the case of the EC (in chapter two). Following on from the conclusion derived in chapter one that strategic action capacities need to be studied on a sectoral basis, it has been proposed to study the strategic action capacities of the EC by concentrating on one of the core sectors of European integration, the sector, and to adopt a longitudinal approach in order to trace the EC's development of the EC strategic action capacities.

The longitudinal case study of the European steel sector to which analysis now turns is organised in three parts (parts II, III, and IV), each consisting of two chapters and an evaluation of the period under investigation. The first chapter of part I primarily provides the background for subsequent chapters. It shows the historical, institutional, and market developments that affected the EC steel industry during the period from the 1950s to the 1970s. This chapter furthermore provides for a sketch of the market structure of the European steel industry and shows the division of competence between the relevant actors involved in ECSC decision-making processes. Following the research matrix, the second chapter begins the longitudinal case study by analysing the external and internal developments and factors that gave rise to the beginning of an active involvement of the EC in the steel sector in the context of the 1970s steel crisis. The first part as a whole serves the purpose of both setting the context of the EC's management of the steel sector and testing the research framework further.

In concentrating on the two main steel crises that affected the steel industry during the 1980s and 1990s, parts III and IV provide a rigorous test of the research framework, with the individual chapters maintaining a division between external and internal policy-making. Subsequently, part III consists of two chapters on EC policy-making in steel in the 1980s and is divided into chapter five, dealing with internal
restructuring in the 1980s, and chapter six, dealing with the EC-US trade policy conflict in steel. Part IV consists of two chapters dealing with EC policy making in steel during the 1990s, and is divided into chapter seven, dealing with internal restructuring and the transition of the steel industry during the early/mid 1990s, and chapter eight, dealing with the renewed EC-US trade policy conflict in steel in the 1990s.

The first chapters of parts III and IV (chapters five and seven) each analyse internal EC policy-making in steel by focusing on EC efforts to regulate and restructure the EC steel sector in response to successive steel crises in the early 1980s and the early 1990s. In analysing market regulation, the focus is on the interactions between the Commission and steel firms, whereas in analysing restructuring efforts, the focus is on interactions between the Commission and the Member States. Chapters six and eight then analyse external EC policy-making in steel and focus on bilateral and multilateral interactions between the EC and the US during the 1980s and 1990s steel crises. The aim in each chapter is to identify the key actions, constraints and results since they will be feeding into an overall evaluation of the EC strategic action capacities in the pursuit of state economic functions.
CHAPTER THREE: THE GLOBAL STEEL INDUSTRY AND THE EC

Introduction

This chapter provides an outline of the fundamental features and institutional developments of EC policy-making in the steel sector since the establishment of the ECSC. Taking the development of international steel production and trade as a starting point in the first section, the second section will begin the in-depth analysis of the European steel industry by illuminating the political and economic considerations that provided the foundations of the establishment of the ECSC. In the third section, analysis turns to the market structure of the steel industry. Here, the main characteristics of steel production and its effects on steel trade will be under investigation. In the fourth section, the institutions of the ECSC and their policy-making structures will be analysed in connection to the institutional changes that occurred over time. Particular attention is given to the role and competence of the European Commission vis-à-vis the other actors in ECSC decision-making processes. This is followed in section five of this chapter by an analysis of the instruments that the Commission has at its disposal in designing and implementing its objectives.

3.1 Steel and the Global Economy

Politically and economically, the steel industry has been one of the most important industries in the world for the past one hundred years. It is said to have played a pivotal role in every advanced country and is generally recognised in these as a key industry ('iron is the state') that represented social status, political influence, and military strength. Similar to the textiles industry, the iron and steel industry is one of the 'old' industries. Initially symbolising progress and providing many jobs, the international position of a country's steel industry has always been liable to draw public attention. Some of the industry's particular importance stems from its historical significance in respect of a country's industrial development (Gienow, 1985:308, Mény and Wright, 1987, Hogan, 1983), but there are also pseudo-nationalistic reasons (as they can be found in statements such as 'no country worthy of note should be without a steel industry') that highlight the existence of a special relationship between steel and the state (Mény and Wright, 1987). This is based on the special importance
of steel in relation to defence (Hayward 1974:255) and its crucial place in heavy industry.

Supremacy over the steel industry changed hands from century to century. The British steel industry was dominant from the outset of the industrial revolution, but lost its supremacy over the international market in the late 19th century to the US and Germany (Hudson, 1989; Hogan, 1983). In the first half of the 20th century, the US steel industry dominated 50 percent of world steel output. The early stages of steel production in the original centres of industrialisation in Northwest Europe and the US were closely linked to the growth in other industries within the national territory. These inter-sectoral linkages were often constructed within the same region and helped to create that region. Particularly during the early stages of growth in the nineteenth century, these input-output relationships were paralleled by those of ownership and possession. Steel production took place within large oligopolistic conglomerates, tied together by complex webs of financial linkages. Moreover, the input-output relationships extended both backwards and forwards to raw materials and steel-consuming industries respectively. Steel production remained crucial in the production of means for warfare and dependence upon imports of this key raw material for defence was unthinkable for the major industrial powers, and/or colonial powers and would-be-powers alike. National governments were therefore extremely anxious to ensure that what was a perceived as a strategically significant industry was prominently developed within their national territory.

Steel was of course still exported and internationally traded. In so far as it was, directly or indirectly, this took place within the context of the international division of labour. However, while an upsurge in protectionist trade measures during the 1920s and 1930s made national markets all the more important, things began to change after the Second World War. The liberalisation of international trade that characterised the post-war period created a new setting for steel trade (Mény and Wright, 1987; Hudson, 1989). Although the new politically-negotiated trade and monetary frameworks of the Bretton Woods agreement and the GATT had little immediate effect, it nevertheless guided the steel industry in the long post-war boom as the growing steel demand was sustained by steel-using industries with strong connections to the booming market for consumer goods and particularly motor vehicles. As the
constraints on international steel trade loosened, growing steel-consuming industries located within their national territories absorbed much of the increased output within the old industrial countries. Since modernisation of a key industry could evidently not be left to the private sector, not least because of steel's position the centre of more far reaching industrial restructuring policies, the result was that in some countries state involvement increased, either through closer private-public sector collaboration or by nationalisation. At the same time, the international structure of steel production began to alter as former colonies gained formal political independence and embarked on, revived or strengthened plans for autonomous industrial development in order to break away from the economic dependency of the colonial era. This often involved heavy state support for embryonic steel producers since these were seen as central to evolving strategies of industrialisation and modernisation (Barnett and Schorsch, 1983).

While global capacity and output grew in the 1960s, increasing attention came to be directed towards export markets from both old and newly industrialising countries. Following a phenomenal post-war resurgence of steel production, this was most evident in Japan (Shepherd, 1982). The time between the end of the Second World War and the mid-70s can be divided into two different periods. During the first period, from 1945 to 1955, reconstruction was the priority in the European countries and Japan. Owing to the production standstill in most of Europe and Japan, because of wartime damage and acute shortages of raw materials, steel output was concentrated amongst a few leading producers. The leading steel producing countries were the US, Germany, the USSR, the UK, France, Japan, Belgium, Czechoslovakia, Italy and Luxembourg. Together these countries accounted for more than 90 percent of world steel production. The world steel production was heavily concentrated in North America and Europe (95 percent), with the US producing well over half of world steel output. During these years, the US became the leading exporter at a time of scarcity, retaining this position until European producers began to recover in the 1950s. There were only seven other steel producing countries outside this region. The following 20 years, due to a heavy steel demand during the post-war era that put considerable strain on the available steel-producing facilities, were two decades of unprecedented

\footnote{The figures presented for the period from 1945 to 1975 are taken from the report of the Economic Commission for Europe (1989).}
expansion. While the number of steel producing countries nearly doubled, existing steel producers like Japan expanded and newly emerging countries entered the industry. From 1955 to 1975, world steel demand grew at a rate almost without parallel before or since as a consequence of rapid economic growth. While world crude steel production peaked in 1974 at just over 700 million tonnes, overall steel output rose at about six percent a year during the previous two decades. Similarly, the number of steel producing countries rose from 35 in 1945 to 60 in 1975. While the established producers continued to expand their capacities, the number of new entrants to the industry grew at an even higher pace following their rapidly growing steel consumption which stimulated the development of the domestic iron and steel industries. This development was also buttressed by the prospect of high returns as steel was selling extremely well and at high prices during this period. Furthermore, the long-established steel making centres saw rising concentration of production in order to realise the technical economies of scale brought by new technology.

In the mid-1970s, triggered by the 1973 oil crisis, the situation changed significantly and the long post-war boom transformed into a deep recession. Thereafter, the steel industry became characterised by global over-production crises, chronic over-capacity, and plummeting profits as well as burgeoning losses from steel production. Given the major expansion plans of both old and newly-industrialised countries, formulated in response to extrapolations of the growth trends of the 1960s, these problems were sharply exacerbated as the time-scale involved in the development of new production facilities meant that yet more capacity was to enter international steel trade just as global demand collapsed (Jones, 1986; Dyson and Wilks, 1983). Partial and uneven recoveries from recession subsequently resulted in the periodic resurgence of protectionist demands and policies, especially among the old steel-producing countries of Europe and the US, and gave rise to heightened and new forms of state involvement in the steel industry (Mény and Wright, 1987). As increasingly more steel was traded internationally, the balance of production shifted away from the old production areas in the US and Europe towards Japan and other newly industrialising countries. Because of the increasing volume of internationally-traded steel, the variety of low-cost producers from whom steel could be imported, and the decreasing importance of steel in defence-related industries given an increasing reliance on the strategic sectors of computers and electronics, the significance of the role of steel in
political and economic matters ceased and national governments became more willing to accept the decline of steel production within their national territories.

The notion of steel as strategic industry has thus undergone some significant changes, and so has its economic importance. From a purely statistical point of view, today's steel production has only fairly minor significance within national economies (Wienert, 1995a.). Its importance lies rather in their varied interrelations with downstream and upstream activities, which have become visible since the mid-80s. Overall, however, steel remains the most important industrial material. It supplies a number of sectors that together account for half of all economic activities. These sectors are mining, manufacturing, electricity, gas and water, construction, transport and communications. With the exception of cement, which together with steel is the most important material for construction, no other industrial material has ever surpassed the output of steel (Economic Commission for Europe, 1989: 21). Although this is unlikely to change in the foreseeable future, the traditional role of steel has also been threatened in specific sectors by a number of alternative products with which steel must compete, including aluminium, other non-ferrous metals, plastic and a wide range of new composite materials. Yet none of these really threatens the use of steel as a mass basic material since no other material possesses its favourable combination of availability, cost, mechanical properties and durability. The Economic Commission's report comes to the general conclusion that while the contribution of the steel industry itself to the creation of national wealth and trade is rather small, the combined contribution of steel consumers is much greater, approaching and in some cases surpassing half of the total national value added or export earnings. While in the majority of countries and particularly the big traditional steel producing countries there is a clear decreasing trend in the contribution of steel industries to national value added, this is not as visible as in some smaller countries or countries that are still developing their steel industries. Generally, the steel industries all over the world are larger in size and total volume of production than they are efficient generators of value added. Although this is particularly the case at times of financial crisis in the steel industry, the report acknowledges that this may be quite the opposite in improved the conditions. This is illustrated by the steel industries of France and Germany: during the 1980s, their steel industries contributed more to the industrial
value added of their countries than to the total industrial turnover (Economic Commission for Europe, 1989:29).

Despite the steel industry's decline as a prestigious, industrially significant, and, in terms of national security, strategically important industry, the steel industry remains an important industry. It thus remained close to the centres of political and economic power, although industrial change had deprived the steel industry of its previously undisputed pre-eminence by the early 1970s. The steel industry's classification as a key industry throughout its history is justified in so far as it has always been deemed of great importance by political authorities (Oberender and Rüter, 1993:65; Mény and Wright, 1987; Hayward, 1974). The significance that national governments attach to the steel industry is reflected in the high degree of government intervention that continues to prevail to varying extents in steel industries around the globe. What has changed, however, is the motivation behind attempts to exercise control over the steel industry. From protectionist intervention justified by the significance of the steel industry in relation to the national defence and industrial development, this motivation has broadly shifted to the prevention of social unrest, regional decline and other socio-economic reasons related to structural change and world-wide over-capacity. Notwithstanding, intervention in the steel industry continues to be justified under the umbrella of the right of sovereign nations to take measures in order to protect their national security interests, which remains widely recognised in multilateral and bilateral trade agreements.

Policy-making in the steel sector consequently has to be analysed against the background of external and internal developments influential upon the market structure and the domestic policy-making environment. With the beginning of supranational regulation in Europe following World War Two, however, policy-making in the European steel industry has undergone a special development. In order account fully for the internal policy-making environment of the European steel industry, it is therefore necessary to trace the origins of the ECSC and the policy-making and market environment that was created in Europe.

3.2 The Establishment of the ECSC
In Europe, the steel industry acquired a special status following the signing of the Schuman plan on 9 May 1950. Thereafter, the steel industry, together with the coal industry, developed into the first building bloc of European integration. The original members were Belgium, France, West Germany, Italy, Luxembourg and the Netherlands. The plan to unify the European coal and steel industries originated from the French Foreign Minister, Robert Schuman, and indicated the way towards a European unification by federative measures (Spierenburg and Poidevin, 1994; Gillingham, 1991; Haas, 1958, 1968). Up until this point, economic unions intended to bring together highly developed industrial countries producing the same products in previously protected national markets were extremely rare. The Schuman Plan and the ECSC therefore provided for a psychological shock and initially aroused more political than economic interest (Lister, 1960: 3). The great political importance of the ECSC treaty derives from its role as a predecessor of the European Economic Community (EEC), the idea of a Common Market and a unified Europe (Schneider, 1985: 348). The immediate economic objectives of the ECSC Treaty were to achieve a high growth, to secure employment, and to increase living standards. Moreover, the Treaty was intended to facilitate rational distribution of steel, to keep prices for coal and steel on low levels, and to improve the supply of coal and steel. Politically, the ECSC for and foremost promised peace and political integration in Europe. Shared responsibility in two key sectors of the economy appeared to be viable way to prevent future war among the European nation states and the clear indications of further intentions contained in the Treaty in the direction of a shared future revealed that the Treaty was to be instrumental in this aim (Robertson, 1973: 152). While there are a number of complex and interrelated factors that eventually led to the establishment of the ECSC in particular and the beginnings of European integration in general (see for instance Diebold, 1959; Milward, 1984; Spierenburg and Poidevin, 1994; Statz, 1975; Gillingham, 1991; Gasteyger, 1994; Story, 1993; Schmitt, 1962; Haas, 1958, 1968), not all of these can be address in detail in the context of the present study. Instead, a concentration is made on the broad factors in the context of which the establishment of the ECSC has to be seen.

The Second World War marked the turning point in the West European State system. Politically, the Second World War produced a realisation that unfettered and uninhibited nationalism was a recipe for war, which at the political level resulted in
calls for a larger and more powerful body than the pre-war league of nations, played into the establishment of the United Nations in 1944, and brought several initiatives aiming at specifically European arrangements. The end of the war also brought a division between East and West in Europe as well as a shift in the international balance of power away from the European states and to relations between the US and the Soviet Union. Given the distinct possibility of Europe becoming the future battleground between East and West, there was a growing desire that Europe should be heard on the world stage and a belief that this could only be achieved through unity and by speaking with one voice. Moreover, the question as to how to contain Germany's past aggressive and expansionist tendencies loomed large in the minds of those having to deal with Europe's post-war reconstruction. The foundations of the ECSC have therefore been developed in the context of French-German relations and the question of Germany in post-war Europe, divergent opinions between Europe's continental powers concerning the process of integration, system competition between the US and the USSR, and a US interest in reconstructing world markets through pushing Western Europe into a coherent policy of reconstruction, which served the US interest in bigger markets as well as the interest in containing the USSR.

Economically, the war and wartime experiences produced a set of factors that enabled Western European co-operation and integration of the ground during the 1940s and 1950s. Here, the movement towards increased co-operation and integration needs to be seen against the background of the interconnectedness and interdependence between states, especially in the economic and monetary spheres. In particular, economic interdependence arises from three features of the post-war world: the enormously increased volume of world trade; the internationalisation of production, and uncertainties associated with currency exchange rates and international monetary agreements. In Western Europe, especially the growth of intra-European trade after the war and monetary interdependence came to bear on the movement towards increased co-operation and integration. While the war stimulated an increased interest in international economic and financial agreements and resulted in the creation of the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (the 'World Bank'), and the GATT, there was also a perceived need for specifically West European-based economic initiatives and organisation. When the rapid post-war recovery threatened to come to a halt due to massive balance of
payments deficits and dollar shortages, the United States devised the Marshall Plan and attached to it the condition that recipient states must seek greater economic co-operation among themselves. This led to the establishment of the organisation for European Economic Cooperation (OEEC), of the OECD and eventually of the ECSC and other specifically European arrangements (EDC, Euratom). Of course, there was no general consensus as to what the new spirit for co-operation should attempt to achieve and how to tackle the particular issues, problems and requirements of the post-war economic situation. Yet, the post-war economic situation produced new realities and changed attitudes, which led the European states to recognise at least some commonalities and shared interests, and initially resulted in greater co-operation on a purely sectoral basis.

The European steel industries offered a particularly good target for integration since they represented the sort of industry necessary for fighting wars and which could cause concern if built up in former axis countries. Furthermore, the steel industry in continental Western Europe had important linkages, particularly as regards France and Germany, which were now tied together through the ECSC. One important aim of the ECSC was hence to establish as strong a link between Germany and France in industries regarded as basic to defence and economic growth (Messerlin and Saunders, 1983:59). For France, embedded in its post-war goals of containing Germany and securing economic growth, the prospect of larger export markets, access to German raw materials and the possibility to exercise joint control over the German steel industry became decisive reasons to adopt the Schuman Plan (Diebold, 1959:16). For Germany, which had been the subject of political developments during the immediate post-war era, the ECSC provided the possibility to establish itself in the international mainstream, to regain national self-respect, and, alongside the Atlantic Alliance, provide a much-needed buttress against the perceived threat from the East. More specifically, however, the ECSC offered Germany the chance to reduce Allied interference and restrictions in its economic development. While France attempted to overcome its economic weakness of the immediate post-war years through exercising political influence in the ECSC, for Germany the establishment of the ECSC in the first place created the conditions that enabled it to compete as an economic and political partner (Statz, 1975:135). Once France and Germany had come to agree on the principle of the ECSC, the joining motives of the Benelux countries and Italy
formed as a consequence of the economic situation in Europe after the war, the political and economic advantages associated with participation in bigger markets.

Another reason for integrating the European Steel industry can be derived from its market structure. The steel industry is generally characterised by an oligopolistic structure, regional concentration, and strong government intervention. Since the steel industry has a long history of cartellisation (Hexner, 1943), another purpose for establishing the ECSC was to encounter the perceived threat of a renewed cartellisation of the steel industry. Giving the steel industry a framework based on competition was therefore also intended to avoid a situation in which national governments would find it hard to control the industry (Statz, 1975:131-35; Archer, 1993, Mestmäcker, 1983).

In summary, a number of inter-related objectives that emerged during the post-war era made the steel industry, together with the coal industry, to what appeared to be an ideal target for attempts to introduce elements of supranational regulation into the interplay between the European nation states. The ECSC attempted to establish new norms of behaviour between a group of European states by making the sinews of war unavailable for exclusive national use. With a view to competition policy, the ECSC Treaty was (at least formally) established to prevent this traditionally oligopolistic industry from returning to cartellisation. Being a key industry in respect to states' abilities to conduct war, the steel industry was an ideal vehicle for political ambitions to establish the corner stones for a European house built to end the rivalry among European nation states. In the following we shall turn our attention to the economic and industrial structures that influence the course of policy-making in the steel sector under supranational integration.

3.3 The Market Structure of the European Steel Industry

The structure of an industry in a particular country determines both the conduct and the performance of an industry (Carlsson, 1981:125). Yet it is difficult to determine the structure of the steel industry as it is not well demarcated by technological or market characteristics (Klepper, 1991:374). The steel industry is generally characterised by homogeneity of products, high barriers to market exit and entrance,

Steel is a relatively homogeneous product and usually produced within the same firm. The steel industry encompasses all stages of steel production from raw material to the production of finished steel products. Hot rolling makes most of the finished steel products. The two main product classes are long products, such as rod and wire, and flat products, such as sheer and plate. In order to serve the needs of customers a multitude of final and semi-final products of diverging quality are processed. These products vary from hot-rolled strip to merchant bars of different thickness and plates, sheets and tubes. Most of the rolled products, produced by large integrated firms, are mass products. Their production technology does not offer great scope for improvement. However, some producers specialise in certain special steel products relatively more than others in the industry. Supported by the EC Commission, a far reaching homogenisation of products has been achieved over time by means of a detailed standardisation of steel and product quality (Oberender and Rüter, 1993: 67). The technology of producing and processing steel is a decisive component of the market structure of new material since the production of steel requires high capital investment, which contributes to the exclusivity of the industry in terms of new market entrants. Homogeneity of steel products implies that they can be easily supplied via world steel markets. Subsequently, the most important aspect of steel trade is the price (Conrad, 1997:19-21; Wienert, 1995b). Moreover, technology does not only influence the costs of production, it also contributes to the height of entry and exit barriers. Because of long adjustment lags, a wrong decision in such a matter can result in a technological gap that is difficult to recover. As a consequence, the timing of decisions on technological matters is a crucial matter and the competitiveness of steel producers generally depends on their steel-production and steel-casting techniques. These differ considerably between individual firms and countries. The closure of steel plants is linked to extremely high costs, notable in connection to the necessity to devise social plans in order to soften far-reaching social and regional repercussions. Since these costs are extremely high, there has been a tendency to
delay plant closures and to continue operations by means of subsidies (Conrad, 1997:20). Large economies of scale, on the other hand, imply that in times of low capacity utilisation producers sell at full costs on home markets and dump excess capacity of markets abroad (Conrad, 1997:21). The industry has also traditionally been characterised by a relatively low level of technological and product differentiation. Since the technology needed in the steel industry can hardly be used for the production of other goods, the degree of fusion with other industries has been low until recently. Over the past ten years, however, EC steel producers have started to adapt themselves progressively to structural changes in world steel production and developed new steel products as well as they moved into other related business sectors (Klepper, 1991).

Since the European steel industries had been devastated by the war, it was necessary to restore and expand capacity in order to meet the needs of post-war reconstruction and development. Driven by industrial growth, the EC steel subsequently expanded throughout the 1960s, until it peaked in 1974 with an unprecedented annual output of 132.6 million tonnes for the then nine Member States. The economic importance of steel during this period was reflected in its share in value of the ECSC products in total trade of the EC countries, which varied between 4.7 and 5.9 percent from 1951 to 1970 (Cockerill, 1993:52). Thereafter, however, the steel intensity began to fall and a more tenuous relationship developed between movements in overall economic activity and the demand in steel as the economies of the Member States matured and demand shifted towards services and away from manufacturers. Related to the energy crises, the growth trend in output reversed and chronic excess capacity emerged in the EC (Strange and Tooze, 1981). The European steel industry lost international competitiveness, particularly to Japan and newly industrialising countries such as South Korea, Brazil, Taiwan, and Mexico, accompanied by a pronounced decline in market shares both at home and abroad. Imports to Western Europe from third countries to Western Europe rose from less than three percent apparent consumption in 1960 to eight percent in 1970. During the same period, West European exports to third countries as a percentage of world exports net of intra-regional trade fell be half, from 45 percent to 22 percent between 1960 to 1970. The West European share of

21For instance, from 1945 to 1955 a big expansion of the steel industry took place in the US, yet towards a technology which proved to be wrong in the long run (Tiffany, 1988). This had far reaching consequences for the
world crude steel production fell from 31 percent in 1960 to 23 percent in 1977 (Carlsson, 1981:152). Weak demand and excess capacity continued to characterise the steel industry in the first half of the 1980s, but stronger economic activity and the effects of rationalisation improved prices and price margins in the second half of the 1980s. In the 1990s, however, these improvements were undermined by a slowdown in activity and resulted in another steel crisis. Following a market recovery in the mid-1990s, the European steel industry in 1998 for the first time in its history recorded a steel trade deficit in volume. Though in value terms the European steel industry remained a net exporter (COM(1999) 453 of 5 October 1999:3).

In the EC, Germany is the largest producer of crude steel with a share of around 28 percent of Community production, followed by Italy and France. The UK and Spain, who joined in the EC in 1983, accounted for 12 and just over 10 percent of EC production in 1994 (for the shares of the Member States of EC steel production, see table 4 in the appendix). The high levels of steel production across the Member States add up to a strong overall export dependency. Following the restructuring efforts after the 1980s steel crisis, the EC remains the second biggest producer of steel in the world. The founding members of the EC are also the biggest steel producers, accounting for more than two-thirds of Community output. The accession of Spain and the UK, both significant steel producers, added to the importance of steel production in the Community. In 1995, the EU15 were the world's largest producer of crude steel with 155.8m tons. In comparison, Japan who had become the most competitive steel-producing nation by the 1980s and the world's second largest crude steel producer accounting for over 100m tons was surpassed in terms of output only by the former USSR. It was followed by China and the US with each producing just over 90m tons of crude steel. The world production of pig iron is led by China, closely followed by the EU15, both accounting for just over 100m tons of pig iron. Japan follows with approx. 75m tons; the US takes fourth place with ca. 50m tons of pig iron (Eurostat Statistical Yearbook, 1996:439-440). Most of the ECSC steel production is imported/consumed by European states. (89 percent of total EU steel imports). Here, the largest proportion is going to the EFTA countries. The US and Japan both account for approx. 1 percent of imported ECSC steel. Today, the EC is

competitiveness of the American steel industry and fuelled heavily into the EC-US steel conflict of the 1980s.
both the world's biggest producer of steel and the largest single steel market (COM(1999) 453 of 5 October 1999:2).

Despite its overall size, the structure of the European steel industry is nationalistic, undiversified and fragmented, with each steel-producing Member State supplying the bulk of domestic demand from its own resources (Wienert, 1983). Towards the end of the 1980s, a third of steel output of the industrialised countries was made by state-owned companies (Wienert, 1989). Public ownership dominated bulk steel making in France, Spain, Sweden, and Austria as well as most of the developing countries. Given national government's consideration of the steel industry as strategically important in relation to their industrial base, government ownership and control of national steel producers is thus a distinct feature of the EC's market structure in steel (Oberender and Rüter, 1993). Particularly in the post-war period, national governments have been directly or indirectly responsible for the greater part of output in the EC, with the exemption of Germany and the Netherlands where steel production has been privately organised. In the UK, the British Steel Corporation has been re-privatised after two decades of public ownership in 1989. Over time, national governments tendency to intervene in the steel industry varied according to the perceived need to increase capital expenditure, to reduce excess capacity, to encourage rationalisation and to support losses.

An important reason for continued government intervention in the world in general and the EC in specifically the reduction of employment that followed structural change and restructuring efforts associated with successive steel crises (Carlson, 1982; Dicke, 1983; Hogan, 1983; Keeling, 1982; Wienert, 1983). Until the mid-1970s, world steel employment arguably rose as a result of rising steel consumption. Thereafter, the adoption of new technology, the rising efficiency and a slower growth in output have contributed to sinking levels of employment. The main adjustment in employment has taken place among the OECD countries, where some three quarters of a million jobs have been lost from 1975 to the late 1980s. Approximately 20 percent of job losses across the EC were caused by technological change and the associated organisational change that came with the new technology. The declining steel demand also contributed to the employment effect of technical progress. As the oldest, smallest, and hence most labour-intensive, plants are generally closed down
first, it is suggested that about half the drop in employment in European steel over the 1980s is associated with falling output (Economic Commission for Europe, 1989:15; see also table 6 in the appendix).

The steel industry, if only for its economies of scale, has long been an industry of great firms. The main players in the present world steel industry are large conglomerates with widespread activities within the iron and steel industry (Klepper, 1991). Most European steel companies have integrated steel plants, i.e. they include blast-furnaces, steel plants, rolling mills and sometimes processing plants in one form of group of companies. The size of EC steel producers cannot only be attributed to internal growth, but is also a result of successive mergers (Oberender and Rütter, 1993:72). Throughout the 1950s and 1960s, the established producers were placed at a competitive disadvantage as few could match the advantages of high productivity displayed by Japan, the Netherlands and Italy. Moreover, compared with the successful European and Japanese producers, the US and the UK had become fundamentally uncompetitive by the end of the 1960s. The established producers were thus forced to re-construct in order to maintain their competitiveness. In the UK, the British Steel Corporation was formed by a giant merger of 14 steel companies in 1967. In West Germany, a series of mergers took place over time and consolidated the steel industry. In France, there was a dramatic outburst of mergers in the 1960s which eventually led to the formation of one single group in which almost all French steel-making was concentrated (Usinor-Sacilor). Since 1975, a significant decrease in the number of companies has been recorded and this development is also reflected on the plant level (Wienert, 1995b). While the international steel market is characterised by a low concentration, national steel markets within the EC are therefore highly concentrated. In each major steel-producing Member State, the four largest firms (or fewer) account for at least 80 percent of steel production. Frequently encouraged as well as financed by national governments, the concentration of large firms in the EC is the outcome of a wave of mergers and acquisitions. This development implies that restructuring and rationalisation will lead to even fewer and larger firms as well as higher degrees of cross-national organisation (Cockerill, 1993:57-8).

Yet the changes in steel-making technology led to a polarisation of the steel industry. Co-existing alongside each other, steel production is now either carried out on a very
large scale or in fairly small-scale electric-arc-based works, so-called mini-mills (Barnett and Crandall; 1986; Hogan, 1987). Significantly, mini-mills are getting larger in order to realise economies of scale too. Leading operators of this process include Venezuela, Mexico, Malaysia and the former USSR, which together accounted for almost half of the world's active installed capacity in 1987. Not only in Europe, mini-mills have enjoyed varied degrees of success. They are mainly concentrated in Northern Italy round Brescia (the Bresciani). During the 1980s steel crisis, their high competitiveness has won them a place on the domestic and export markets. Yet the activity of mini-mills located in Europe has also declined since the early 1980s, taking advantage of EC measures designed to facilitate the closure of surplus plants.

In summary, the European steel industry can be characterised as an oligopolistic industry that has undergone structural change since the mid-1970s. With technology as a prime factor influencing their competitiveness, steel producers have resorted to specialisation, diversification and integration of production structures in order to adjust to structural change. The European steel industry combines some of the largest steel producers in the world, making the EC the second biggest steel market in the world. However, since the 1970s, the EC has lost in competitiveness largely because the performance of its industries has been poor following a failure to adopt to structural changes in a timely fashion. The diversity of the individual industry structures within the EC contributed extensively to this failure to restructure the European steel industry in a co-ordinated fashion. Moreover, being a net exporter of steel, the European steel industries are particularly dependent on exports, which led to an increased tendency to protect the European steel market from third country imports.

3.4 Decision-Making in the ECSC

Next to determinants derived from the market structure, EC steel policy is influenced by political determinants. The political framework of the ECSC is set through the ECSC Treaty, which specifies the aims as well as the instruments available to pursue these aims. Signed in 1952, it forms the basis of European steel policy until the year 2002, when the treaty runs out and the ECSC will become part of the Single European Market. In order to make the supranational regulation of the steel industry work, the
ECSC provides common institutions for the articulation and aggregation of interests and establishes a system of decision-making and adjudication for the steel industries of the Member States. Since an analysis of decision-making processes in subsequent chapters is only possible when all the acting units and participating groups are known, we will now turn out attention to the actors and institutions involved in the policy-making process in the steel sector. In particular, the analysis will focus on the division of competence and the interplay between the Commission and the various participants in the policy-making process in the steel sector. This analysis is completed by an outline of the various policy-making instruments available for the Commission to achieve objectives generated through the operation of the decision-making process.

In the area of the ECSC, one needs to distinguish between nine principal actors. On the EC level, there are the Commission (formerly called the High Authority), the Council of Ministers, The EP, the Consultative Committee, the EJC, as well as the EC-level interest organisations of the steel producers (Eurofer and EISA). On the national level, we find the national governments, national interest organisations and individual steel producers. Table 3 gives an overview of the division of competences in the ECSC.

\[\text{For a comprehensive and detailed description of the organisational aspects see Grunert (1987).}\]
Table 3: Division of Competences in the ECSC.

Within the decision-making framework of the ECSC, the Commission is the central actor. It represents the Community interest and is the only really common institution. Its main task is the implementation of Community treaties (Art. 88 ECSC), to issue regulations for their implementation (Art. 155 ECSC) to put before the Council proposals, regulations and decisions, and to implement measures passed by the Council. However, it is obliged to take into account the diverse interests of the Member States when formulating its policies (Art. 155 ECSC). Thus it is the Commission's duty to ensure that the objectives set out in the treaty are attained in accordance its provisions (Art. 8 ECSC).

In order to perform its tasks, the Commission is empowered to take a decision, make recommendations or deliver opinions. Although only decisions are binding in their
entirety, the Commission is asked to use this power cautiously in areas where it is empowered to take a decision and to consider confining itself to making recommendations (Art. 114 ECSC). Like many other articles, the wording of this article suggests a reservation on part of the signatory parties towards assigning the Commission full decision-taking autonomy. Instead, contentious issues are left subject to the approval of Member States. Hence, in the areas in which the Commission has been given the legal powers to take decisions, it is therefore up to its own judgement how to use the scope for action it is given in the treaty. With regard to the ECSC, the Commission has the supreme responsibility in that it possesses the formal decision-making competence. In important questions, e.g. the implementation of Art. 58 ECSC, it depends on previous agreement by the Council (avis conforme) so that in matters of 'vital importance' no decision can be made against the vote of any one Member State.

Among the various DGs of the Commission, the steel policy-making process is led by DG III (Industry) which, particularly until approximately the beginning 1990s, was the main protagonist in the industrial and structural politics of the Community. As the number of exogenous and endogenous factors influential upon the direction decision-making of steel within the EC changed during the late 1980s and early 1990s, the role performed by DG III in co-ordinating steel polices decreased in the wake of a declining hold of industrial patriotism on business, bureaucratic and political decision makers (Dudley and Richardson, 1999:236-8; Dudley and Richardson, 1997). As these developments will be detailed in subsequent chapters, it is sufficient to note that as far as the internal composition of the Commission is concerned, DG III overtime lost its over-riding influence to DG IV and DG I.

Representing the interests of the Member States collectively and individually at ministerial level, the Council of Ministers is the main counterpart of the Commission. While the Council generally has decision-making competence for the EEC (Art. 145 EEC), this (formal) competence for the area of the ECSC Treaty belongs to the Commission. However, in practice the Council has the decision-making competence for the coal and steel sector since the issuing of regulations is normally dependent on its agreement. The Council's voting rules (Art.28 ECSC) are of great importance in decision-making processes. The ECSC treaty stipulates the areas in which the assent of the Council is required and whether unanimity, absolute majority or qualified
majority is required to adopt a proposal. Proposals submitted by the Commission receive approval when supported by an absolute majority of the Council members. This vote must include the votes of the representatives of two member states which each produce at least one tenth of the total value of the coal and steel output of the EC. Alternatively, in the event of an equal division of votes, and if the Commission maintains its proposal after a second discussion, it must be supported by the representatives of three Member States which each produce at least one tenth of the total value of the coal and steel output of the Community. Decisions of the Council of Ministers, other than those for which a qualified majority or unanimity is required, need to be approved by the majority of its members must also include the votes of the two member states accounting for at least one tenth each of the total value of the coal and steel output of the Community. Considering both that Germany, the UK, Italy, France and Spain are the largest producers of coal and steel and that in qualified majority voting procedures their votes are weighted most, this makes them the key member states of the ECSC. Depending on the stipulated voting procedure, the Commission thus needs to make sure that it finds a sufficient power base in these states in order to secure approval for its proposals. The structure of the national steel industry and the resulting preferences have a large impact on voting outcomes, i.e. the direction of and coherence of EC policy-making (for overviews of the interest determinants of the Member States at the beginning of the 1980s and 1990s steel crisis, see tables 7 and 8 in the appendix). Nevertheless, the Commission gains in weight vis-à-vis the Member States in that the Council of Ministers can accept a proposal of the Commission by majority vote, but it can only make a decision unanimously (Grunert, 1987:246).

Closely attached to the Council of Ministers, the Committee of the Permanent Representatives (Coreper) has a key role in the decision-making process since it is involved in the harmonisation of political standpoints on two levels. These are firstly between individual delegates of the Member States and, secondly, between national interests and the Community interest, as represented by the Commission. Coreper should not only be regarded an intergovernmental agent, but also a body partly operating in the Community interest (Lodge, 1993; Grunert, 1987). This is because their permanent placement in Brussels puts its members in a position where they can gauge the chances of their own national policies being accepted. As they can estimate
the strength of opposition and accordingly conclude alliances of interests in order to work out compromises on the basis of viable bargaining positions, they can act as an important agent for the Community interest. Coreper's function of clarifying and mediating between interests is an essential element of the decision-making process.

Outside the Council, the relationship between the Commission and Member States is partly developed in Chapter 7 ECSC. In view of the industry's history of government intervention, its socio-political and national importance, this chapter requires governments to announce their interference with conditions of competition. The relationship between Commission and national governments is furthermore carved out in chapter 10 ECSC and holds that the powers of governments are not affected in matters of commercial policy unless the treaty stipulates this. The EC does not hold more powers in commercial policy-making towards third countries than Member States. Minimum and maximum rates for duties on steel can be fixed by unanimous Council decision, but within these limits governments can determine their own tariffs (Art. 72 ECSC). Generally, the administration of import and export licences with third countries lies with the governments. The Commission is nevertheless empowered to supervise the administration and verification of these licences with respect to steel products (Art 73 ECSC).

Despite the large degree of autonomy the ECSC treaty grants to the Commission, the performance of the Commission to a great extent depends on way the Council exercises the formal control over the Commission's actions. The Commission's action capacities are therefore not only influenced by voting procedures, but also by Member States' reluctance to surrender too much decision-making power. Yet, the Commission has a considerable degree of independence over its actions when political convenience (such as the implementation of unpopular measures on the national level) or practicalities make such an approach appear more favourable to the Council members.

Art. 18 ECSC attaches a Consultative Committee to the Commission, its members being appointed by the Council. These are composed equally of representatives of producers, employers, consumers and traders. Although its role is purely advisory, it has a sectoral responsibility for the coal and steel industries in representing group interests from the sector vis-à-vis the Commission. The Commission may consult the
Committee whenever it considers it appropriate, but must do so as concerns the general objectives and programmes drawn up under Art. 46 ECSC as well as it is to keep the Committee informed on the broad lines of its actions. Apart from the right of consultation, the Committee does not hold any legal powers over the Commission.

The Consultative Committee has a double function in the formulation of a common steel policy in that it both brings the ideas of affected interest groups of the sector into the decision-making process and legitimises measures already decided or yet to be decided by the Commission. As it often backs the Commission and strengthens its political position vis-à-vis the Council of Ministers, the Commission subsequently wins in political influence and legitimises its role through its close co-operation with the Consultative Committee (Grunert, 1987:264).

The role of the EP (formerly the Common Assembly) is firstly to provide a democratic input into ECSC decision-making and secondly to exercise the supervisory powers conferred upon it by the treaty. Although the EP can hardly said to have provided much democratic impact during the early years of European integration, both roles have gradually been reshaped towards the function of a supervisory body over the years. Nevertheless, its role and powers have been of an advisory nature for most of its history, with its real control being limited to the power to express, by a two-thirds majority, its lack of confidence in the Commission and thus force its resignation (Art. 24 ECSC).

The EJC is primarily concerned with the interpretation of Community law, but many of its decisions have a bearing on the ECSC. The Member States, the Council of Ministers or the steel producers have the right to sue against decisions or recommendations of the Commission (Art. 33 ECSC). The same applies if the aforementioned hold the opinion that the Commission should become active in a given area (Art. 35 ECSC). Conversely, the Commission and the Member States are given the chance to sue against decisions of the Council of Ministers and the EP.

The ECSC Treaty requires the Commission to hear and consult affected interest groups, especially when important decisions are imminent. Therefore, prior to important decisions, mutual consultations and communication on all levels take place on a virtually permanent basis. In general, interest representation of steel producers on
matters relating to the ECSC is done through the Consultative Committee and lobbying of the national governments and the Commission. On the EC level, interest representation is furthermore subject of the work of Eurofer, an organisation created exclusively for the co-ordination and representation of the large steel-producers of the Community (see section 4.2.1). Its founding members were the steel confederations of the nine member states, at the time representing 80 percent of the steel producers of the Common Market (Fendel, 1981:370). Despite the fundamentally different objectives of Commission and Eurofer, their common interest provides for intensive interactions and co-operation between them. Eurofer is linked to the decision-making process by a network which facilitates intensive and constant co-operation and contact especially with DG III. In the lobbying of important matters, Eurofer also seeks ad-hoc meetings between Eurofer members and national delegates in the Council. There are no official links between Eurofer and EP, the Economic and Social Committee or the Consultative Committee, but overlapping membership of some members contributes to the harmonisation of steel policies. Since the big integrated and state-owned companies were over-represented on the EC level, this led to the foundation of EISA, the organisation of the independent small and medium-sized steel producers. Representing approximately ten percent of steel production, EISA was intended to create a counterweight to the national steel industries, particularly in view of larger producers benefiting from competition-distorting practices resulting from national subsidies. Other actors in ECSC decision-making processes include steel traders, trade unions and steel consumers. Organised in the Fédération Européenne du Négoce d'Acier (FENA), steel traders only have an information function and their political influence is considerably lesser compared to steel producers as there is little employment dependent solely on steel trade. The influence of both FENA and EISA are subsequently rated lesser within the Commission than that of steel producers (Conrad, 1997:63). Moreover, under the ECSC Treaty steel traders do not enjoy the same rights as steel producers. Trade unions and steel consumers are both represented through the Consultative Committee.

23 On the international level, the European steel interest organisations are furthermore organised in the International Iron and Steel Institute (IISI), which incorporates the steel productions of 41 countries with a share of 65 percent of world crude steel production and also has its offices in Brussels (Fendel, 1981:371).
3.5 ECSC Policy Instruments

In order to realise its objectives, the ECSC Treaty provides the Commission with a range of policy instruments (for a detailed overview see Kulms, 1988). An indispensable caveat for the Commission's work to co-ordinate policies in the steel sector is staked out in Art. 47 ECSC and holds that the Commission may obtain the information it requires to carry out its tasks. The Commission may have any necessary checks made and impose fines on undertakings that evade their obligations or knowingly furnish false information. Importantly, the Commission also has the right to demand information on the policies of companies (Art. 60 §2 ECSC) and this forms an essential prerequisite of its work.

The Commission can take measures in order to aid structural adjustment through subsidies for investment programmes. Drawing its resources from imposed levies, contracted loans and gifts (Art. 49 ECSC), the Commission may facilitate the carrying-out of investment programmes (Art. 54 ECSC) and, with the unanimous assent of the Council, assist the financing of projects aimed at increasing the production, reducing the production costs, or facilitating the marketing of products. It may also require companies to inform it of any projects in advance. Should the Commission find that such projects would involve subsidies, aids, protection or discriminations contrary to the ECSC Treaty, its adverse opinion has the force of a decision and effectively prohibits the undertaking concerned from drawing on these resources, and the Commission can fine companies disregarding this provision. Furthermore, the Commission can take measures aimed at structural adjustment through R&D programmes. Art. 55 ECSC stipulates the Commission's role in promoting technical and economic research relating the production of steel. In addition, the Commission can take measures for laid-off workers and for the prevention of plant closures (Art. 57 ECSC). On the basis of Art. 56 (§1, c), the Member States can request the Commission to assist with the re-employment of work forces. The Member States usually take over half of the costs involved.

In the field of market steering instruments, the ECSC Treaty empowers the Commission to a number of measures. The outstanding tool of the Commission is without doubt Art. 58 ECSC. Though being reminded by Art. 57 ECSC that it should
give preference to indirect means of action, the Commission obtains the right to establish a system of production quotas when confronted with a period of manifest crisis. This requires the Commission to consult the Committee and to seek unanimous consent of the Council. In setting up a system of production quotas, it needs to take account of principles of the ECSC treaty (as stipulated in Art. 2, 3, and 4 ECSC) and determines the quotas in conjunction with the steel producers. The crisis measures can be ended by the Council; either acting unanimously when the Commission proposes this, or by simple majority when after a Member State proposal. The Commission is entitled to fine producers that can be shown not to have complied with the crisis regime (Art. 58 §4 ECSC). The Commission furthermore holds far-reaching competence in the field of price regulation (Art. 60 ECSC). It has to take action against unfair competitive practices, such as the formation of monopolies and discriminatory practices. Furthermore, with a view to the competitiveness of the industry, the Commission may fix maximum and minimum prices within the Common Market as well as it may determine minimum and maximum export prices after consultations with Committee and Council (Art. 61 ECSC).

The system for regulating the Community market was supplemented by an external branch in order to prevent mass uncontrolled imports from third countries replacing Community production. Commercial policy instruments were not foreseen by the ECSC Treaty (see section 2.3.2.2), but Art. 74 ECSC empowers the Commission to take any measure that is in accordance with the ECSC Treaty against dumping and to make recommendations to the Member States. Since the Commission's anti-dumping recommendation of 1977 specified dumping by transferring EEC provisions to the coal and steel sector (L114 of 5 May 1977c), these recommendations have been amended several times, notably in the context of successive GATT Rounds (see Dominick, 1884). The multilateral trade negotiations concluded in 1994, however, have led to new arrangements on the implementation of Article VI GATT, with which previous legislation on dumped imports to the EC conformed. In the light of the new and detailed rules brought about by the conclusion of the so-called 1994 Anti-Dumping Agreement as part of the GATT, the EC subsequently decided to change its legislation (L308 of 29 July 1996). Currently, anti-dumping is specified by recommendation No. 384/96 of 22 December 1995 (L56 of 6 March 1996). The GATT anti-dumping code has been applied to the ECSC in order to ensure the
homogeneity of the external trade legislation of the EC, whilst taking account of the decision-making processes of the ECSC.

Conclusions

The purpose of this chapter was to provide the foundations of the longitudinal study of the European steel industry in terms of the EC's strategic action capacities. The chapter therefore provided an overview of the development of international steel trade, the structural changes that affected international steel trade and the changing circumstances that led to continued government intervention in the steel industry. After outlining the special circumstances of the post-war situation, which in Europe resulted in the establishment of supranational regulation in the steel industry within the framework of the ECSC, the chapter then proceeded with the introduction of the fundamental features and institutional developments of policy-making within the ECSC. Subsequent sections showed the market structure of the European steel industry, introduced the main elements of the decision-making process and competence of the main actors involved in decision-making in the ECSC, and lastly outlined the policy instruments that the ECSC provides for the supranational management of the European steel industry. This overview set the scene for the in-depth analysis that begins in the following chapter.
CHAPTER FOUR: EC POLICY-MAKING IN STEEL FROM THE 1950s TO THE 1970s

Introduction

In order to complement the basic understanding of policy-making processes in the steel sector that has been developed in chapter three, this chapter is concerned with tracing the complex external and internal dynamics that led to the EC's direct management of EC steel politics during the 1980s. Furthermore, the chapter aims to show the development of both the interactions between the main actors within the ECSC and the interactions between the EC and its external competitors. The organisation of this chapter differs from those in part III and IV in that the latter maintain a distinction between internal and external fields of EC activity. The reason for this is that in order to trace the magnitude of interrelated internal and external developments that gradually led to the EC assuming and utilising the extensive powers granted to the EC through the ECSC Treaty, it is useful to distinguish between three stages of Commission involvement. Hence, after an outline of the developments affecting the European steel industry following the establishment of the ECSC (the 'landscape'), which includes the conclusion of orderly market arrangements for the European steel industry without EC involvement, the chapter proceeds with its task by analysing the gradual development of Community involvement during three periods. During these periods, Commissioners Simonelli, Simonet and Davignon were successively in charge of the DG III portfolio and the progression of Community involvement is illustrated in the light of the extent that Community involvement took when they were in office.

4.1. Landscape of the Steel Industry from the 1950s to the 1970s

During the years following the establishment of the ECSC, there was hardly a need for the High Authority to intervene and the ECSC experienced a long period of growth and little intervention (Tsoukalis and Strauss, 1987:190; Lister, 1960). The five year transitional period that followed the establishment of the ECSC was characterised by the abolition of tariffs, quotas and other restrictions to intra-European trade. Demand for steel rose steadily, and so did the EC's steel output. In the 1960s, the rapid economic growth experienced by all six ECSC countries sustained the increase
in demand for steel and thus an ever-expanding production. While the activities of the High Authority concentrated on granting aids to help retrain and relocate steel workers made redundant by the closing of old plants, it was mainly concerned with cartel practices in the Community and it gradually flexed its muscles in order to tackle this problem. During these early years, the tone of the policy style of the ECSC was set by Jean Monnet. In order to promote the idea of political and economic integration, the High Authority focused on establishing the Common Market. Monnet’s international prestige was a key factor in enhancing the political stature of the High Authority. Since Monnet himself was more interested in the High Authority as a forerunner of a federal government, however, he left the supervision of the coal and steel industries in the hands of High Authority officials (Dudley and Richardson, 1999:231; Spierenbourg and Poidevin, 1994).

During the 1950s, the ECSC Treaty played a fairly positive role in that it allowed the creation of the Common Market in steel and still only generated weak pressures in the direction of national cartellisation. Paradoxically, the ECSC created a European dynamism in favour of free trade, while being itself fundamentally protectionist and anti-competitive. During the 1960s, however, the Treaty gradually lost this dynamic role and at the same time started to re-enforce the tendencies to create ‘national champions’ at the centre of the national steel industries (Hayward, 1974:260; Tsoukalis and da Silva Ferreira, 1980:258; Joliet, 1981). The ECSC Treaty later gave rise to two sorts of behaviour: On the one hand, it slowed down the pace of the disappearance or elimination of firms by its tendency to stabilise market shares. On the other, the Treaty encouraged each state to act as a privileged investor and subsequently to increase production capacity by unreasonable amounts since each Member State wanted to maintain future market shares at pre-crisis levels. Together, these factors contributed to the over-capacity problem that the EC had to face during the following decades.

Despite the supranational fervour and political idealism of the early years and the wide range of powers allocated to the High Authority, the process of establishing the Common Market already met with what has been termed the national policy
'hinterland'\textsuperscript{24}, i.e. national policies, styles and traditions, and often clashed with these. For much of the early years, the Commission (then the High Authority) thus had to concentrate on establishing its authority by trying to get national governments to accept its supervision of the steel industry by stressing the 'surveillance of collusion rather than its prevention' (Grunert, 1987:224). Ultimately resulting in increasing surplus production, the failure to shift control of the steel industry to the supranational level left the EC with a timid and ambiguous policy of harmonisation (Hayward, 1974:270). Given that the Member States perceived of the steel industry as a key strategic industry, it became apparent that the steel sector was not an ideal industry to introduce supranational regulation (Dudley and Richardson, 1999:232). Given that the growth of EC production was accompanied by a steady growth in intra-Community trade, however, an important development during the first two decades of the ECSC was the growing economic importance of the Community to the Member States (Tsoukalis and Strauss, 1987:191).

4.1.1 Early VRAs

As national steel markets around the world became increasingly sensitive to world market developments, a series of orderly market arrangements (VRAs) was concluded, mainly between the leading producers of steel. During 1967 and 1968, the US industry lobbied Congress for quantitative restrictions on steel imports, which resulted in a bill proposing 35 comprehensive bilateral imports on all supplying countries. Alleging subsidisation of steel exports and calling for countervailing duties, the US Steel Corporation filed complaints against France, West Germany, Italy, the Netherlands, Belgium and Luxembourg. The demands of the US steel producers caused President Lyndon's administration considerable problems. Most importantly, the imposition of the proposed non-tariff barriers raised questions concerning the credibility of the US's commitment to multilateral trade agreements in the context of the GATT Kennedy Round, where the harmonisation of steel tariffs had been achieved (Jones, 1986:93). Yet the strong pressure within the US, from producers and Congress, led the US to consider alternative policies. Japanese steel producers, the prime 'disrupters', were eventually led to propose a voluntary export restraint as a

\textsuperscript{24} Quoted in Dudley and Richardson (1999:232).
means of neutralising protectionist sentiments in the US. As the European steel producers also agreed to this approach, the proposed quota bill was subsequently shelved.

The negotiations to the agreement featured Japanese and Community producers, representatives of the US steel industry and members of the US Congress. The EC remained absent from the negotiation of these since the peculiarities of the EC policy-making prevented the negotiation of VRAs by EC officials. At the time, the EC as a supranational organisation had neither developed the authority nor the bureaucratic structure to carry out sectoral trade negotiations or restrictions in the steel industry (Jones, 1983:22). The pursuit of a voluntary agreement therefore represented a convergence of interests among foreign producers, import-competing US producers and US trade policy officials (Jones, 1983:7; Van Der Ven and Grunert, 1987:141). On 14 January 1969, the ‘statements of intent’, as they were called for reasons relating to domestic US anti-trust legislation, were officially announced in Congress and simply represented a promise not to exceed given export levels of total steel mills products (by weight) to the US from 1969 to 1971.

Initially, the arrangement served its purpose well. However, during the final year of the agreement imports to the US markets rose sharply. An import ratio of 17.9 percent represented the highest steel import figures to the US recorded to that date. Imports from the EC and Japan exceeded their limits by 1.5 million tons. A subsequent VRA was therefore concluded in May 1972. Steel producers in the EC and Japan were content to negotiate another agreement, because it gave them the possibility to keep US protectionist sentiments in check. A renewed VRA also offered a generous accommodation for the interests of foreign suppliers as it opened access to the large US market free of further import barriers as well as the possibility to win scarcity gains if the restraints were effective. Though more detailed in their provisions, the arrangements principally kept their simple format, but envisaged a much more stringent and comprehensive control of steel supplies to the US (Van Der Ven and Grunert, 1987:141). Ironically, the second EC-US VRA was essentially non-restrictive in character. External factors, such as the dollar devaluations of 1971 and 1973, which made the US market far less attractive as an export outlet. Furthermore, the world-wide steel shortage in 1973-4, which led to a concentration of steel in
domestic markets, eventually allowed US policy-makers to let the VRA expire quietly just before the 1974/75 downturn of the world steel market (Van Der Ven, 1987:142).

The VRAs of the US with the rest of the steel producing world led, as noted above, to a diversion of steel exports away from the US to the EC market. During the 5 years between 1967 and 1971, the share of Japanese deliveries to the Community rose from 6.0 percent to 10.2 percent. The increasing Japanese import penetration alarmed EC steel producers, who subsequently demanded VRA-type arrangements with Japanese exporters. Yet, import penetration in EC countries was at a level that prevented general protectionist feelings against Japanese producers in the EC from reaching the necessary threshold to make Member States consider trade restrictions along the lines of the US arrangements (Jones, 1983:3-24). Inspired by the relative success of the US experience with themselves and the non-existence of a Community framework that could provide for the protection producers aspired, EC steel producers therefore again undertook voluntary restraint negotiations of their own. In December 1971, the Japanese Iron and Steel Federation announced that Japanese steel producers intended to limit their exports to the EC to 1.25m tons in 1972, with quotas for shipments in 1973 and 1974 to be set in future negotiations. As it was only the Japanese who announced the arrangement, it allowed Community producers to keep a low profile, which reflected both the political and legal problems of the arrangement (Jones, 1983:34). Politically, the agreement was exposed as a patent accommodation of producer interest by the absence of a wide-spread protectionist sentiment across the EC. On the legal plane, the agreement was questionable since it represented a collusive arrangement on the producer-level that projected into the sphere of international trade agreements. Hence participants' endeavour to portray an image of the 'true voluntary spirit' of Japanese producers.

Although the steel arrangement between EC producers and Japan had little economic effect as the favourable conditions on the steel market of 1973 and 1974 rendered the agreement superfluous, it nevertheless set an important precedent for subsequent restraint negotiations. This is reflected in the spread of voluntary agreements in the world economy thereafter and found its expression in the proliferation of voluntary steel arrangements in the 1980s. In the context of the development of EC policy-making in steel, the importance of the two steel arrangements lies in the fact that it
shows the readiness of EC producers to regulate steel trade in the absence of governmental readiness for action. With no governmental bodies within Member States or the EC available or willing to conduct negotiations at the time, producers were ready to pursue their aims through direct negotiations with their competitors. During this time, the tendency towards protectionism and regulation in steel trade blossomed once again. However, the burgeoning protectionism displayed nationalistic forms of protectionism rather than a supranational one. With the creation of more and more national champions, public servants across the EEC demonstrated that protecting one's home market was clearly seen as more important than creating a common European policy for steel trade and production (Hayward, 1974:271).

4.2 The Development of EC Involvement in the Steel Sector

1975 was the year the world steel market drifted off into recession. Thereafter, the EC became actively involved in the management of the steel sector. Against the background of cyclical market conditions, misdirected investment, and an improved competitiveness of Japanese producers which started to erode the Community's export market shares, European producers became increasingly vulnerable to the developing market decline. This, in conjunction with a growing protectionist tendency of the US market, resulted in increasingly protectionist sentiments not only among European steel producers, but also across the Member States. In contrast to the previous agreements and for the first time in the after-war period, steel producers did not seek to regulate trade in steel by attempting to negotiate further agreements themselves. Instead, their burgeoning protectionist sentiments motivated an approach to the crisis that followed the structure of ECSC policy-making and the provisions set out in the ECSC Treaty. The following sections show that the factors and developments influential upon the EC's approach to the problems of the steel crisis are compounded in external pressures and developments, changing internal requirements and attitudes, and the problematic activation of the measures provided by the ECSC Treaty.

4.2.1 The Spinelli Years (until the end of 1976)

In March 1975, Jaques Ferry, the President of the French iron and steel association, was the first to request the declaration of a manifest crisis, as set out in Art. 58 ECSC
(Heusden and de Horn, 1980:41). Commissioner Spinelli showed a hesitate attitude regarding the responsibility for the EC steel industry as it rested on the Commission and Spinelli himself (Jones, 1983:34). At the same time, even the steel industry itself had no unanimous opinion as to how the crisis should be dealt with. Member States had until then kept somewhat aloof in the Council (Heusden and de Horn, 1980:43). Moreover, the Commission was neither prepared, in ideas and material, to assume far-reaching functions (Grunert, 1987:231). Furthermore, for a mix of external and internal reasons, the Commission was extremely hesitant to intervene in the first place: Internally, the declaration of a manifest crisis met with severe ideological differences among the Member States (Tsoukalis and Strauss, 1987:197-8). The British and Italians joined the French and asked for external protection and internal stabilisation measures. The Germans, on the other hand, seemed more worried about the subsidies given by the three governments to their respective industries. They argued as late as September 1975 that the problem affecting the steel industry was cyclical and not structural and opposed state control on both the national and EC level (Tsoukalis and da Silva Ferreira, 1980:360; Martin, 1979: 854). The re-negotiation of British entry to the Community posed another problem. While the British Labour government would not have been opposed to any measure that would restrict competition in the steel sector, the Commission under Spinelli felt that as little as possible should be done to change the existing EC framework and thus risk upsetting the process of re-negotiation (Tsoukalis and Strauss, 1987:198). Moreover, the Commission felt that creating a cartel of European steel subsidies was a difficult undertaking that spelled nothing but trouble in terms of co-ordinating the actions of the various steel producers across the EC. Yet the conflicting attitudes towards a cartellisation among the Member States and the diversity of the European steel industry in terms of structure and efficiency was the greatest obstacle, raising problems over distribution of capacity cuts as well as over compliance to crisis measures. In addition, DG IV (Competition) opposed any measure that would restrict competition in the steel sector. However, the reluctance to formally control the European market had clearly more to do with the heavy role of foreign trade and a reluctance to move toward overt protection for fear of escalation, and not from a commitment to competition (Martin, 1979:860).
On the international plane, the Commission faced problems similar to those the US administration faced during the negotiation of the first US VRA 1969-72. Firstly, crisis measures were problematic in two respects in the context of the GATT. At the time, the Community was engaged in the early stages of the Tokyo Round. The valid application of Article XIX GATT was dubious as the EC's problems were caused by general market conditions and not by imports per se. Secondly, the use of quotas would have meant a direct violation of Article XI GATT. Moreover, an overt protectionist stance of the EC in steel seemed bound to provoke a counteraction of the US aimed at damaging the EC's export opportunities. For these reasons, it was important for the Commission not to make the first move towards an active import control system. The Commission thus suggested to use the OECD in order to achieve a greater discipline in international steel trade (Axt, 1978:180). This course of action was in line with the Commission's opinion that an improved market information system would enable steel producers to master the crisis themselves. Spinelli thus came to the conclusion that the crisis was cyclical and not structural and that it was subsequently not appropriate to declare a manifest crisis (Heusden and de Horn, 1980:42).

Short of establishing a crisis cartel, the EC eventually resorted to a number of indirect measures. The Commission set up a system of warning signals, the so-called 'clignotants', to indicate whether action should be taken in the future. These signals included the level of prices, sales and imports. Moreover, the Commission resorted to Art. 46 (2) ECSC and introduced a voluntary forward programme which called for self-discipline and careful planning of production and investment decisions (L304 of 24 December 1975). In addition, the Commission in December 1975 announced voluntary minimum reference prices on certain steel products (L7 of 14 January 1976). The introduction of minimum prices was fiercely contested, not only among the members of the Consultative Committee, but also among the national governments (Agence Europe, 24.1.1976:7). Minimum prices were principally welcomed by Ireland, Luxembourg and, above all, France, which intended to give complete freedom of action to the Commission concerning the methods for introducing the minimum prices. Germany and the Netherlands considered the time not opportune considering the emerging recovery in several sectors which in its view was endangered by the introduction of minimum prices. The hostility of some
governments reflected the opposition to any intervention by any public authorities. While some objections among the Member States were derived from doubts concerning the possibility of the Commission's checking of the effective application of these prices, others centred on the danger of the EC's external trade suffering negative repercussions.

The threat of job losses being a serious consideration, the Commission only introduced statistical monitoring of imports (L344 of 10 December 1976), but no additional direct restraints. However, given the concern with possible US counteractions should the EC turn overtly protectionist, VRAs seemed to provide a way out of the dilemma of how to regulate exports to the EC while avoiding the imposition of unilateral quotas. In summer 1975, talks were held with Spain, Japan and Australia in an effort to persuade them to reduce their steel exports to the EC and in November 1975 the Commission concluded a VRA with Japanese steel exporters, limiting Japanese imports to the Community to 1.2m tons for 1976. As a consequence of the previous threat of direct export restraints, reinforced by the EC's growing intervention in the steel sector, this agreement seems to have provided an effective means of import intimidation (Walter, 1979:172).

On the company level, steel managers had meanwhile come to the conclusion that a new approach was needed. Since the European markets were highly interconnected, they realised that the rather loose connections between national solutions were insufficient to fight the crisis. Based on the so-called Rationalisierungsgruppen, the German producers in particular attempted to create a new international system of cooperation, where the input for crisis measures would come from the company level. The creation of transnational pressure groups at the European level can be seen as the result of the realisation by private interests that political power was no longer completely monopolised by the nation state (Tsoukalis and da Silva Ferreira, 1980:374). Given the divide between private and state-owned companies, however, they were aware from the outset that the undertaking to bring all European companies under one common roof was going to be extremely difficult (Spethmann, 1985:359-60). In particular, French fears of a German-led cartel had to be overcome. Subsequently, early attempts to bring together European steel producers in the form of rationalisation groups had to settle first for the creation of Denelux, an association
compromising German and Benelux producers. One of its first actions was to ask the Commission to allow certain co-operation and specialisation agreements. As this was readily agreed, it seemed that the Commission was not hostile to the idea of companies entering into agreements which went as far as setting mutually acceptable prices (Spethmann, 1985:368-9). Although the Commission stated objections based on competition rules of the ECSC Treaty from an early stage (Agence Europe, 18.2.1976:8), it also needed a 'interlocuteur valable' from the producer's side for the effective implementation of the Commission's crisis policy (Tsoukalis and Strauss, 1987:200; Tsoukalis and da Silva Ferreira, 1980:360-1). Taking into account the possible future weight of a EC-wide steel association, the Commission therefore stated that it would make sure that its activity does not contribute to the formation of a bloc which would harm the unity of the Common market as well as the basic aims of the Treaty.

This important development on the company level eventually led to the creation of Eurofer. In July 1976, Jaques Ferry called for a solution to the problems 'in a Community context, between equal partners' (Agence Europe, 15.7.1979:10). Crucially, the organisation to be set up included the French steel industry. On 10 December, the Council took a favourable view of the setting up of Eurofer, but set the condition that Eurofer was to respect the competition rules of the ECSC Treaty (Agence Europe, 11.12.1976:5). While there was no implication that the members of Eurofer had to cease to operate on the national level, Eurofer had the task to represent the national steel federations on the EC-level and to co-ordinate the actions of the steel producers aimed at a voluntary reduction of steel capacity. To this end, the Commission and Eurofer agreed to make use of consultations, exchanges of information and all legal activities that could contribute to the balanced development of the Community's steel industry (Heusdens and de Horn, 1980:49, Grunert, 1987).

Of course, the Commission's approach of managing the crisis by means of a rationalisation/crisis cartel came under strong criticism (for instance Jones, 1979; Joliet, 1981). Yet this approach seemed to make sense given the threat of a surge of national protectionist measures implying a serious threat to the existence of the Common Market. The Commission also supported the formation of Eurofer as it needed it to stop the price war among European steel producers (Conrad, 1997:88).
Thereafter, a 'symbiotic relationship' rapidly developed between the new association of steel producers and the Commission (Howell et al., 1988:76; Grunert, 1987). In theory, the formation of Eurofer provided the Commission with the opportunity to secure industry compliance, based on its increasingly stringent market control directives. Although the relationship was that entirely straight forward, as can be seen in subsequent chapters (see section 5.2), Eurofer played an important part in shaping and enforcing the Commission's measures to control the steel market.

4.2.2 The Simonet Years (1976-77)

After Spinelli's resignation in 1976, the industry portfolio of DG III was taken over by the Belgian Henri Simonet. In July 1976, the Commission declared that production quotas, import restrictions and minimum prices were difficult to put in practice (SEC (76) 2813def. of 21 July 1976). Simonet thus prepared a series of measures that were intended to restore normal conditions for the steel sector, covering permanent measures, crisis measures, relations with third countries, and regional and social issues. Nevertheless, the creation of a European steel policy did not only meet with some problems from the international plane, it also encountered more legal obstacles. The Commission wanted to avoid recourse to the use of Arts. 58 and 61 ECSC whilst obtaining the same effect, i.e. a harmonisation at EC level of the indispensable production reductions and the maintenance of an absolutely necessary minimum of prices. For such a system to work, it was important that it be given a certain binding or obligatory character. However, the Treaty did not provide for a half-measure between purely indicative recommendations and the public interventions obligatory for everybody. The Treaty, despite advocating in Art. 48 ECSC that the Commission may resort to producer associations in order to obtain information or to facilitate the execution of the missions entrusted to it, did not provide for the intervention of associations and the individual commitments by these that were envisioned at this time. An important step in overcoming this legalistic obstacle was taken when the Commission in late July 1976 issued guidelines in order to cope with the problems of the steel sector (SEC (76) 2813def. of 21 July 1976).

In the so-called 'Simonet Plan', the first more or less complete proposal for a crisis policy was made. All measures were based on the Treaty, but the methods for their
implementation were to be refined and adapted more closely to the conditions of the market. Anti-crisis measures would be triggered off on the basis of predetermined indicators and quantitative regulation be achieved through the sharpening of the forward steel programmes and making them more compulsory in character. Moreover, for the event of a steel crisis, the production and delivery tonnages published for the markets in the forward programme, which at this stage were broken down on Member State level, would be transposed to the company level. It became possible to ask the companies to make individual commitments to the Commission in respect to the productions mentioned in the programme. With this set of measures, the Commission hoped that a harmonised reduction of production could be reached at the Community level in the event of a crisis, without having to resort to the cumbersome procedure of setting the production quotas. The crisis would therefore be handled in a sort of understanding supervised by the Community, with the Commission closely co-operating with producers, workers representatives, users, dealers, and representatives of the Member States. The producers were to respect the tonnages set this way, while the measures would be confined to the duration of the crisis. This way, there would not be a need to resort to Art. 95 ECSC, which presupposed the assent of the Council.

As for relations with third countries, already determined by a growing amount of interaction by the major steel-producing industries, the Commission set out to join in common efforts made by the main steel-producing countries to find orderly solutions to trade problems in steel on the world level. The intention here was to avoid crisis situations and 'beggar thy neighbour' politics through co-ordination and co-operation (Heusdens and de Horn, 1980:47). The Commission would furthermore endeavour to align imports from third countries with the absorption of capacities of the EC whilst avoiding unilateral actions, particularly from the US.

The Simonet Plan met with split reactions as the Germans found the proposals too dirigiste, while the French found them not far reaching enough (Tsoukalis and Strauss, 1987:200). Simonet justified his interpretation of the ECSC Treaty by pointing out that a cartellisation of the industry could not be ruled out in the case of crisis since the crisis provisions of the Treaty turned out to be inapplicable because of the slow and weighty procedures laid out in Arts. 58 and 61. The state of 'manifest crisis' meant that such a sharp deterioration in the situation that the measures in question could not be taken in time, i.e. when the depression in the market begins to
become apparent. To overcome this obstacle, the text presented by the Commission was placed outside the Treaty of Paris: it applied to a stage prior to a manifest crisis and reflected a different political attitude from that in the Treaty, which was deemed too rigid to meet the needs of the steel industry. The indicators to be used would not constitute an automatic crisis-triggering device. With respect to the compatibility of the new provisions to the Treaty, Simonet pointed out that the individual commitment of the producers vis-à-vis the Commission to respect, in the event of a crisis, the recommendations on production contained in the forward programmes, were not prohibited by Art. 65 of the Treaty. The co-operation sought with the associations of steel producers aimed at a balanced and equitable application of the tonnage fixed by the Commission and would not constitute a delegation of power. He did admit, however, that the mechanism did not provide for any sanctions against those failing to observe it. Yet the very structure of the steel market would give reason to believe that its operation would be fully guaranteed by certain 'psychological pressures' and perhaps political pressures (Agence Europe, 24.7.1976:11).

Meanwhile, external events had already contributed to the growing pressure for a crisis mechanism of some sort within the Community. In March 1976, the US International Trade Commission (ITC) had ruled that imports of stainless steels injured domestic producers. Despite the tariff-rate quota system introduced in 1971 (to expire at the end of September), it found that imports of these products continued to increase. On 16 March, President Ford called for the conclusion of bilateral agreements for orderly marketing. Without the conclusion of these within the following 90 days, the US would impose import quotas for a period of three years (Agence Europe, 18.3.1976:7). While Japan was ready to negotiate with Washington on the terms of a VER, the Commission was opposed to the President's decision, but faced the problem that it had no negotiation powers as the ECSC Treaty left trade policy within the competence of the Member States. Hence, Japan concluded an agreement with the US, whereas the EC reserved the right to take retaliatory measures under Art. XIX of the GATT (Agence Europe, 14/15.6.1976:9). At the GATT, the EC complained that Community exporters had already supplied the full quotas imposed by the US on speciality steel and called upon the US to dismantle the restrictions, as these meant that it would be practically impossible for European steel producers to make any further exports in the forthcoming quarter. Moreover, two more
Troublesome developments appeared in the deterioration in the Community balance of steel trade with third countries and in increase in the stocks of the steel merchants. Together, these developments represented a considerable threat to the fragile balance of the weak and uncertain Community market (Agence Europe, 2.10.1976:8).

The steel producers were quick to request the Commission to urgently take necessary stringent safeguard measures and singled out Spanish and especially Japanese producers as causing the disruption. In Commission circles, the possibility of genuine protection measures was instantly dismissed since the EC as a prime exporter of industrial products could not depart from its basically liberal stance to international trade (Agence Europe, 6.10.1976:10). The Commission therefore resorted to bilateral contacts and re-launched negotiations in the context of the OECD in November 1976. Although the results were kept secret, it emerged that the Japanese delegations were sympathetic to the complaints. Given the overall fragile nature of EC-Japan trade relations at the time, the problem was not so much a question of an agreement for the voluntary restriction of imports, but rather a statement of goodwill and self-discipline on the Common Market. In an 'atmosphere of good-will and co-operation', an agreement was reached that was considered satisfactory to both sides. The Japanese presented steel export forecasts that showed that the volume of Japanese imports would not exceed the 1976 level or even be on a slightly diminished level and welcomed the fact that threatened actions against Japanese supplies were not to be carried in the Community (Agence Europe, 15/16.10.1976:6). Fearing that the EC-Japan agreement on steel would result in some 1.5 million tonnes of Japanese steel being diverted to the US, however, the US steel industry asked the President to use all his influence, and retaliatory measures if necessary, to make the Community and Japan renounce the idea of applying their agreement (Agence Europe, 10.11.1976:8).

Now both the EC and Japan had to deal with the threat that the US President could suspend all privileges granted in the GATT or other trade agreements between the US, Japan and the Community.

25 At the time, the overall trade balance with Japan was regarded within the EC as highly problematic. In particular ship-building and non-tariff barriers impeding the penetration of the Japanese market with European products gave much reason for concern to Brussels and the individual member state governments. In this situation, Community was bracing itself for a more restrictive trade with Japan, whilst avoiding the use of unilateral measures (Agence Europe, 18.11.1976:5).
Thus, in December 1976, the decision on the Community's anti-crisis plan was finally made. Having secured a positive opinion of the Consultative Committee, the Commission decided to apply the anti-crisis device as of 1 January 1977. Against the background of an abnormally low level of prices and increasing employment, the Commission approved a communication to the companies (L334 of 20 December 1976) that laid down: Firstly, the obligation for steel producers to groups to send the Commission certain figures every month concerning their deliveries in the previous month. Secondly, an invitation to undersign a voluntary and confidential commitment to respect the rates of reduction laid down for their products and deliveries. Lastly, the rates of reduction planned for the various producers and groups on a confidential basis. The first months of the application of the mechanism were set out as being mainly experimental in character. The Commission urged producers to respect the self-restraint commitments on the basis of the reduction rates imparted to them because a lack of solidarity, even by a small number of companies, could seriously jeopardise the success of the actions taken. It indicated that non-respect would almost certainly result in the use of the stringent rules of the ECSC Treaty concerning a 'manifest crisis' with all the disadvantages of procedural rigidity which this would entail. As the anti-crisis arrangements essentially only concerned the internal harmonisation of the production and delivery targets, which as the Commission admitted could be endangered and destabilised by an increasing import penetration, the Commission announced its commitment to undertake further bilateral contacts with the administrations of the main steel supplying countries. Hence, Simonet did not rule out the possibility that trade policy measures could be envisaged by the EC in the event where the main steel exporting countries failed to respect their commitments to the Common Market and where violations of the commitments compromised destabilising effects on the anti-crisis measures (Agence Europe, 16.12.1976:7).

The EC's reaction was thus cautious, or rather it had to be cautious given the ECSC Treaty provisions and the external pressures facing it. As the proposals on the anti-crisis mechanism were developed and went through the decision-making process, it emerged that the Commission was not only increasingly engaged in its role as an interlocutor between the EC and the international sphere, but also carving out its primacy in the internal decision-making process in implementing of the crisis measures. Yet government involvement in the European steel industry did its part to
delay adjustment in the steel industry. The scope of government intervention in the steel industry triggered off a process of internalised protectionist expectations, which moved firms further away from market adjustment and towards a plea for government intervention in trade (Walter, 1983:488). Moreover, the ideological splits between the major Member States created considerable problems to arrive at a harmonised and coherent Community approach. The Commission's gradual assumption of the powers granted through the ECSC Treaty changed the structure of policy-making process in that the steel producers were increasingly incorporated and exposed a bias towards protectionist policy-making in the EC's steel sector. During this period, the Commission began to establish a mechanism to intervene in the steel sector and created an official framework for obtaining trade agreements on behalf of the European steel industries. As a result, a rather complex steel policy developed that combined internal arrangements, where the Commission had to rely on the cooperation of the Eurofer members, complemented by a series of commercial policy measures designed to control steel imports from third countries.

4.2.3 The Davignon Years (1977-79)

The portfolio of DG III was taken over by Count Etienne Davignon in January 1977. Davignon's arrival in office brought a quantitative and qualitative extension of the Community's steel policies (Grunert, 1987:232). Favouring an interventionist approach to the problems of the steel industry, Davignon responded to the demands of the national governments and steel producers more than any Commissioner before and since. Moreover, sometimes labelled 'Stevie Wonder' for his ability to broker deals where others had failed, Davignon was a policy entrepreneur and broker par excellence, who provided leadership from Brussels to the whole of the industry (Dudley and Richardson, 1999:234-5).

Within the EC, national governments had come under increasing pressure from steel workers and trade unions. As a result, subsidy payments towards the covering of company losses from France, Italy and Belgium increased (Conrad, 1997:90, Howell et al., 1988). As the Commission did not hold any powers in the field of controlling these, it became clear that the newly-appointed Davignon had to work towards a greater say of the Commission in the implementation and application of national
restructuring plans if the Community was to achieve a coherent structural policy (Agence Europe, 14/15.3.1977:7). Similarly, the deteriorating situation in late 1977 brought moves from the Member State governments to protect their national steel industries externally. With low priced steel imports from third countries (17 percent above the already high imports from the second quarter of 1977) and an imminent US ban against the important European steel exports (introduction of the Solomon Plan), the pressure for Community action increased for both the Commission and the Member States. Prior to this, the discussion about announcing a manifest crisis had come to life again. Countries such as France and Italy threatened to take national measures, through which the Community approach would have been greatly endangered, with all the political consequences thereof (Heusden and de Horn, 1980:57)²⁶. The Commission therefore decided in favour of a strategy that aimed at enabling as many companies as possible to survive the restructuring process, whilst creating conditions in which less competitive companies could restore their competitiveness. At the same time, Davignon acknowledged that the ECSC Treaty stipulated to take into account the social and regional aspects of the restructuring process, which made creating a framework to buffer the social consequences of necessary redundancies another aim of the Commission’s policy (Davingon, 1980:512). Thus the Commission preferred to co-ordinate the restructuring in co-operation with the companies and the Member States, rather than leaving the reduction of over-capacities to market forces. According to the Commission, leaving the reduction of over capacity to market forces, would have resulted in an even more increased price war among the steel producers given the tendencies of producer’s to wait for their competitors to reduce their capacities first (Commission 1982, SEC (82) 1564fin:10f).

Aiming at reorganising the internal market and keeping it protected from the external world economy (Grunert, 1987:232), Davignon gradually tightened the regulatory regime in the period from 1977 to 1980. As prices continued to fall it had became

²⁶ Davignon saw the continuation of the common market for steel as prerequisite for the future course of European integration. He subsequently perceived a real danger for continuation of European integration in national Member States' tendency to prevent the social consequences of the restructuring process by adopting national import restrictions and paying out subsidies. Given the severity of the steel crisis, a possible break-away of some Member States was a serious concern for the determination of the Commission's crisis policy. For this reason, finding a common solution that could include all Member States' individual interests was the ultimate objective for the Commission's crisis policy (Davignon, 1980).
clear that the Simonet Plan did not work according to plan. Price-cutting continued in the world export market and imports into the EC prevented producers from expanding their capacity utilisation. Prices collapsed rapidly, thereby triggering a fierce price war among producers. This involved false invoices describing low grade products that were in fact of a higher quality and pretending that steel quantities were to be sold outside the EC (thereby qualifying for discounts) and afterwards selling them within the EC. Moreover, Eurofer suppliers increasingly penetrated the UK market in apparent violation of secret penetration-ratio limits (Walter, 1979:176)\(^27\). Under the pressure of the intra-European price war, Eurofer was difficult to hold together and producers refused to co-operate, while the Commission's policy proved to be insufficient to restore normal market conditions on the European steel market (Axt, 1978:183ff).

4.2.3.1 Internal Measures

Initially intended to buy time (Walter, 1979:174) and ostensibly aimed at making the EC more competitive on world markets (Jones, 1983:57), the first Davignon Plan aimed at matching EC capacity to its internal needs at higher levels of efficiency and to reduce the European steel industries dependency on exports, including government aids to developing steel-making capacity aimed directly at export markets. Meanwhile, however, the usual market channels of adjustment, namely determining the excess value of steel capacity, closing down plants and laying off redundant workers, were rejected as to painful politically to be born by the Member State governments. Therefore, in February 1977 Davignon confirmed that the measures of the Simonet Plan were insufficient to bring about a recovery in the steel market. This required supplementary measures to be taken aimed at price recovery and the creation of middle-term instruments. With this Davignon introduced the idea that besides a better working system of market measures, an initiative should be taken in order to retain a modern production capacity by means of a restructuring policy on a European scale. The Commission's market policy should give the steel industry the breathing

\(^{27}\) The developing price war in the Community also deeply affected Japan. The reduced costs at which Japan was able to offer steel were well below those prevalent in the US of Europe. The Japanese understood very well the risk of a repetition of past patterns that would lead to new restrictions and were thus willing to respond to the signals - or specific proposals - from the US and the Community about not pushing too deeply into those markets. At one point, according to Diebold (1980:109), they were even in a position of complaining that when they stuck to the agreed prices they were undersold by Community producers who cheated.
space to restructure itself. This was the first time that the Commission admitted that the crisis was structural and not cyclical. Using Art. 4 ECSC, which allows for investments grants for rationalisation and extension if at the same time excess capacity is scrapped, the Commission supported local restructuring efforts (Fendel, 1981:41). Moreover, a common policy was to be carried out in consultations with the unions, the producers, the Member States, and the other EC institutions. Following extensive consultations with the steel industry and the unions, Davignon laid before the Commission a packet of supplementary measures intended to preserve the unity and openness of the European steel market. In the Council of Ministers session on 4 May 1977, the Member States were unable to unanimously agree to Davignon's proposal. Yet the growing pressure for unilateral measures in the most seriously affected countries of the Community as well as the increasing opposition to redundancies eventually forced Germany, followed by the Benelux countries, to adopt the Commission's Plan (Tsoukalis and da Silva Ferreira, 1980:361). This marked the beginning of the EC's direct involvement in the steel sector.

The Davignon Plan invoked Art. 61 ECSC for the first time and set a mandatory minimum price for a product particularly vulnerable to price-cutting, concrete reinforcing bars, prohibited the introduction of new price rebates and fixed voluntary 'guidance prices' on other steel products (L114 of 4 May 1977b, c, d). Ensuring the compliance of European steel producers with the measures of the Davignon Plan was a difficult undertaking. Already under the Simonet Plan many companies had refused to comply with the voluntary production quotas (Tsoukalis and Strauss, 1987:201). Reinforcing bars were subjected to a system of minimum prices since voluntary restrictions did not work for this category (L114 of 5 May 1977a). These prices were mandatory and agreed upon by Commission and Eurofer. However, the small and independent producers of reinforcing bars, and especially the Bresciani of Northern Italy, were not members of Eurofer. Refusing to obey any voluntary restrictions, they were in fact expanding their production by undercutting the major steel producers organised in Eurofer (Tsoukalis and Strauss, 1987:202). Since the Bresciani continued to ignore the Commission's decisions, it first tried the policy of the carrot by raising the guide prices. Since this did not work, the Commission under strong pressure from Eurofer tried the stick and took firms before the EJC, with the result that they were fined and eventually agreed to channel all their sales through a single, largely
Community-run, sales agency (Howell et al., 1988: 79). During 1978 and in 1979, the Commission brought at least 20 more cases for infringing price rules to the EJC (Tsoukalis and Strauss, 1987:202), though not all of them involved the Bresciani (for example, Usinor of France was fined in July 1978 for selling below agreed prices)\(^28\). Yet by early 1979, price-cutting by the Bresciani had moderated (Howell, et al., 1988:79).

The Davignon Plan furthermore included a voluntary agreement on production. They were non-binding since the Commission would have needed to declare a manifest crisis, which was impossible given German opposition at the time (Tsoukalis and da Silva Ferreira, 1980:361). In co-operation with the Commission, voluntary delivery quotas and minimum prices were fixed and allocated to the individual producers. In order to avoid a price war among the steel producers, the Commission also supported the formation of price and production cartels. Eurofer was particularly useful for the administration of the voluntary quotas, especially as previous negotiations among the national organisations had not brought sufficient results. With the support of the Commission and the foundation of the Eurofer I cartel, a sharing key of delivery quotas for the Community market and the export markets was achieved (Stotz, 1983:55-6). Henceforth, the producers were obliged to notify the Commission of their deliveries, but there was no enforcement mechanism that compelled them to stick to the commitments vis-à-vis the Commission.

Organising the crisis measures of the Davignon Plan involved an intensive administrative and organisational effort, into which the Commission was subsequently drawn into for the rest of the 1980s (see chapter five). Although initially fixed for only one product category, minimum prices and the control of them had to be extended to increasingly more product categories as producers started to shift their production into non-regulated categories. Likewise, the Commission was compelled to extend its controls to the steel traders. Between May 1977 and October 1979, the Commission subsequently conducted 181 checks of operations at producers and traders (Conrad, 1997:90-1). Given the serious situation on the steel market and both the industry's divisions over, and dissatisfaction with, the Commission's response

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\(^28\) As Davignon tried to impose discipline among European producers by levying fines on price-cutting firms, he is supposed to have said 'I live in a world without laws' (Diebold, 1980:109).

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(Tsoukalis and Strauss, 1987:198), it was by no means surprising that the producers did not adhere to the recommendations of the Commission and sold their steel below production costs. In fact, the producers did not even respect the recommendations of the Commission. Of 91 steel producers, only 50 agreed on the reductions, while 35 producers did not answer, and 5 Italian producers disapproved of the recommendations. Moreover, the steel producers only insufficiently respected their obligation to notify the Commission of their production, delivery and export data (Axt, 1978:183ff). Since the more competitive producers, such as Italy's Bresciani and Germany's Korf, refused to undertake voluntary production restraints, the Community steel industry continued an excessive price war.

4.2.3.2 External Measures

The control of imports was assured in the Davignon Plan by a number of measures. Initially, the Commission tried to control imports by introducing import licences which were valid for three months (Conrad, 1997:91). The Commission also made efforts to increase the effectiveness of the EC anti-dumping procedures and negotiating bilateral agreements with the EC's main external suppliers. Several amendments were introduced to the EC's anti-dumping procedures (L209 of 17 August 1977; L352 of 31 December 1977) - along the lines of the US Trigger Price Mechanism - in order to assure a more effective application of anti-dumping procedures and to use anti-dumping procedures in order to put pressure on foreign suppliers.

Penetration rates of the EC market had risen from 6.0 percent in 1973 to 11.3 percent in 1977. The Commission's efforts to establish control on internal competition would clearly have failed had this influx not been stemmed (Howell, et al. 1988:95). In order to secure its internal crisis measures, which would have been fatally compromised by an unregulated flow of imports, the Commission aspired to a comprehensive set of import controls to protect the producers organised in Eurofer. In view of the potential protectionist backlash from the US, however, the EC was forced to handle the situation carefully. After all, in 1977 the EC was a net-exporter of steel trying to recapture lost market shares in the US. Yet the EC had to avoid EC import restrictions having the effect that more world trade in steel was diverted into the US as this would
have fuelled protectionist sentiments within the US, possibly leading to import restrictions on EC exports to the US. For these reasons, the EC waited with the announcement of its basic price mechanism on 1 January 1978 until the US had introduced its trigger price mechanism (L353 of 31 December 1977; Jones, 1983:61). The EC thus avoided retaliatory action by waiting for the US to take the first step. Additionally, EC policy-makers were in a position to model their basic price mechanism on the American 'original' for their own purposes. Given the internal and external constraints of the Commission in its attempts to regulate the steel sector, the general shortage of ideas for politically and legally viable policy-instruments to deal with the steel industry's problems, the copying of the US move appears to have been the best possible policy alternative for the Commission at the time (Jones, 1983:62).

Thereafter, EC producers filed a large number of anti-dumping complaints with the Commission upon the implementation of the basic price mechanism on 1 January 1978 (Agence Europe, 2.1.1978:4) and within a few months detailed VRAs were agreed with the EC's main steel suppliers (see table 9 in the appendix). While EFTA producers negotiated amicable voluntary restraint agreements and did not receive anti-dumping fines, the persuasive power of these fines brought Japan, South Africa, Czechoslovakia and Spain to the negotiation table within a few months (Lowenfeld, 1979:292). More stubborn suppliers, such as Hungary, Romania, Poland, Australia and South Korea, were the last to eventually yield to the threat of definitive anti-dumping fines and concluded VRAs. In return for the VRAs, the Commission granted the signatories a penetration margin of 6 percent under the internal prices and European steel producers were prohibited from aligning their prices to imports from countries that had entered a VRA. Under the threat of anti-dumping procedures, 15 countries agreed in 1978 to restrict their exports to the EC to levels set by the Commission (Conrad, 1997:93, Howell et al., 1988:79). In addition, within the OECD Permanent Steel Committee, the EC as well as Japan expressed their favour for organised trade through price controls and agreed market shares in international trade. Yet progress was marred by major differences of view as to the desirability of quantitative shares to various steel markets, with the US taking a decidedly negative stand (Walter, 1979:184-6).
Overall, the Commission through the establishment of basic price mechanism and its deterrence potential successfully managed to regulate steel imports to the EC at fixed levels. Thus the basic price mechanism also achieved its aim of protecting the members of Eurofer from foreign competition. The Commission regarded the import system as a success, although individual Member States have sometimes taken a less sanguine view (Howell, et al., 1988:97). The agreements were re-negotiated annually, upon mandate from the Council to the Commission, and the system as a whole continued in operation up until 1988. Overall, imports to the EC have been substantially reduced through the system and all parties agreed that the success of the import controls was essential to the continued functioning of the Community cartel (Howell, et al., 1988:98). Chapter six investigates the EC's external relations during the 1980s and focuses strongly on the steel conflict with the US. Given this focus, the regulation of imports receives less attention in chapter six, which makes it appropriate to reflect a little further on the impact of import regulation at this stage.

The imposed external measures did not reflect the shifting patterns of international competitiveness and were destined to contribute to a delay of the necessary restructuring process in the EC steel sector (Tsoukalis and da Silva Ferreira, 1980:364). Furthermore, as concerns the imports from Japan, it has to be questioned whether the Community was able to keep imports under control since declining imports from Japan had more to do with Japanese rationalisation and less with EC measures (Shepperd, 1982; Abegglen, 1982). An additional point against the effectiveness of EC external measures can be found in the argument that it was the very low level of prices in the EC that kept foreign suppliers out of the market. Yet by subjecting steel to investigations of 'fair value', trade authorities in both US and EC reduced the politically volatile issue of protectionism to a technical question of guilt under existing trade laws. This allowed policy-makers not only to achieve a relatively low profile, but also greater flexibility in targeting restrictions than conventional, non-discriminatory import barriers would have had (Jones, 1983:64). Through selective enforcement, the setting of 'fair value' prices and negotiated export quotes, these policies enabled the EC to target the most disruptive suppliers or those least likely to retaliate.
Despite its initial success in controlling imports to the EC, the system of induced export restraints was nonetheless unable to revive the EC steel industry. In 1979, internal demand remained in a slump and capacity utilisation did not surpass 65 percent. Moreover, faced with losses and lay-offs in their national steel industries and stable import penetration as a result of the EC's external protection, some Member States, i.e. France and Belgium, resorted to subjecting steel companies to national control, with the result that 50 percent of the EC steel industry was thereafter under state control (Tsoukalis and Strauss, 1987:206). The diverse market structure of the EC steel industry continued to prevent Eurofer from maintaining market discipline and co-operation within Eurofer remained difficult to achieve. In particular, the reference prices and even mandatory minimum prices defied effective enforcement of the crisis cartel (Jones, 1983:66). The argument that the EC was able to alleviate the pressures of the crisis through effectively controlling imports therefore needs to be carefully considered.

4.2.3.3 Extensions of the Davignon Plan 1977-79

Although the system of minimum prices initially seemed to work successfully, the fixing of prices did not extend to production quantities. Since the measures taken concentrated on the market and the trading side of the industry, one cannot talk of an active structural policy of the Commission (Grunert, 1987:233). The slow up-turn in the business cycle of the steel industry after 1977 then had the effect that prices rose, but also brought an incentive for producers to extend their production and consequently to undermine the system of minimum prices (see above paragraph on the Bresciani; also Conrad, 1997:91: Howell et al., 1988, Tsoukalis and Strauss, 1987).

In March 1977, the Commission extended the crisis measures and allocated delivery quotas directly to the producers. Aiming at the reduction of production capacities and modernising production facilities, the Commission now concluded bilateral agreements between the Commission and the individual producers. Yet the terms of the agreements continued to be of a non-binding nature and based on so-called orientations. In order to make the producers follow these orientations, the Commission relied on Eurofer's ability to make its members adhere to the orientations.
Moreover, aiming at the establishment of a binding system of information, new moves were made in the field of restructuring and production control. Also in 1978, the Commission set up a system of consultation and communication between governments, firms and industrial federations in the steel sector, which went beyond the scope of the ECSC Treaty. The Commission not only organised *ad-hoc* meetings, but also more formal ones, such as the committee of high officials with responsibilities for industrial policies (ministerial civil servants and Commission officials), the task force for internal co-ordination between DGs, the liaison committee for the harmonisation of foreign trade strategy between the Commission and national representatives, and the 'monitoring group' of DG III and Eurofer which had the task of keeping the major producers to the agreed delivery quotas (Grunert, 1987:234).

Although the year 1978 was marked by the largely successful implementation of crisis measures taken by the Commission during the previous year, the Commission's success in introducing a binding system of control and harmonisation of national aids remained as uncertain as its attempts to achieve capacity cuts (Fendel, 1981:450ff). In fact, the general economic recovery in 1978-79 was largely responsible for the improvement in the steel market (Tsoukalis and Strauss, 1987:204). Thus market recovery was a consequence of external factors and the fact that the whole system collapsed in 1980 testifies to the ineffectiveness of the Davignon Plan. However, the Commission needs to attributed with at least some credit for its attempts to guide the steel sector and to exercise a leadership role in agreeing prices and quotas. It must be deemed impossible for Eurofer to arrive at prices and production quotas without the crucial role played by the Commission in this process (Tsoukalis and Strauss, 1987:204). Although the Commission was constantly criticised to be indecisive, it demonstrated that it could play an important role in a system of collective restraints.
on competition (Howell et al., 1988:78-9). Moreover, although the Commission was forced to give its blessing to open-ended subsidies, such as those in the UK and Italy, the Commission was not entirely powerless vis-à-vis the national governments and steel producers. The EC had some real influence on investment decisions as the Community's contribution to total investment in the steel industry in 1977 accounted to over 20 percent in addition to other forms of assistance coming from various Community Funds (Tsoukalis and da Silva Ferreira, 1980:363). 1978 was hence the year in which the Commission developed into a relevant industrial-political actor in functional and institutional terms (Grunert, 1987:234).
Conclusions

The EC did not get actively (directly) involved with policy-making in the steel sector before 1975, but thereafter a qualitative and quantitative change in the involvement of European institutions in the management of the ECSC can be observed. The EC experienced enormous difficulties in making the transition from trade liberalisation to the forms of joint economic management that were required in the face of the steel crisis that began to grip the steel sector during the 1970s. During the years from 1975 to 1979, characterised by a steadily deteriorating situation on the steel market, a burgeoning price war among European producers, and increasing import penetration, the importance of the ECSC gradually increased. Given the concentration of Community activity on the liberalisation of steel trade during the early years, the predominance of national forms of protectionism over supranational ones, and the absence of Community structures to negotiate and administer sectoral trade agreements, the EC's gradually assumed its responsibilities. In the wake of considerable pressure from steel producers and growing protectionist sentiments across the Member States from 1975 onwards, the Commission nevertheless gradually emerged as an interlocutor on the international level and mediator within the EC.

However, the Commission under Commissioner Spinelli only hesitantly set the precedent for supranational regulation of the steel industry. Initially, it was felt that as little as possible ought to be done to change the existing framework that had been operated for two decades. Since an increased EC involvement ran up against problems such as ideological differences among the Member States, existing competition policy provisions, the prospect of having to co-ordinate internal preferences under consideration of diverse and fragmented national steel markets, the Commission under Spinelli gave preference to indirect and voluntary measures. The process of agreeing these was facilitated by the worsening situation in the steel sector, which suggested the use of the crisis instruments that ECSC Treaty attached to the steel sector. Adding to the complexity of agreeing crisis measures was the fact that these had to be developed under consideration of the important external constraints of having to avoid an overtly protectionist stance in view of US protectionist/unilateralist sentiments and simultaneous GATT commitments. This resulted in a preference and set a precedent

167
for the use of orderly market arrangements in order to regulate international steel trade.

When it became apparent that the stopgap measures adopted under Commissioner Spinelli did not work, one important problem that had to be overcome in intensifying the crisis measures was that the ECSC Treaty did not allow for half-measure between purely indicative recommendations and obligatory Art. 58 measures. Another problem was that the Treaty did not provide for the intervention of associations and individual commitments by these. The crisis measures were therefore carefully re-defined under Commissioner Simonet and placed outside the ECSC Treaty. In order to avoid the disturbance of the internal balance of power that the intensified measures implied, the Simonet Plan was designed to work on the basis of mutual understanding between the affected parties (Member States, steel producers, dealers, workers). An appeal was made for solidarity as there was no enforcement mechanism and a fear that the market situation would worsen should the Simonet Plan fail. The external measures of the Simonet Plan reflected the absence of negotiation powers on part of the Commission and were derived under pressure by the US. Hence, the Commission resorted to GATT and OECD proceedings against US measures as it was keen not to leave its basically liberal stance on international steel trade. In addition, the Commission joined steel producers attempts to arrive at orderly market arrangements and assumed bilateral contacts with countries whose exports affected the fragile balance of the internal steel market.

Yet it was under Commissioner Davignon that the Commission turned into a relevant industrial-political actor. It could be debated whether it was ECSC powers or the needs of the moment that enabled Davignon to extent the Commission's influence. He was leading and partly shaping a process by which the Commission, the national governments, and especially the steel producers, nationalised or private, were trying to deal with the recession. Moreover, whether all were agreed that they should also work toward a more lasting adjustment is less clear, especially if it meant a contraction of the industry. Nonetheless, with close public supervision and indeed leadership the Commission tried to raise prices while keeping production as high as possible in order to give the industry the best return possible under the circumstances. Of course, the allocation of burdens and benefits among companies and countries was
by no means easy as the structure of European steel industries remained highly fragmented and the industry, while generally welcoming Davignon's approach, was tempted to gain a larger share of the market by cutting its prices, thereby undermining the Community approach.

The chances for success for the necessary restructuring of the European steel industry were therefore essentially limited and uncertain from the outset. After all, restructuring measures were based on non-binding agreements between the Commission and producers, relied on co-ordination and co-operation between the members of Eurofer, and had to be taken under conditions of cut-throat competition between European steel producers, between which solidarity was elusive. Furthermore, the beginning of a large scale subsidisation of national steel producers, against which the Commission was powerless, shows that the national industries looked more to their own governments than to the Community on these matters. It was thus the powers derived from the ECSC Treaty that had to be wielded by Davignon in the late 1970s as he tried to get the Community steel producers to adopt measures to cope with recession and then bring about structural change.

Consequently, there was more support for the Commission's efforts to control imports of foreign steel. The external measures adopted under Davignon (and Simonet) generally reflected the need not to upset the US and its steel producers and a desire to maintain a basically liberal approach to international steel trade within international fora. Subsequently, measures in this area were modelled along US lines of trade protection, whereas the rest of the steel suppliers to the Community were subjected to a system of VRAs. In general, it becomes apparent that pressures derived from international trade developments, in particular the growing readiness of the US to resort to more protectionist measures, contributed to the process of defining the EC's anti-crisis policy and increased the readiness to agree to Community crisis measures. However, problems to activate these derived from the diverging needs and structures of the diverse national steel industries, the Member States' preferences for either a more dirigiste or a more laissez-faire application of the crisis measures, the peculiarities of the ECSC Treaty, and the problem of establishing a consensus among the European steel producers. As far as external measures are concerned, however, it can be concluded that despite the limitation of not having a negotiation mandate the
measures taken by the Commission were comprehensive and effective. With the exception of the US, the EC managed to force all main suppliers to reduce their imports to the EC by concluding self-restraint agreements. In order to achieve this, the EC made elaborate use of anti-dumping legislation and used the scope for action these provide in order to establish a comprehensive and regulated import system. Yet, as it has been indicated in this chapter and will be seen in subsequent chapters, the effectiveness of the EC's management of the steel crisis depends to a great extent on the coherence of external and internal measures.
EVALUATION PART II: STRATEGIC ACTION IN STEEL FROM THE 1950s TO THE LATE 1970s

Looking back at this first part as a whole, it is perhaps appropriate to refer to the case of the EC between the 1950s and the late 1970s as an 'infant strategic actor'. The first point to make here is clearly that in the case of EC crisis policy in steel the decisive thrust for the development of the EC into a relevant industrial-political actor came as a consequence of a mix of interwoven external and internal factors relating to market developments, and not as a consequence of a designed and planned process that goes back to the establishment of the ECSC. When the need for an active Community approach became apparent, the strong location of steel within national structures, structural differences between national steel markets, ideological differences among Member States concerning crisis measures and methods, and the Commission's considerations concerning the balance of power within the Community all acted as a break to the development of an active, comprehensive strategy. As the EC had to undergo a complex process of developing action capacities in the field of steel policymaking in the late 1970s, it is thus justified to characterise strategic action capacities during the period of investigation as mostly reactive.

It is helpful to distinguish between strategic action relating to the setting of a Community framework and strategic action relating to specific measures designed and implemented to deal with external and internal challenges arising in the context of steel market developments. As for the first, it has to be stressed that the ECSC Treaty had already established the broad institutional framework for strategic action on the EC level via the establishment of EC institutions and provided the EC with powerful economic instruments to achieve its internally-generated objectives. It was therefore 'merely' a matter of activation and refinement of EC structures and instruments that had to be achieved. As this part showed, however, despite the supra-national fervour and the recognition of mutual interests and interdependence that helped in the establishment of the ECSC, the transition from national to supranational regulation of an strategically important industry like steel was complex and contested, especially as it touched heavily on the issue of national power and sovereignty. Here, Member State differences concerning the choice and extent of methods and the divide between privately-organised and state-owned steel industries within Member States were
important obstacles in agreeing a Community approach. Given these divides, establishing Community measures was hindered by the strong position of the Council of Ministers in the decision-making process. Since the Council of Ministers has the final say in important decisions, the fact that steel producers themselves favoured a Community approach did not facilitate the establishment of an effective Community framework to the problems of the steel industry.

The slow development of a Community framework for strategic action in the steel sector is also a consequence of the contradictions inherent in the ECSC Treaty. Firstly, the Treaty had contributed to the creation of national champions and strong ties between national steel producers and governments through investment links. This re-enforced the nationalised structure of the EC steel industry despite the existence of a Common Market in steel and ultimately caused problems to arrive at a Community approach. Secondly, the Treaty did not provide for half measure between indicative and obligatory regulation. In the absence of a general recognition that a Community approach was needed to tackle the structural problems of the steel industry, which would have facilitated the design of a Community approach, and given a general preference for national measures across the EC, crisis measures had to be developed that stopped short of activating the most powerful instruments available to the ECSC. Moreover, competition policy provisions contained in the ECSC Treaty complicated the establishment of a Community mechanism for the restructuring as Art. 65 ECSC had to be circumvented in order to achieve a harmonisation of EC production. Given the cut-throat conditions on European steel markets, establishing a harmonisation of production on the EC-level by the means of voluntary production agreements between the Commission and producers was extremely difficult. In terms of institutional and decision-making capacity, the Community was therefore essentially underdeveloped and ill-prepared to act.

Moreover, the development of a Community framework was shaped by external factors. The single most important factor was without doubt the predominant position of the US in the international system. The overall political and economic importance of the US in Europe, international institutions and the wider world economy, as well as the associated thrust for trade liberalisation and free trade, had to be taken into account when the EC began to shape its response and contributed to the essentially
limited preparedness of Member States and Commission to resort to the more *dirigiste* ECSC measures. Specifically relating to steel trade, and considering the export dependency of the European steel industry, the condition of the US steel market and the protectionist attitudes on part of the US steel producers were important factors that shaped the Community's response to the steel crisis (chapters six and eight further detail how these came to bear on EC steel policies). In addition, the Community developed its approach in the wider context of the GATT/OECD. Sticking to its basically liberal stance on international steel trade, the Commission not only attempted to find solutions to the steel problem within these frameworks, but also to utilise these for the defence of the EC's steel producers. On the whole, the development of the EC's action capacities during these years was therefore embedded in and conformed with its international obligations.

The difficulties involved in developing a Community framework for strategic action shaped and limited the choice of specific actions. External and internal crisis measures since Commissioner Spinelli reflected the limited powers of the Commission. As a result, internal measures were based on voluntary agreements, which, given the seriousness of the situation on the Community steel market and the powerlessness of the Commission vis-à-vis the Member States in the area of subsidisation, were bound to be largely ineffective (with the exception of investment decisions). The hesitant attitude towards Community measures on the part of Commissioner Spinelli (and to some extent of Commissioner Simonet) did not facilitate the design of effective crisis measures. Under Davignon, for either his personality or the persistence of the steel crisis and its social and regional effects, the Commission was able to develop a more assertive stance in terms of crisis measures. Yet the complexities involved in establishing a supranational approach to the problems of the European steel industry reflected into the choice and effectiveness of crisis measures. As a result, measures aimed at stabilising the common steel market were highly contested, undermined by the behaviour of the producers on the markets and the political behaviour of the national governments, and limited their effectiveness.

As for external crisis measures, the Commission enjoyed relatively more scope for action as it was much easier to find support for these from both industry and Member States. Hence, the Community succeeded in refining its system of external protection
by establishing a system of 'voluntary' export restraints with the major steel suppliers under the threat of sharpened anti-dumping action. US predominance was a decisive factor in shaping the EC's actions. The Commission had to consider the importance of the US steel market as an export outlet, avoid a redirection of steel imports to the US and be mindful of overall US free trade interest. Given the shortage of legally viable policy options and the need to keep a relatively low profile concerning the politically volatile issue of protectionism, the Commission thus modelled its *prix de base* system on the US TPM and waited for the US to take the first step towards an active trade protection. It accompanied these steps by parallel initiatives within the OECD. Leaving the effectiveness of external measures aside, it is therefore justified to conclude that EC's external strategic action capacities were developed faster and made more comprehensive in scope.
PART III: STRATEGIC ACTION IN STEEL IN THE 1980s

In part III, the thesis turns to EC policy-making in steel during the 1980s. Against the background of a worsening of the steel crisis at the beginning of 1980, the Commission in October declared a manifest crisis and activated the far-reaching crisis measures contained in Art. 58 ECSC. After the analysis of the gradual development of the Commission into a relevant industrial-political actor in the context of complex and interconnected external and internal factors and developments, from here on the thesis establishes a distinction between internal and external actions taken by the Community. Following on from the internal crisis measures devised by Commissioner Davignon in the late 1970s, the present chapter focuses especially on the internal aspects of the EC policy process in steel during the 1980s. In contrast, though departing from the same point in time, chapter six pursues a focus on the external measures taken by the Community in the context of the 1980s EC-US steel dispute as well as in the wider GATT context. The part concludes with an evaluation on the EC's strategic action capacities during the 1980s.
CHAPTER FIVE: INTERNAL POLICY-MAKING IN STEEL IN THE 1980s

Introduction

Hitherto, the thesis has explored the gradual development of EC crisis measures, the increasing involvement of the Commission in the management of the steel sector under successive Commissioners and the complex and interwoven internal and external factors influential upon this process. In this chapter, we are concerned with the further refinement of internal measures aimed at the steel sector and in particular the transition from indirect measures to direct measures based on the activation of Art. 58 ECSC. In this context, the present chapter will explore two main strands of EC activity: Firstly, the continuation of internal crisis measures aimed at the regulation of the EC's steel market by establishing and maintaining a system of production quotas. And secondly, the EC's efforts aimed at bringing about a restructuring of the European steel industry by bringing under the burgeoning subsidisation of steel national producers. In the last section, analysis turns to the Commission's attempts to retreat from the direct management of the steel sector in the second half of the 1980s.

5.1 Landscape of the Steel Industry in the 1980s

From 1977 to 1979, the system established by Davignon had been progressively strengthened and functioned reasonably well in 1978 and 1979. Following the slight economic upturn 1977-80, the situation on the EC's steel market improved and the measures that had been taken in 1978 were merely retained and not extended in 1979. After prices rose above orientation prices in 1979, the Commission was able to propose to abolish most of the system of minimum prices as of 1 January 1980. The Council of Ministers accepted the Commission's proposals and, after pressure from Germany, declared itself in favour of a code on subsidies (Agence Europe, 10.11.1979:4). Furthermore, the Commission asked Eurofer to take concrete steps towards the reduction of capacity, but the gradual stabilisation of the market and differences in national interests prevented progress on this matter (Grunert, 1987:234). Notwithstanding, the Commission had progressively assumed the role of the administering authority of a Community-wide steel cartel (Howell et al., 1988:72) and performed an important role in setting up a framework for the regulation of the steel industry. Although the first measures were of an emergency nature, many of
them became institutionalised and proved politically difficult to phase out, especially after the crisis worsened during the early 1980s.

Despite the measures taken by Davignon and the Commission in the late 1970s and the slight recovery in steel demand, capacity utilisation rates nevertheless sank in the course of 1980. In summer 1980, US steel producers started anti-dumping actions against the Community, which caused a sharp fall in EC exports to the US. In addition, steel demand in the auto and construction industries also fell sharply (Howell et al., 1988:80). As a major surplus in steel developed, European steel producers struggled for market shares, including wide-spread attempts to maintain sales volumes through price discounting\(^\text{29}\). In August and September, producers started to indicate that they were not interested in following the Commission's policy anymore and with the collapse of the voluntary agreements on prices and production quotas in the third quarter of 1980, Eurofer collapsed (Schaal, 1985:41), mainly because the German producer Klöckner felt that the Eurofer had outgrown its usefulness and refused to tie itself what it considered were measures propping up the weakest (Tsoukalis and Strauss, 1987:203). It became evident that the original voluntary measures of the Davignon plan had no lasting effect.

Following various attempts to restore the consensus among Eurofer members, which failed mainly due to opposition from German producers, Davignon felt that the Commission had no option but to invoke Art. 58 ECSC. The Commission had come to the conclusion that the indirect measures of the ECSC Treaty that it had applied up until this point were insufficient to reintroduce stability into the steel market while undertaking a simultaneous restructuring process (SEC (82)1564fin. of 29 October 1982:4). It felt that it had no choice but to activate the provisions of Art. 58 ECSC since it was unwilling to sacrifice the restructuring programme to cut-throat competition within the European steel industry (Müller, Loeber and Dey, 1983:194).

\(^{29}\) Davignon saw this as a 'senseless, self-destroying battle' and called upon European steel producers to learn from Japan, where overproduction had been swiftly reduced by a close consensus between all parties concerned (Howell et al., 1988:80).
5.2. EC Market Regulation in the 1980s

The Commission had thus arrived at the opinion that the excess capacities could not be brought down by the means of indirect market-controlling instruments. By the means of a production quota system, minimum prices and import restrictions, it intended to temporarily unhinge the market forces on the Common steel market and to co-ordinate the market policies of the steel companies. Given the tendency of the producer to wait for their competitors to reduce their capacities first, the Commission concluded that leaving the reduction of over-capacity to market forces would have resulted in an even more increased price war on the steel markets (SEC (82) 1564fin of 29 October 1982:5). On 6 October 1980, the Commission declared a 'manifest crisis' in the steel sector and approached the Council of Ministers for approval of the introduction of a system of production quotas based on Art. 58 ECSC. While eight Member States were ready to follow the Commission's proposal, the German delegation insisted on referring back to the German government (Müller, Loeber and Dey, 1983:194; Grunert, 1987:274). Likewise, on 16 October the Consultative Committee agreed to the proposal with the exemption of the German members. The Commission immediately started its preparations for the quota system by obliging steel producers to notify the Commission daily of their production figures for the month of October and announced that October would be fully included in the production quotas for the fourth quarter. Yet the process of fixing production quotas was interrupted by the German request for an emergency session of the Council of Ministers. In the Council of Ministers, Germany found itself isolated as eight Member States were willing to go ahead, with Italy remaining rather apprehensive at least so in the beginning. On 22 October, the German delegates demanded additional information and some amendments to the regulation of the quotas. After the Council members agreed to the changes proposed by the Germans, the Council was able to agree unanimously to activate Art. 58 ECSC on 30. October 1980. The fear of being politically-isolated, the need for a common European solution in order to preserve the common European steel market, which was of great importance to the German industry, and the growing financial losses of German steel producers eventually seem to have zipped the balance and the German government accepted the Commission's proposal (Tsoukalis and Strauss, 1987:211; Müller, Loeber and Dey, 1983). In co-
ordination with Eurofer, the Commission now introduced mandatory production quotas that affected about four-fifths of the EC's steel production (Howell et al., 1985:81). The introduction of the quota system was accompanied by a significant degree of bureaucratic expansion, in the course of which the staff of DG III rose quickly from 20 to 30 to over 100 (Dudley and Richardson, 1999:235).

5.2.1 The System of Production Quotas

Within the framework of the production quota system (L291 of 31 October 1980), the Commission fixed the quantity of steel that companies were allowed to produce on an annual basis. Mandatory quotas were introduced for coil and coated sheets, flat plate, heavy mouldings and light mouldings. Delivery quotas fixed the quantity of steel per product category that producers were allowed to sell within the EC. The remaining quantities were to be sold outside the EC. Companies were obliged to notify the Commission of their production and deliveries on a monthly basis. In order to ensure compliance with the allocated quotas and on instances when producers refused to give the required information on production and deliveries, the Commission had the right to impose fines on those producers who exceeded their allocated quotas (Art. 47 ECSC). In order to achieve the necessary capacity cuts, the Commission decided on cuts in production on a quarterly basis, but the producers had the option to exceed individual product quotas by a 3 percent margin as long as they produced less than the sum of all product-specific quotas. Another element of flexibility was introduced with the option for producers to transfer up to 50 percent of those quotas not fully used into the next quarter.

As it was not possible to terminate the crisis measures in 1981 and 1982, the Commission successively reintroduced compulsory quotas for a further 12 months. Import restrictions signed in 1981 with 14 major supplier countries included a reduction of 15 percent compared with quotas in 1980. These measures eventually resulted in an even bigger fall in steel imports to the EC in 1981. The strengthening of both internal and external measures since the worsening of the crisis in 1980 was coupled with a renewed emphasis on restructuring and with wider powers exercised

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30 For a very detailed account of the decision-making processes that led to the activation of Art. 58, and especially the German position, see Grunert (1987:274-92).
by the Commission on state aids and new investments. The decline in prices was finally arrested and was followed by successive price increases during the second half of 1981 and early 1982. Demand, on the other hand, continued to decline. The Commission was forced to introduce a further reduction of quotas in the fourth quarter of 1982. Previously, the Council had again empowered the Commission to issue legally-binding decisions in accordance with the ECSC Treaty and the compulsory production quotas by now covered almost the entire steel production (Tsoukalis and Strauss, 1987:211-13; Howell, et al. 1988).

In 1984, the Commission was forced to re-introduce minimum prices until 1985. The Commission aimed at helping the European steel producers that had suffered from another price collapse by raising minimum prices step by step (L373 of 31 December 1983). With the higher prices, the producers were expected to finance their restructuring measures themselves. In order to impose fines on producers who undermined the system of minimum prices, the Commission ordered producers to pay a deposit to the Commission. However, producers offered their steel products at below minimum prices yet again (Commission, 1985:110). Furthermore, the process of annual bargaining on quotas, a 'game of bluff and counterbluff', remained an issue of high political salience for most of the 1980s, with its outcomes dictated by criteria that had little to do with efficiency (Rhodes, 1989:76). Between 1984 and 1988, disagreements between producers and national governments created a stalemate in EC decision-making, which cost the Commission some credibility as its bluff was always called. The stabilisation of the Community steel market was eventually achieved after the steel market experienced an up-turn in the course of 1984. While minimum prices remained in force, the Commission increasingly came to represent the interests of the Community's steel industry in the field of foreign trade (see chapter six). This role of the Commission was paralleled by the considerable responsibility the Commission assumed in financing and controlling restructuring measures and in deciding the shape of a new steel industry (Grunert, 1987:239; Tsoukalis and Strauss, 1987).

5.2.1.1 Enforcement Problems of the Quota System
The system of production quotas relied on the principle of proportional sacrifices of all Community steel producers. Since the Commission fixed quotas not on the basis of productivity or competitiveness, but on past production and deliveries, European steel producers were called upon to comply with the quotas in the spirit of 'European solidarity'. Davignon stressed that the success of the restructuring process depended on the sacrifices of all European steel companies (Davignon, 1980:508ff).

Concerned with a possible break-up of the EC's internal steel market in the face of a worsening market situation, he justified the temporary suspension of competitive advantages for some European producers by the need to maintain the competitiveness of those more affected by restructuring measures. Moreover, Davignon also saw the continuation of the common market for steel as prerequisite for the future course of European integration. He subsequently perceived Member States' tendency to prevent the social consequences of the restructuring process by adopting national import restrictions and paying out subsidies as a real danger for the continuation of European integration. Given the severity of the steel crisis, a possible break-away of some Member States was a serious concern for the determination of the Commission's crisis policy. For this reason, finding a common solution that could include all Member States' individual interests was the ultimate objective for the Commission's crisis policy. The Commission therefore decided in favour of a strategy that aimed at enabling as many companies as possible to survive the restructuring process, whilst creating conditions in which less competitive companies could restore their competitiveness.

The effective operation of a system of mandatory production quotas depends also to a great extent on the accuracy of market forecasts. In this respect, the Commission was dependent on the co-operation of the steel producers. Since the producers had an inherent interest in cheating and undermining the quota system in order to gain a better share of the market for themselves, however, the Commission was bound to encounter severe problems in achieving capacity reductions (Wienert, 1993a:149). Moreover, as the system of production quotas developed its own dynamic (Wienert, 1990:210; Conrad, 1997:99), the problems the Commission encountered in enforcing capacity reductions were subsequently essentially the same as with the system of voluntary production restraints.
The Commission initially expected the measures to run for a few months. Yet the system not only had to be extended to over eight years, but over time also had to be extended to more and more product categories. It faced an extremely intensive organisational effort in allocating and administering company-specific production quotas. This was complicated by steel producers' attempts to influence the allocation of their specific quotas, which resulted in numerous exceptions to the system and increasing problems to ensuring the operationalisation of the system. The Commission was forced to employ 100 additional inspectors (Tsoukalis and Strauss, 1987:212) and consistently had to impose fines on producers that had exceeded their quotas. Former Commission officials also concede that the Commission was unable to effectively administer the system given its administrational burdens (Conrad, 1997:101). In addition, the Commission was dependent upon the administrative help of the national governments, which in the light of the severe situation on the steel markets was not forthcoming. Albeit, there still was a big difference between imposing fines and their final payments as producers who were penalised had the right to go to the ECJ. Though the Commission showed some resolve to make the quota system work by imposing heavy fines companies like Klöckner (Tsoukalis and Strauss, 1985:218), the ECJ in its rulings amended some of the quotas and lowered some of the fines imposed by the Commission. Although the situation had hardly improved by the end of 1982, nearly all parties concerned recognised that the crisis measures on 1982 were a step into the right direction. Despite criticism from all sides and the many inadequacies of the dirigiste arrangements, a tacit agreement seemed to have emerged that there was no alternative to the system put into operation (Grunert, 1987:240).

5.2.1.2 Co-operation with and within Eurofer

Both the size of the EC steel industry under direct state control (mainly France and Belgium) and the links between steel producers and national governments had increased considerably in the course of the crisis (Mény and Wright, 1987:23-32). To optimise their chances of success, steel producers lobbied intensively (individually and collectively through national steel associations) on both the national and the EC level. Through their national governments they brought pressure to bear on the Council of Ministers. In their direct interactions with the Commission, steel producers operated through Eurofer (and EISA in the case of smaller producers). While the
Commission did not have the effective means to enforce its decisions, it could draw on its position as arbiter and mediator among different corporate and national interests, which in the case of Eurofer translated into a clear leadership role (Tsoukalis and Strauss, 1987:217).

With the support of the Commission, the 19 largest Community producers founded Eurofer II in 1981. The Eurofer members shared the 30 percent of steel products not previously covered by the quota system (Stotz, 1983:70; Spethmann, 1985:73). The production and delivery quotas shared out this way could be traded among the members and, against protests from steel-manufacturing branches of the economy, the Commission even supported pricing agreements among the Eurofer II members (Conrad, 1998:102). Although the Commission tied the allocation of new quarterly production quotas to realised capacity reductions, capacity reductions remained under the Commissions projections. Therefore, the Commission reduced the allocated quotas for individual producers. Since the Eurofer II members were unable to agree among themselves on a new sharing key for the cuts in their quotas, Eurofer II collapsed in 1983 and the Commission had lost the collective support of the large producers over its anti-crisis policies. Although Davignon stated that the Commission did not depend on a placate from Eurofer to implement the measures, he recognised at the same time that co-operation with the producer organisation would make his task easier (Howell et al., 1988:86f).

In 1982, some producers started to ignore their quotas, claiming that they had been assessed incorrectly or unjustly (Krupp) or even questioning the legality of the quota system altogether (Klöckner). Consequently, the Commission increasingly had to put aside active regulating functions in favour of reactive sanctioning ones (Grunert, 1987:237). Given the deplorable state of the European steel industry and strong controversy concerning production figures and their individual interpretation by the Member States (Grunert, 1987:241), the arrangements made between the Commission and Eurofer were hardly observed at all during 1984. Just as numerous steel producers exceeded their quotas, many ignored the pricing arrangements. A number of firms
even declared that they did not feel bound at all by the arrangements made at the Council meeting of 28 July 1983\footnote{These were the British Steel Corporation, Usinor, Sacilor, Klöckner, Krupp, and Badische Stahlwerke.} (Agence Europe, 30.7.1983:12).

Thereafter, co-operation with Eurofer was even less successful. Ultimately, the differences between national steel producers have meant that Eurofer was extremely restricted in its endeavours to develop into an effective cartel (Woolcock, 1981b:72). The fact the restructuring took place inside national boundaries with strong government involvement meant that transnational co-operation on the production level was difficult to sustain and brought about a situation in which national champions dominated rather than the Common Market (Tsoukalis and Strauss, 1987:218). The process of intra-European co-operation on the company level has been hindered by the development of mistrust among the producers as a consequence of the harsh controversies concerning quotas and capacity reductions. The national bias of steel policies also had the consequence that transnational co-operation appeared too risky or burdened by regulations (Wienert, 1989:262-3; Tsoukalis and Strauss, 1987:218)

Following an increase in steel demand after 1984, Eurofer was able to agree on an internal compromise and founded the Eurofer III cartel (Howell \textit{et al.}, 1988:88). Like Eurofer II, however, Eurofer III collapsed shortly afterwards. The members could not agree on a sharing key for cuts in production quotas imposed by the Commission on some Member States for insufficient capacity reductions. The Commission then attempted to continue the production quota system and allocated quotas without the co-operation of Eurofer. This did not work because the quotas allocated by the Commission were either to high or because companies did not comply with them. As a consequence, steel prices plummeted again. Since the Commission viewed subsequent cartels like Eurofer IV and Eurofer V (in place up until 1988) as structural crisis cartels that did not succeed in agreeing the desired capacity reductions, the Commission eventually abandoned the idea of regulating the European steel market in close co-operation with Eurofer and presented its own system for the reduction of capacities to the Council of Ministers in 1987 (Conrad, 1997:103).
5.3 EC Restructuring in the 1980s

The objective to give the steel industry some breathing space survived the introduction of the system of production quotas in 1980 and the Commission's efforts were in fact intensified with the worsening of the crisis. The Commission thus considered its main task as promoting the process of rationalisation and restructuring. Although the Treaty of Paris strictly prohibited aids, the period prior to the mid-1970s had already experienced a 'gradual whittling away of clear-cut prohibition of subsidies' as during the years of rapid growth in the steel industry government aids facilitated the addition of new steel building capacity and enabled the producers to keep alive obsolete capacities (Howell et al., 1988:64). By the time the steel market collapsed in 1974, a de facto pattern of large-scale government aid had already been established and the Commission only belatedly recognised the threat that the subsidy race posed to the Common Market.

The Commission thus considered a strict code on subsidies an important cornerstone of its restructuring policy. However, a subsidy code required the unanimous consent of the Member States under Art. 94 ECSC, which was difficult to achieve since many governments during the 1980s continued to subsidise their national steel producers. The motives of national governments were not only the prevention of mass-scale job losses, but also the perceived need to preserve a certain degree of national self-sufficiency (Tsoukalis and Strauss, 1987:207; see also the interest determinants of the Member States in table 7 in the appendix). Hence, those Member States with state-owned steel industries (France, the UK, Italy and Belgium) attempted to prevent the imposition of a strict code on subsidies and blocked votes in the Council of Ministers until they had obtained a proposal that fitted their interests. In contrast, the Dutch and the Danish governments threatened to withdraw from a Community approach to the steel crisis in order to obtain a very restrictive code (Stotz, 1983:63; Fendel, 1981:481) Since a total prohibition of subsidies appeared impossible, the German government decided to yield to pressure from German producers and subsequently not only increased its subsidies to the German steel industry, but also supported the system of production quotas (Conrad, 1997:123). During this time, the Commission was the only institution that tried to identify the Community interest and to protect it against national governments and steel producers. Since rules on state aids are a
cornerstone of restructuring policy, the sections below analyse the developments and effects of the successive codes on subsidies produced by the EC.

After the manifest crisis had been declared in 1980, the Commission repeatedly pointed out that the crisis measures imposed under Art. 58 were of a temporary nature and were only to be maintained as long as was necessary to allow the industry to restructure. The Simonet and the Davignon Plan had symbolised the first attempts at formulating restructuring objectives (see chapter four). In December 1978, the Council formulated a number of coherent restructuring principles and stated that while the responsibility for restructuring programmes lie primarily at the company level, aspects concerning the control of the social, regional, economic and financial effects fell outside the framework of the producers and required a special solidarity (Agence Europe, 14.12.1978: 5). Subsequently, accompanying actions had to be undertaken on both Member State and EC level. While the first problem with restructuring is that it touched upon a great number of aspects (such as the dismantling of over-capacity, financial reconstruction, the restoration of international competitiveness through cost reduction, modernisation and rationalisation and the accommodation of social consequences for employees). Another problem was that the provisions of the ECSC Treaty on the restructuring process were less obvious than the ones on crisis policy. The main exception here is the provisions of Art. 56 ECSC (readjustment and social aid), and the Commission was subsequently forced to resort to the basic articles of the Treaty and to a few provisions which are not especially directed at restructuring as an integral matter (Heusden and de Horn, 1980: 68). The process of restructuring hence needed to be furthered by the Commission through its policies in particular areas (market, investment, price, social and financial aid policies). Considering both the individual conditions in each of the steel product categories and the peculiarities of steel-producing regions (such as geographical situation, degree of modernisation, debts, employment opportunities), it was difficult for the Commission to bring its steel restructuring policy under a comprehensive plan. These reasons as well as measures taken by individual Member States in the national steel industries, prevented the Commission from developing an all-embracing master plan (Heusden and de Horn, 1980: 68). Since the Commission had moved away from the clear-cut prohibition of subsidies, as laid down in Art. 4c ECSC, before the declaration of the manifest crisis, it was in need of new legal instruments in order to bring any future
growth of subsidies and national government intervention under control and to make
them subservient to the objectives of EC restructuring.

5.3.1 The Control of Subsidies (1980-89)

Closely related to the Commission's market control measures, subsidies were the most
divisive aspect of the steel crisis in the EC. Furthermore, along with cartellisation and
regulation, subsidies belong to the 'traditional' part of steel politics in most European
countries. According to estimates of the *Wirtschaftsvereinigung Stahl*, the German
Iron and Steel Federation, the governments of the Member States granted $44.8
billion in subsidies to the steel industry between 1975 and 1985 (quoted in Howell *et
al.*, 1988:63). Whatever restructuring had occurred before 1980 was more the result of
financial losses than of pressure from the EC. Between 1980 and 1985, the
Commission approved over $35.5 billion in subsidies to the steel industry. Nearly two
thirds of which was 'aid for 'continued operation', i.e. money injections to keep failing
companies afloat. During the same period, there were substantial subsidies that were
neither reported to nor approved by the Commission. Unfortunately for EC producers,
subsidy payments to producers in the EC fuelled heavily the foreign trade dispute with
the US (see chapter six). In this respect, the most unifying factor was the need to
preserve the Common market since the Member States found it in their interest to
negotiate as a unit with third countries in order to bring imports under control. Despite
the divergent approaches of the individual Member States, it is noteworthy that they
succeeded in keeping a united front *vis-à-vis* the US (Tsoukalis and Strauss,
1987:216). As far as internal restructuring is concerned, however, they were
confronted with a fundamentally more controversial situation, which centred mostly
on the issue of subsidies.

The question was therefore whether action should be taken on the EC or the national
level, or, more precisely, what would be the distribution of functions on the various
levels (Tsoukalis and Strauss, 1987:204). Under Davignon, the Commission's
restructuring policy had taken a purely national form and, with no political institution
capable of taking such a decision, there was no agreement on a sharing key for the
burdens of adjustment linked to restructuring. The Council was able to perform such a
function, but was deeply divided due to the divides between the various steel
industries and the diverging national approaches to steel crisis management (see table 7 in the appendix). Member State policies towards restructuring varied according to patterns of foreign trade, competitiveness, and ownership structure. Those countries that paid out most subsidies (France, the UK, Belgium and Italy) were also the ones that cut least of their capacity (Conrad, 1997:114). The Commission, on the other hand, had no powers vested into it. Hence, many governments took the easy option of just sitting on the problem and doing nothing. The German government was rather isolated in its determination to link the production quota system with setting a deadline for subsidiation (Dudley and Richardson, 1999:235). The Commission then tried to prevent the spreading of uncontrolled state aids in order to maintain the unity of the common steel market. As the Commission tried to emphasise the need for adjustment and argued that protectionist measures against third countries were of a temporary nature, the Commission's proposals reminded Tsoukalis and da Silva and Ferreira (1980:373) of what Haas (1964:111) had called the 'upgrading of common interests'.

Although the Commission proposed a first code on subsidies as early as 1978, the first binding code on subsidies was only approved in February 1980, following continual pressure from both German producers and the German government to bring the subsidy competition under control. Since two previous proposals did not find the approval of the Member States, the Commission initially resorted to the publication of guidelines for the treatment of national aids to the steel industry, which permitted subsidies only for the purpose of temporary restructuring (Howell et al., 1988:65). Finally facing reality and fulfilling its Treaty obligations, the Commission produced the first subsidy code in order to phase out national subsidies by the end of 1985 and to create conditions which would incite companies to reduce their capacities (COM(81) 71 final of 23 February 1981). Thereafter, the payment of subsidies by national governments to their steel producers was subjected to the Commission's approval. Aids for restructuring were also linked to a restructuring plan to be approved by the Commission. The conditions set through the restructuring plan, i.e. limited duration and digressive allocation of payments, could be circumvented on instances where social problems occurred or in order to facilitate closures. Investments aids continued to be permissible. Given that Art. 95 ECSC required unanimous consent from the Member States, the first subsidy code represented only a
weak compromise (Conrad, 1998:106) and, given the large number of redundancies and plummeting steel prices while the volume of subsidies actually grew, proved 'spectacularly ineffective' (Howell et al., 1988:65). In 1982, following German threats of imposing compensationary duties and import quotas for subsidised steel on other Community steel imports, the Commission conceded the insufficiency of the first subsidy code as those subsidies granted slowed down the restructuring process and hindered competition (COM (81) 71fin. of 5 February 1981:2).

After lengthy legal and parliamentary examinations, an improved code on subsidies was approved unanimously by the Council of Ministers in August 1981 (L228 of 13 August 1981). While the provisions of the first code were strengthened, the Commission decided in favour of a German initiative and included the concept of binding subsidies to capacity reductions. Informally, Germany made its continued co-operation dependent on a legally binding limitation of competition-distorting subsidies practised in other Member States (Grunert, 1987:237; Tsoukalis and Strauss, 1985:219). The new code enabled Brussels to intervene in restructuring programmes as it stipulated that aids would only be allowed if the recipient producers were applying a concrete and precise plan of restructuring. The Commission expected that through linking aids to capacity reductions, companies would predominantly withdraw unprofitable capacities from the market and that the restructuring plans would eventually ensure the competitiveness of producers and hence the financial viability of producers under normal market conditions (Tsoukalis and Strauss, 1987:209). Yet the Commission was forced to take legal steps against France, Italy and Belgium for offences against the subsidy code (Grunert, 1987:237). At the same time, pressure mounted on the stability of the European steel market following the trade measures initiated by the US against subsidised European steel and the Commission found itself engaged in continuous negotiations with the US from the end of 1981 onwards (see chapter seven).

Implementing the subsidy code and the production quota system took up most of the time and efforts of Commission officials concerned with steel policy (Grunert, 1987:238). In addition, the Commission had to approach its work with a very pragmatic attitude. Under the new code, all aids were to be notified to the Commission by 30 September 1982 and all aids were supposed to end by 1985. The
final decision regarding their compatibility with the restructuring programme would be reached by 1 July 1983. However, the Member State governments failed to submit the restructuring plans required for the allocation of subsidies and the Commission decided to provisionally pay out a part of the subsidies and set a new dead-line for July 1983. Again, the deadline expired as the Commission did not receive any restructuring plans. The Commission then decided to set yet another deadline for January 1984 and retrospectively approved the subsidies. The Commission received the restructuring plans in January 1984 and thereby avoided a confrontation with the those Member States that illegally handed out subsidies to their steel producers (Conrad, 1997:107). All producers in receipt of subsidies proved to be state-owned companies (Cockerill-Sambre, Usinor and Sacilor, Irish Steel, Finsider, British Steel, and Germany's Saarstahl). Furthermore, since the aids paid out already were insufficient, the Council of Ministers based on Art. 95 ECSC approved of another round of subsidies in 1983.

The Commission also allowed the Member States to take over the debts of their national steel producers as this in the view of the Commission had no bearing on the market (Howell et al., 1988:67). Conrad (1998:107) suspects that this concession was given to the Member States in return for their approval of the tightened code on subsidies. The Member States, however, continued to undermine the code on subsidies. For instance, in 1985 the Commission discovered that France and Belgium had respectively paid $338,5 million and $185 million in subsidies to national producers (Howell et al., 1988:66). While the Germans continued to be dissatisfied with the regulation of state aids to the steel industry, France in 1984 adopted a new steel plan that featured an infusion of $1,7 billion from the government to Usinor and Sacilor through 1987. As France and Italy formally requested an extension of the 1985 deadline and companies such as Usinor, Sacilor, Cockerill-Sambre, Finsider and British Steel reportedly required continuing operating aid (Howell et al., 1988:67), it became evident that the complete phase-out by 1985 would be a difficult and problematic undertaking.

Following heated debates in spring 1985 and the expiry of the second code on subsidies, the Council of Ministers nevertheless unanimously approved a third code of subsidies based on Art. 95 ECSC (L340 of 18 December 1985). Again, the code
represented a compromise as subsidies were prohibited unless they were intended to facilitate plant closures. Regional aids, R&D aids and state participation in environmental measures were also allowed. Two important changes were introduced: Firstly, capital increases of state-owned companies were classified as subsidies where national governments did not act like private providers of capital. Secondly, and more importantly, restructuring aids were only permissible when unanimously approved by the Council of Ministers on the basis of Art. 95 ECSC. Also in 1985, the Council of Ministers agreed on the termination of all subsidy payments to the steel industry as of 1986. Yet this decision represented another compromise as it gave France and Italy the opportunity to financially strengthen their highly indebted national steel producers before the ban on subsidies came into effect (Conrad, 1997:110).

Nevertheless, many forms of state aid to the steel industry continued after 1985. For instance, France, Belgium and Italy changed the form of subsidy payments. While France resorted to indirect capital increases through the state-owned Credit Lyonnais, Italy granted loans to its state-owned companies through the state-holding IRI. In the French case, the Commission approved of the capital increases because a Swiss constancy, employed on behalf of the Commission, came to the conclusion that the behaviour of the Credit Lyonnais was that of a private investor under normal market conditions (SEC (92) 2438final of 23 December 1992). In 1987, Italy's government granted a $1,5bn loan from government banks, which triggered strong German protests and an investigation by the Commission. Germany continued its fight against subsidies, alleging that France, Italy and Belgium continued to subsidise their steel industries covertly and illegally (Howell et al., 1988:70-1). By mid-1987, the steel producers of many Member States were openly requesting that the Commission once again permit subsidies to the steel industry, claiming that they were unable to survive the year without subsidies. Thus the third code on subsidies was largely taken over into the fourth code.

In approving national subsidies, the Commission continuously violated against Art. 4c ECSC. The Commission justified this practice by pointing out that the objectives contained in the ECSC Treaty (Arts. 2§2 and 3c, d, e ECSC) obliged the Commission to ensure that no disruption or discontinuation affected the economic activity in the steel sector and that according to Art. 3e ECSC its aim was to work towards the
improvement of life and working conditions. Since steel producers were not capable of ensuring this themselves and the Commission itself did not have the necessary financial means, the Commission concluded that this could only be achieved by allowing national subsidies (Conrad, 1997:110). The Commission thus only considered national subsidies that did not adhere with EC steel policy and subsidies that served other ends than the pursuit of the aims contained in the ECSC Treaty as violations against the general prohibition of subsidies. As chapter six shows, this practice contributed significantly to the EC-US steel conflict and, as a result, was dropped at the beginning of the 1990s (see chapter seven).

5.4 Phasing-Out the 1980s Crisis Measures

In 1985, Davignon was succeeded by Karl-Heinz Narjes as Commissioner of DG III. Under Narjes, who was less inclined to assume the role of a 'Mr Fix-it' (Dudley and Richardson, 1999:237) and favoured a freer market (Rhodes, 1989:70), the Commission initiated a change in its policy since it realised the negative side-effects of its previous policies (Conrad, 1997:116). Furthermore, when Davignon left office, the policy community he had created on the basis of a perception of a special relationship between steel and the state gave way to a certain 'power vacuum' in EC steel politics. During this period, EC policy-making in steel took place in the context of a latent struggle between competing policy demands, i.e. persistent 'interventionist' demands and new 'free-market' demands. Furthermore a transnational shift in policy fashion emphasised a reduced role of the state (through deregulation and privatisation) and led to a policy transfer across national boundaries (Dudley and Richardson, 1999:235).

A number of factors contributed to this development: Firstly, the market situation in the Community gradually improved and weakened the justification for an interventionist crisis policy. Since some of the major European steel producers, including the BSC and Usinor Sacilor, started writing black figures again, there was less need seen for restructuring and the continuation of crisis measures. Secondly, the Single Market Programme had considerable symbolic importance not only in overall political terms, but also specifically for the steel sector since it promoted the idea of subjecting subsidies to commonly agreed principles and disciplines. Thirdly,
commercial considerations and the rise of other defence-related industries contributed to a decline of the notion of steel as a special strategic industry within national policy arenas. Fourthly, the experiences of the early 1980s had led to an already mentioned disillusionment within the Commission. Particularly the obstructive attitudes that national governments and steel producers alike had displayed in the context of EC restructuring contributed to an increasing acceptance of free-market ideas within the Commission. This process was facilitated by several changes in Commission personnel, most notably the appointment of Sir Leon Brittan, the former Conservative Secretary for Trade and Industry, as Competition Commissioner, and Martin Bangemann, a former German finance minister, as Commissioner for both Internal Market and Industry. As Bangemann's dual role and broad-brush approach diverted some of his attention, the intra-institutional balance within the Commission shifted. Under Brittan, who was a political heavyweight and policy entrepreneur favouring free-market ideas, DG IV henceforth asserted itself much more over DG III on questions relating to the steel sector than in former years. The somewhat diluted role of DG III towards the end of the decade enabled Brittan to increasingly question the image of steel as a special case. He subsequently tried to make steel a test case for the adoption of free market values (Dudley and Richardson, 1999: 236-8, 1997; see also chapter seven).

Over time, the above developments had the effect that the Commission's steel policy gradually pursued more free-market ideas. The Commission concluded that the steel producers made no significant efforts to restore their international competitiveness as the external protection of the EC market assured them of their sales (COM(86) 585 of 13 November 1986:10). From then on, the Commission was poised to achieve the necessary reduction of over-capacities through market forces if an agreement of capacity reductions could not be reached in co-operation with Eurofer. Furthermore, under Narjes the Commission was not prepared to accept anymore that national governments enabled steel companies to cover their losses with subsidies (COM(86) 585 of 13 November 1986:3). However, the liberalisation of the EC steel market planned for 1986 was delayed by the Council of Ministers because of the economic situation of the French and Italian state-owned steel companies. Instead, the Council decided to impose a temporary regulation until the steel market was due liberalisation in 1988 and to improve the code on subsidies (Krägenau, 1986:55).
In the course of 1986, Naýes indicated that the anti-crisis measures were not to be renewed when they expired at the end of 1987 (Agence Europe, 22.9.1986:9). Yet by presenting a restructuring plan that foresaw a voluntary reduction of production capacities by 25m tonnes, Eurofer was able to forestall the measures as this was the tonnage the Commission considered necessary for a restructuring of the steel industry (Agence Europe, 16.9.1985:10). Therefore, pending the development of Eurofer's plan, the Council of Ministers decided to postpone a decision on the final liberalisation of the Community's steel market until March 1987 (Howell et al., 1988:88). Yet, Eurofer failed once again to reach a consensus among its members concerning the individual shares in the proposed capacity cuts. The Commission reacted by suspending the production quota for one product category, galvanised sheets, but retained the others. Eurofer's renewed failure to implement a restructuring scheme had provided a convenient excuse for the Member States to defer the politically uncomfortable decision to abandon the quota system. After all, the quota system had supported prices and helped to keep inefficient producers alive.

In July 1987, the Commission recommended the abolition of the quota system altogether (Agence Europe, 17.7.1987:5). The Council of Ministers, however, while agreeing that an extension of the quotas system should be linked to capacity cuts, voted for retention of the quota system and at the end of 1987 agreed on an extension of the regime for six months for four product categories. In addition, the Commission was asked to appoint 'Three Wise Men' in order to advise the Commission and the Council on how to secure firm commitments from steel producers on capacity reductions (Agence Europe, 9.10.1987:5). Following the investigation carried out by the 'Three Wise Men', the Commission reported that the industry was not in a position to agree sufficient restructuring agreements or to give undertakings in this direction. Moreover, possible arrangements proved to be to a large extent independent of the continuation of the quota system (COM(87) 640 fin. of 26 November 1987). Like Naýes, the 'Three Wise Men' disapproved of the production quotas system and demanded the whole system be scrapped as it conveniently shielded steel producers from competition and necessary production adjustment. Yet Member State pressure for retention of the quota system was substantial and the Council of Ministers at the

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end of 1987 agreed on another extension of the quota system by six months. The steel producers were given a deadline of 10 June 1988 to agree on additional capacity cuts.

Yet an upturn in the business cycle towards the end of 1987 had a negative effect on the steel producers' interest in achieving the capacity reductions. EC steel prices slowly rose to almost level world market steel prices in the course of 1988 and steel producers by March 1988 still had not agreed on the necessary capacity reductions. Thus, the Commission, against the demands of steel producers, eventually declared that the improved market situation did not justify a continuation of the system of production quotas (Financial Times, 24.6.1988:2). Subsequently, the Commission did not propose the continuation of the system to the Council of Ministers. The Council of Ministers could not find the necessary unanimous vote to overturn the Commission's decision and the quota system was abolished (Conrad, 1998:118; L25 of 29 January 1988). The Commission estimated the remaining over-capacity for 1988 at 30 million tonnes per annum (Commission, 1988:82). The Commission nevertheless emphasised that it would continue to protect the steel industry against unfair competition from third countries (Howell et al., 1988:93). However, the obstructive attitudes of national governments and steel producers alongside the extremely negative experiences with the production quota system in the 1980s created an element of disillusionment within the Commission and later contributed to an even further shift in the Commission's crisis policies (see chapter seven).
Conclusions

The 1980s were a decisive decade for the development of the European Community. The large financial losses of European steel producers triggered unprecedented levels of EC involvement in the steel industry and forced producers, national governments and the Commission to find immediate solutions to the structural problems of the European steel industry. In the course of the steel crisis, the approaches selected varied from initial liberal and non-interventionist measures to the direct interventions under Art. 58 ECSC. Under successive Commissioners responsible for steel, the degree of EC involvement and competence constantly increased and then peaked under Commissioner Davignon. It was therefore mainly political pressure from within the Member States, the need to preserve the Common Market and the fear of national protectionist policies that led the Commission to develop into an active industrial-political actor. Yet, this development cannot be detached from the development of the steel markets. At times, these provided decisive impulses for the Commission to step-up its efforts in the endeavour to enable as many European steel producers as possible to survive the crises and to create the often-quoted 'breathing space' needed for European producers to restore their competitiveness. After half a decade of negative experiences with interventionist crisis management and the establishment of a high degree of external protection, the EC in the second half of the 1980s was set to gradually return to a liberal framework for the management of the steel industry. However, it found itself deeply entangled in a web of constraints that had developed during the EC's direct steering of European steel policy.

The Commission's management of the steel industry was often hesitant, ad hoc and characterised by fragile compromises. The peculiarities of the EC decision-making process, with the Member States holding the final say through the Council of Ministers, coupled with the need to accommodate as many producers as possible were strong factors behind the EC's limitations in achieving a comprehensive, effective and long-term policy on restructuring. From the outset in the mid-1970s, the EC was constrained by a number of factors, such as German opposition to direct interventions, the objective to safeguard competition in the steel sector, international commitments of the EC, and the general lack of preparation of the Community for interventions in institutional terms. Nevertheless, in the system of collective management that did
develop in the European steel sector, the Commission played a crucial role. Since it had little political power, however, it had to strive hard at each instance to build a coalition of interest in order to act. The important legal powers the Commission was given by the ECSC Treaty did not easily translate into political action. Crucially, the Commission lacked the effective means to enforce its decisions, which meant that it had to draw on its position as an arbiter and mediator between corporate and national interests and its right on information provided by the ECSC Treaty in order to carry out its work. Moreover, factors that enabled the Commission to carry out its work in the face of wide-spread opposition to EC measures included the 'scapegoat' function for unpopular decisions vis-à-vis national electorates and the personality of Commissioner Davignon in reconciling divergent interest among the numerous stakeholders participating in EC steel policies.

The Commission's prohibitive measures were unable to eliminate subsidies and had the effect that national state aid measures were driven under ground or extended in different forms. Furthermore, the Commission was often forced to turn a blind eye to open-ended subsidies which were meant to keep obsolete plants alive. Using Art. 95 ECSC, which provided for exemptions to the ECSC Treaty, enabled the Member States to circumvent the prohibition of subsidies contained in the ECSC Treaty. It can also be argued that much of the restructuring that did take place was the result of huge financial losses and national government's unwillingness to continue indefinitely subsidising their industries, rather than the pressure exercised by the Commission. After all, the restructuring plans were adopted and implemented on a purely national basis.

There is a learning curve in the EC's attempts to manage the steel sector. The extremely negative experience of the production quota system, as expressed in the obstructive behaviour of national governments and producers alike, paved the way for a realisation that EC involvement had gone too far and that the overall aim of improving the situation of the European steel industry might best be left to the power of market forces. However, the de facto pattern of subsidisation that had been established since the mid-1970s was re-enforced through successive slumps in the development of demand and became an integral part of the EC's restructuring policy through continuous practice on the part of the Member States. Once these patterns had
been established, it was extremely difficult in political and economic terms to contain subsidisation. Again, swings for the better in the market development provided the foundation for the most promising steps to break the deadlock that had affected the EC steel policy throughout the 1980s.
CHAPTER SIX: THE 1980s EC-US STEEL CONFLICT

Introduction

The EC's sheer size, in terms of its consumption and production and its volume of trade, made it inevitable that the EC's market interventions since the beginning of the crisis in the 1970s had a strong impact on world steel trade. Reflecting the dominant position of the US in the world economy, EC's external steel policies from the outset in the 1970s had been shaped with possible counteractions by the US in mind. Therefore, rather than treating EC-US interactions in steel as just one feature of the EC's external crisis measures, this chapter focuses strongly on EC-US interactions in steel throughout the 1980s. While the steel problem between the EC and the US also transpired onto the multilateral plane, the impetus of US policy on EC steel policy intensified during the 1980s and, as this chapter will show, contributed significantly to the shaping of the Community's global approach to steel policy.

This chapter is divided into five sections. After a brief background section that puts EC-US relations in steel in context, the second section shows how the EC in the early 1980s was drawn into negotiations on a VRA by strong pressure from the US steel industry. The third section is primarily concerned with analysing the negotiation process of the 1982 steel VRA, but gives particular attention to the process of establishing a global Community approach. In the fourth section, a number of contested issues that caused problems between the EC and the US after the conclusion of the 1982 VRA are analysed. The last section, then analyses the 1989 renegotiations of the VRA(s) in the context of the on-going GATT Uruguay Round.

6.1 The Background of the EC-US Steel Problem

The EC-US conflict in steel in the 1980s has to be seen against the background of a number of factors. A central factor was the structural decline of steel consumption in both Europe and the US (Messerlin, 1987; Hogan, 1983; Goldberg, 1986). Steel producers on both sides of the Atlantic faced slow growth in demand, low prices and constant warfare over market share of world consumption. In addition, new entrants disrupted international steel markets and competitive materials had shrunk particularly the US steel industry (see section 3.1). More specifically, since 1974 very slow
growth in both OECD and developing countries had combined with a tendency of governments, and many consumers, to shift away from investment aimed at the infrastructure, while at the same time many consumers had started to substitute lighter materials for steel. The result was negligible growth in world steel consumption from 1974 to 1979 and a decline from 1979 to 1983. The world steel industry subsequently operated with a substantial overhang of excess capacity. Also, the less developed countries had expanded their share of Western world steel production to nearly 16 percent and thereby reduced their dependency upon imports at the same time that some had become exporters of important selected products. As the developing countries continued to expand their export capacities, American and European producers were subsequently forced to retrench.

Another important factor was the competitive decline of the US steel industry. Contrasting with the otherwise prevailing free-trade ethos of the US, the US steel industry had enjoyed almost constant protection for more than twenty years (Conrad, 1995; Levine, 1985; Tiffany, 1988) as US steel producers successfully lobbied American governments to introduce a variety of import regulation devices. The degree of this decline cannot solely be attributed to cyclical effects, structural changes and supply side complications. Factors such as the investment policy of the US steel industry, the technological performance of the US steel industry, periodical strikes that affected patterns of consumption, and increases in employment costs also played a role (Barnett and Schorch, 1983; Mueller and Van Der Ven, 1982; Tiffany, 1988; Goldberg, 1986). In the course of this decline, the US turned into a net importer of steel in 1959 and remained one ever since.

The EC was a net exporter of steel and depended on the US market for its exports. From the outset, the EC was thus in a somewhat weaker position because it wished to keep as much of the US steel export market as possible. The US, on the other hand, as a net importer of steel, was not constrained by the threat of retaliation (Woolcock, et al, 1985:50). Moreover, the excess capacity now generated by European producers resulted in an enormous downward pressure on prices within the Community and forced producers to operate at uneconomically low rates. In the EC and elsewhere, the natural outlet for the internal pressures was therefore exports (Shepherd, 1982:132). They enabled the European producers to operate at higher utilisation rates and
facilitated efforts to stabilise internal prices by removing surplus inventories from the EC. In addition, they permitted the Member States to avoid, or at least delay, confronting the political and social problems that capacity reductions throw up (Howell, et al., 1988:99). European steel products were generally sold at prices below those prevailing within the EC and below the costs of productions of European producers, thereby creating problems with many other established steel-exporting nations seeking sales in an increasingly crowded international steel market. Given the divergent degrees of export dependence of the European steel producing countries and the fragile state of the EC steel market, the loss of the US market, even to few EC producers, could have implied the collapse of the EC's crisis programme. The EC-US dispute thus drove a wedge between various European steel industries (Woolcock et al., 1985:50, Howell, et al. 1988).

Once the US government had granted the US steel industry protection because of its political importance at the end of the 1960s, the integrated US producers recognised the value of good political representation. The US government had therefore pointed the way to a 'rent-seeking society' (Conrad, 1995:156). Rather than taking internal measures to ensure an overdue restructuring process, the US government addressed the 1980s steel problem by again granting protection of foreign steel imports (Woolcock, 1982:615; Benyon and Bourgeois, 1984:311; Conrad, 1995, Levine, 1985). Since both US producers and foreign exporters now had an interest in reaping the supra-competitive prices from the US market, the US government frequently found itself pushed towards negotiating voluntary restraint agreements that fix quantitative limits to steel imports (Goldberg, 1986, Tiffany, 1988). The US government was a more or less passive recipient of difficult foreign trade suits and under constant pressure to negotiate bilateral restraint agreements. Given the traditionally strong links between US steel producers and Congress, the relationship between the US steel industry and the US government often amounted to a situation in which the industry was able to hold the government hostage. The protectionist spiral in the US took another turn when the US steel industry saw the total penetration rate

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33 US policy made no attempt to link protection to industrial performance. The Salomon Plan of 1977, which came closest to a comprehensive restructuring policy for the US steel industry, was in essence a short-term political expediency (Woolcock, et al. 1985:42).

34 For an extensive accounts of protectionist decision-making processes in the US see Jones (1986) and especially the definitive account on the 1980s EC-US steel conflict by Van Der Ven and Grunert (1987).
of the US steel market rise from under 3 percent in 1958 to more than 20 percent in 1982 (Van Der Ven and Grunert, 1987:139). Re-enforced through an increase in the value of the dollar vis-à-vis European currencies, imports from Member States of the EC increased dramatically in 1981 (Conrad, 1997:127). By 1982, the average price differential between US producers and the world export market had risen to over $100 per tonne - far more than the difference required for inducing increased import penetration. However, the degree of penetration was not the main cause of the US producer’s concern. Rather it was the depressing effect of imports upon domestic prices and profit margins in the high-cost US market.

The US and the EC had pursued divergent approaches in response to the steel crisis during the 1970s. Both the EC and the US had supported domestic prices (TPM and basic price mechanism) and the fragile international consensus that had been achieved was to be consolidated in the newly created OECD Steel Committee. But EC and US attempts to work out a compromise did not last long as the OECD was not fully used apart from offering both sides a forum to vent its frustrations about the unfair practices of the other (Woolcock et al, 1985:29). Subsidies became the central bone of contention (Conrad, 1995, 1997; Dominick, 1984, Benyon and Bourgeois, 1984). The chance to settle the question of domestic subsidies had been missed during the GATT Tokyo Round (Dominick, 1984:356). Now this question became even more controversial in the light of the US tendency to define subsidies unilaterally in the absence of a clear definition of subsidies within the GATT subsidy code (Benyon and Bourgeois, 1984:319ff; Conrad, 1995). In general, the GATT subsidy code explicitly prohibited export subsidies and rendered these countervailable (Art. VI, 3 and 3a). Yet it approved of the allocation of subsidies for restructuring purposes, which created a problem of interpretation. While the Commission justified the allocation of subsidies in the EC with restructuring purposes, the US justified its countervailing action against EC exports by pointing to the injury EC exports caused to the US industry (Benyon and Bourgeois, 1984:323ff; Dominick, 1984). Under strong domestic protectionist pressure from the steel industry and Congress in the early 1980s, the Reagan administration was poised to settle, once and for all, the argument about harassment and unfairness of dumped and subsidised steel exports to the US.
Lastly, the early 1980s were a politically difficult period for EC-US relations. The emerging steel dispute, while generally deemed the least difficult to resolve, evolved in the context of other political issues that put pressure on the overall transatlantic relationship. East-West trade issues, such as the Siberian gas-pipeline conflict, and above all serious disagreements between the US and the Community over agricultural trade, overshadowed foreign relations between the US and the Community during this time (Woolcock, 1982; Grunert, 1985).

6.2 From the TPM to the Announcement of Countervailing Duty Margins

Preceding the negotiation of the 1982 EC-US steel agreement was a controversy between the US and the EC that centred on the adequacy of the US TPM in the late 1970s (Van Der Ven and Grunert, 1987; Jones, 1986). The TPM was widely regarded as insufficient and gradually proved inadequate (Hudson and Sadler, 1989: 50), US steel producers put pressure on the US administration by threatening to file anti-dumping suits. The Carter administration was torn between its basic neo-liberal stance on trade, its determination to fight inflation, protectionist pressure in Congress and the prospect of seriously troubled relations with Europe and Japan (Van Der Ven and Grunert, 1987: 146; Woolcock, 1982: 614). Thus it maintained and adapted the TPM for as long as possible. In Europe, despite the divergent interests of European steel producers, the stability and predictability of the TPM was preferred to the uncertainty and disruption that would come with anti-dumping and countervailing duty actions. In addition, the Commission was opposed to the idea of a VRA, with Davignon taking the view that no steel market, no matter how big, could entertain the idea of a policy that did not take account of other markets (Agence Europe, 1.3.1980: 12). Subsequently, the Commission, pursuing the Community interest, strongly favoured the principle of the TPM and tried to co-operate with the Department of Commerce in adapting the TPM.

When the total of steel imports in October 1981 appeared to be 62 percent higher than in August 1980, the US Steel Corporation threatened to file anti-dumping suits and, for the first time, countervailing suits as well (Van Der Ven and Grunert, 1987: 150). Although Secretary of Commerce Baldwin made an effort to persuade the US industry of the administration's willingness and ability to administer the TPM effectively, the
industry continued the preparation of suits as. Yet for both the US steel industry and the bipartisan US Congress the only possible choice was between a far reaching voluntary restraint of exports or a unilateral scheme of quantitative limitations. Since for ideological reasons any type of VRAs were initially ruled out, the US administration was caught between the ruling free trade ideology and immense domestic political pressure. The new Reagan administration thus transmitted a message to Brussels at the end of 1981 that made it clear that a solution to the problem had to be found on the European side. Despite intense shuttle diplomacy between Brussels and Washington during this time, both administrations lacked the persuasive power to bring about an agreement between the two industries which would avoid the need for either law suits or severe self restraints (Van Der Ven and Grunert, 1987:150).

In January 1982, the US steel industry brought the debate on the TPM to an end and filed 38 anti-dumping cases and, for the first time, 94 countervailing duty cases. It was the highest number of suits that had ever been filed at the same time (Austmann, 1989:169). The alleged subsidy and dumping margins were so high that, if upheld, the US market would have been completely shut off as an export outlet. From the outset, it was clear that the US industry was never really interested in the imposition of duties and that the filing of the suits merely provided the US industry with the means to obtain a system of import quotas (Van Der Ven and Grunert, 1987:151; Austmann, 1989). Amongst others, seven EC countries were subjected to US investigations (Belgium, West Germany, France, Italy, Luxembourg, the Netherlands and the UK). The US steel producers' allegations of export subsidies were aimed particularly at the UK, France, Belgium and Italy (Kulms, 1988; Grunert, 1985). The German and Dutch producers supported the US claims since punitive duties would have implied a competitive advantage of these producers on the US market (Conrad, 1997:127).

Claiming full competitiveness with other steel producing nations, the US industry blamed its problems solely on external factors, such as government policies and unfair trade practices on part of foreign producers. The Commission's argument in

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35 The concentration on countervailing duties can be explained by the fact that in times of an overvalued dollar anti-dumping actions are not particularly effective.

36 For a detailed description of the US procedures involved in investigating anti-dumping and countervailing duty suits see Benyon and Bourgeois (1984).
encountering the US allegations are summarised by Van Der Ven and Grunert (1987:152) as follows: firstly, the Commission argued that the American complaints contravened the November 1977 OECD steel agreement, which stated the need of a thorough restructuring of the steel sector and the principle of sharing sacrifices equally in a way that avoided jeopardising the traditional trade flows. The EC was not guilty of subsidised exports as it operated a close monitoring system and those subsidies granted by the Member States to their steel industries were subject to compliance with the EC's subsidy code which tied restructuring aids to capacity reductions. As these subsidies were not export subsidies and did not stimulate exports to the US, they were subsequently not countervailable. Secondly, claims maintaining that the Community was exporting unemployment into the US were unfair, since unemployment had fallen by 20 percent in the EC compared to only 13 percent in the US. Thirdly, claims of material injury were unfounded since the poor performance of the US steel industry was a consequence of the deterioration of the US economy as a whole. Finally, the Commission argued that the proceedings of the US administration were not in harmony with international agreements, such as the GATT.

During the following nine months, the time span in which the countervailing duty investigations were to be determined, the Commission acted as the spokesman for the European steel industry. However, it always had to refer back to EC institutions to obtain approval or mandates to negotiate. The first stage of the transatlantic steel conflict was thus 'characterised by positional manoeuvring rather than serious bargaining, and more public posturing than problem solving' (Van Der Ven and Grunert, 1987:155). Given that the determination of countervailing duty margins was a matter that was handled by the US authorities, the EC was confined to waiting for the outcome and voicing a strong protest. In the light of the structural and political divisions among the European steel industry and the pressures under which EC

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37The injury test applied by the ITC had been a major bone of contention already during the Tokyo Round. Here, the US had sought to tighten the rules governing subsidies, while the Community had tried to ensure that the injury test was made harder. The Community had insisted on introducing the term material injury into the US legislation implementing the Tokyo Round since if the US was to be allowed to take countervailing action against subsidies when its industry was injured, the EC wanted to make sure the US did not find injury to easy. At the time, material injury was considered to be a harder test to pass than the existing US injury test (Woolcock et al., 1985:47).

38Moreover, within the Community there was an impression that the US steel industry had intentionally embarked on a massive harassment campaign, which was specifically directed at the European steel industry. Although many cases were later withdrawn, this impression lasted among European steel producers until today (Interview with German company official, April 1997; see chapter eight).
producers operated in implementing the internal restructuring efforts, the Commission was concerned with creating a joint (global) European approach, since such an approach constituted an important prerequisite for the success of its Common market steel policies (Van Der Ven and Grunert, 1987:150-1)\textsuperscript{39}. Thus, the Commission preferred a process of burdensharing among the European steel producers as part of a voluntary restraint agreement with the US (Benyon and Bourgeois, 1984:314; Grunert, 1985:31).

The details of the events that eventually led to the EC and the US to begin negotiations on a VRA are comprehensively described in the account of Van Der Ven and Grunert (1987:150-60). It suffices to point out that in the course of this investigation, the findings of the International Trade Commission (ITC) reduced the number of cases from 132 to 55, but kept the bulk of steel trade under litigation (Van Der Ven and Grunert, 1987:155). The turning point in transatlantic dialogue on the steel problem came in June 1982, when the Department of Commerce announced its preliminary finding that seven Member State governments had unfairly subsidised steel export to the US. Although the US industry had charged in its petitions that subsidies were substantially higher for the European steel industry the preliminary findings were still disastrous since the countervailing duties effectively closed the US market for many European producers (Mueller and Van Der Ven, 1982:260; Woolcock, 1982:616). Deeply angered, they reproached the US for what in their view constituted a violation of international trade conventions. The European Council called for an immediate meeting of the GATT subsidy committee in order to contest the 'major innovation in world trading law' and the Department of Commerce 'extreme and unilateral' findings on subsidies (Woolcock, 1982:616). It also broadened the scope of its response by announcing that it would examine measures against American exporters that benefited from the US Domestic International Sales Corporation Programme\textsuperscript{40}. Rather than examining the exact sequence of events leading up to the beginning of official negotiations, however, we shall concentrate

\textsuperscript{39}In trying to establish a common European approach the Commission took account of the problems and interests of the steel traders, but gave priority to the concerns of steel producers (Interview with DG III Official, 28.4.1998). This is a consequence of the Commission's over-riding concern to enable the steel producers to export and sell their products abroad.

\textsuperscript{40}This was an export subsidy programme worth over one billion dollars per year and not allowed under GATT rules.
here on a number of important points that explain the dynamics of interactions between the Community and the US during this time.

The first point to make is that issues such as the interpretation of the concept of a domestic subsidy, the valuation of subsidies, and definitions of government equity participation went well beyond the sectional interests of the steel industry and transcended into the multilateral plane. Here, the EC-US steel conflict revealed a clash in economic ideologies (Van Der Ven and Grunert, 1987:160) and was a result of fundamental differences in both sides' approaches to trade and industry (Woolcock et al., 1985:45). The main obstacle was the permissiveness of the existing GATT provisions and the divergent interpretations by the US and the Community. The so-called 'traffic light' principle, developed during the Tokyo Round, had proven inadequate as the GATT code on subsidies allowed each side to put their own rules and legislation to use (Woolcock, et al., 1985:51). In the face of both past experience and failure to agree on some of the most important interpretations of the GATT subsidy code, neither the US nor the EC expected to find a timely solution within the framework of the GATT dispute settlement procedure. Moreover, there was never any question of the US and the EC referring the steel issue to the dispute settlement procedures of the GATT (Mueller and Van Der Ven, 1882:277). They therefore decided in favour of seeking a bilateral agreement and to side-step a GATT solution.

Before official negotiations could begin, the US government had to change its attitude towards a negotiated settlement. The approach of the US government to the problems of the US steel industry underwent significant changes over time (Conrad, 1995; Woolcock, 1982) and successive administrations varied in their interpretation and application of US trade law. Importantly, the idea of negotiating VRAs runs up against US anti-trust laws as any agreement among firms which fix prices or restricts supply violated Art. 1 of the Sherman Anti-trust Act. Ever since the first 1969-71 VRA (see section 4.1.1) this consideration provided for an important input to the actions of US administrations. Moreover, under the Carter government, the US had tried to establish effective multilateral codes on subsidies and countervailing duties within the GATT, stopped legal actions initiated by the US steel industry from

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4The divergent views on subsidies between the US and the EC are outlined in detail in Dominick (1984) or Benyon and Bourgeois (1984).
running their course in 1977 and 1980, and refrained from the adoption of tough foreign trade remedies in steel as this would have weakened the multilateral regime (Woolcock, 1982:614). Under the Reagan administration, in particular the Department of Commerce (DOC) was keen to show to be seen by steel industry and Congress as a keen enforcer of US trade law (Van Der Ven and Grunert, 1987:157). Although other US departments were concerned about the possible impact of a tough stance on the US's trading partners, the Reagan government in 1982 became politically committed to ensuring that US trade legislation was rigorously enforced and that other countries lived up to the spirit of international trade agreements (Woolcock et al, 1985:44, Mueller and Van Der Ven, 1982:262). In addition, the Reagan administration was keen to let the investigation run their cause as higher countervailing duty margins, which were expected to be quite high in any case, implied greater US bargaining power for a possible settlement (Van Der Ven and Grunert, 1987: 157). Yet as overall transatlantic relations worsened over the gas-pipeline conflict, disagreements among the allies over the terms of East-West Trade in general, and the Community's CAP, the Reagan administration changed its mind in view of the state of the Atlantic Alliance (Woolcock, et al., 1985:16). Since the steel dispute was deemed the least important issue on the transatlantic agenda and the most easy to settle (Van Der Ven and Grunert, 1987:157), a negotiated agreement became desirable for the Reagan administration.

Regardless of the outcome of the countervailing duty cases, the EC-US steel dispute accentuated the divisions within the EC steel industry and jeopardised the Commission's crisis and restructuring measures. Given the volumes of European excess capacity and the economic pressure on EC producers, particularly after the imposition of production restraints, European steel producers were under enormous pressure as the application of US trade remedies threatened to result in a virtual exclusion of European steel from the US market. Within the EC, the knowledge of the preliminary countervailing duty margins then posed considerable problems since it 'threatened to undermine the carefully orchestrated and painfully achieved crisis regime' (Van Der Ven and Grunert, 1987:161). As the highest duties were imposed on producers in the countries with high levels of subsidies (the UK, France, Belgium, and Italy), countries with bearable burdens (Germany and the Netherlands) were reinforced in their claims that competition within the European steel market was
seriously distorted because of state aid elsewhere in the Community. With producers in the non-affected countries expected to profit from the duties imposed on their European competitors, finding an internal agreement on any negotiated settlement with the US among Eurofer members with such a clear-cut division of interests was thus all the more difficult.

In the wake of the announcement of countervailing duty margins by the DOC attention therefore eventually shifted to real attempts to achieve a negotiated settlement. Previous, half-hearted attempts to achieve one had brought no results despite intense 'shuttle diplomacy' in June 1982. Here, European proposals for a VRA had fallen far short of the US steel industry's aspirations (see Van Der Ven and Grunert, 1987:158). For Davignon, the US limitation demands were too drastic. In particular, he could not agree to the US industry's demand to include pipes and tubes. On the other hand, the hands of Baldridge, the Secretary of Commerce, were tied by the US industry and by the consideration that the Department of Commerce needed to be seen as a strict enforcer of US law. Before the real negotiations could begin, however, the Commission needed a broader negotiation mandate than the one it held. Hitherto, all interactions between the Commission and its US counterparts had taken place under regular high-level consultations.

6.3 The Negotiation of the 1982 EC-US VRA

In the Commission's attempt to negotiate an agreement the disunity of the European steel industry was a central problem. Agreeing a key for the burden sharing among the members of Eurofer was extremely difficult given that the countervailing duty margins divided European steel producers into two camps: a group of four highly affected countries (the UK, Italy, France and Belgium) and a group whose burdens were quite bearable (Germany, the Netherlands, and Luxembourg). Earlier, in March 1982, an agreement on a sharing key for EC carbon steel exports to the US had been agreed by using maximum concessions in US market share, which would have been acceptable to individual companies. Since the US industry by now demanded both wider product coverage and lower quantitative export limits, prospects to reach a new internal agreement on the sharing key or on additional concessions became extremely complicated, if not impossible (Van Der Ven and Grunert, 1987:161). Again, it needs
to be stressed that the unequal countervailing duty margins imposed by the US threatened to undermine the carefully-orchestrated internal crisis measures. In order to negotiate an agreement, it thus became necessary that the Commission was given a broader mandate from the Member States to negotiate than the one held in the talks up to 10 June. However, within those countries less affected by the countervailing duty margins, especially Germany and the Netherlands, the interest in a global Community approach decreased. It became unlikely that the Council of Ministers would unanimously agree on negotiation mandate for the Commission (Conrad, 1997:128). Although the incentives to conclude an overall agreement between the EC as a whole and the US were greater than before following the imposition of the preliminary margins, the opportunities for doing so were simultaneously diminished for internal European reasons (Van Der Ven and Grunert, 1987:161).

6.3.1 Obtaining a Negotiation Mandate

The previous section already indicated that that the EC in its interactions with the US was almost exclusively in a reactionary position. While this is primarily a consequence of the nature of the problem, i.e. steel trade flows from the EC to the US, it is also a consequence of the fact that the Reagan administration allowed US trade legislation to run its course. The attempts to arrive at a EC solution in summer 1982 were again overshadowed by the impact of US trade law since Art. 1704 of the Trade Agreement Act of 1979 determined that the US government could itself, and without the consent of the industry, dismiss the suits up to thirty days before the final imposition of the countervailing duties. Thereafter, only the US industry was able to dismiss the suits by explicit consent. Given the well-known demands and intentions of the US steel industry and the fact that in contrast to the US government, for which a wide range of responsibilities linked the steel question to other issues, the industry was only concerned with its own well-being. This left the Europeans with a strong preference to negotiate a settlement before the new deadline of 23 July 1982. While the Community might have overestimated the urgency of the situation, as it was legally questionable whether or not the Department of Commerce could withdraw a suit by claiming that a settlement out of court was 'equally beneficial' to the imposition of duties, the need to arrive at a settlement was nevertheless real for the Europeans (Van Der Ven and Grunert, 1987:162).
However, negotiations in early July 1982 failed completely and the Europeans started to panic. In order to beat the 23 July deadline, the Council of General Affairs on 19 July therefore decided to abandon the global approach and to replace it by a country-by-country approach assisted and overseen by the Commission. In the course of this 'bilateral joint action' approach (Van Der Ven and Grunert, 1987:162), the UK, France, Belgium and Italy proposed to reduce their exports by 10 percent, with the other Member States promising not to fill the gaps resulting from the self restrictions. The offer was rejected flatly by the US administration since the US required significantly higher margins and, above all, preferred a global agreement with the EC (Conrad, 1987:128). In an emergency session, the EC ministers of Industry and Foreign Affairs then rejected an American counterproposal since the affected Member States in turn were not prepared or willing to accept the proposed drastic reductions of their exports on a voluntary basis.42

The global approach was therefore restored in the light of the US industry's preference for an agreement that encompassed the whole of the EC. The point was made in a message from Baldridge to Davignon, which stated his refusal to seriously consider bilateral deals in the future (Van Der Ven and Grunert, 1987:163). On 24 July 1982, the Council consequently decided to give the Commission the 'exclusive mandate' to negotiate an overall agreement with the US (Agence Europe, 26.7.1982:5). When the Commission had previously raised the countervailing duty matter with its US counterparts, it had done this as part of 'high level consultations' (Benyon and Bourgeois, 1984:340). The results had been reported to the Council as if the matter had been governed by the EEC treaty. Benyon and Bourgeois (1984:340) found three remarks from a legal perspective. Firstly, the decision was taken by a Community institution, and not the representatives of the Member States' governments. Secondly, by giving the Commission the 'exclusive mandate', unusual terms have been used. Technically speaking, the EEC Treaty authorises the Commission to negotiate, but the Commission is not 'mandated'. According to Benyon and Bourgeois (1984:341) the term 'exclusive' can only be explained by reference to the preceding talks, which

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42 During the brief episode of the 'bilateral joint approach', the UK had caused considerable irritation among other Member States by attempting the conclusion of a separate last minute agreement with the US. The US, however, rejected the British approach as a partial solution of the steel problem would not have guaranteed the security and stability the US was aiming for.
would have been entered into by the EC and the interested Member States. Thirdly, the Council did not refer to either ECSC or EEC Treaty provisions, leaving out the question under which Treaty an agreement would be concluded. Without going into the depths of a legal analysis, it can be suggested that these remarks indicate that in order to arrive at a settlement of the question of transatlantic steel trade, the EC bodies displayed not only a certain inventiveness and flexibility in the interpretation of relevant Treaty provisions, but also used the grey areas in Community legislation in a fashion that must have been deemed suitable to carve out a better negotiating position.

Now the official mandate to negotiate on behalf of the EC ended the Commission's previous role of exploration and lifted Davignon and his staff to the position of formal negotiators. The fact that the short-lived 'joint bilateral' approach had not only failed, but had also led to an even stronger re-emergence of the global approach, were characterised by Van Der Ven and Grunert (1987:163) as 'a remarkable victory for Davignon and the Community at a time of stagnating European integration'. Although European solidarity had almost collapsed, the Member States reverted to a common approach and acted on the principle that Europe was stronger as a single negotiation unit (Woolcock et al., 1985:51). The point to be made here is that this major development was influenced to a considerable degree by external factors, i.e. the interests of the US administration and particularly of the US steel industry (see also Grunert, 1985). Thus the American rejection of bilateral deals underlined the US view of the Community as a unified market place and implicitly gave more weight to the idea of the Community as one single trading partner, spearheaded by the Commission.

6.3.2 The First Tentative Agreement

Despite this fundamental change in the decision-making structure of the Community, the process of agreeing the European position was still an extremely difficult task. Progress was now achieved through discussions between the Commission and the Member States within the framework of the Art. 113 Committee (see Benyon and Bourgeois, 1984:341). Although the Commission was able to insist on receiving a clear position from Eurofer, the divisions among Eurofer members were still the same as the translation of the verbal solidarity within the Community into concrete solidarity among the producers continued to be difficult (Van Der Ven and Grunert,
The main obstacles to achieving solidarity and a clear position among Eurofer members could be found in the areas of product coverage of an agreement, product mix and particularly the reference periods, which determine the degree to which the individual firms would be affected by the voluntary restrictions. In the process of agreeing on a burden-sharing key, the German opposition also posed numerous problems among Eurofer Members as well as within the Council of Ministers. In the face of considerable divisions among the Europeans on the details of the aspired agreement, the Commission decided to slightly change their approach to the negotiations in early August 1982. Following strong German resistance to accepting a larger share of European self-limitation than agreed to in March 1982, the US steel industry's resistance to any change whatsoever and the imminence of preliminary anti-dumping determinations, Davignon's staff started negotiating with their US counterparts without continuously checking with their constituencies (Van Der Ven and Grunert, 1987:164). A first round of negotiations between officials in Brussels from 29 July to 2 August resulted in a draft text of a series of major outstanding points (Benyon and Bourgeois, 1984:334-36).

A tentative agreement was subsequently reached on 5 August 1982, but depended on approval by the Member States and the US steel industry (Agence Europe, 5.8.1982:3; 9.8.1982:2). At the same time that this agreement did not cover the full product range, i.e. it did not extent to pipes and tubes, its operationalisation also depended on US steel industry's withdrawal of countervailing, anti-dumping and section 301 suits before 15 September and the receipt by the US of an understanding from the industry that no new initiatives seeking import relief under US trade law would be undertaken in the future. Considering that the US steel industry aspired an agreement that covered 90 percent of all European exports (while only 45 percent was affected by the findings of the DOC, the US industry rejected the agreement flatly. The US industry demanded lower quotas, the inclusion of alloyed steels and a separate VRA for pipes and tubes (Agence Europe, 28.8.1982:4).

Now facing even more pressure from Europeans and Americans alike, the US State Department and the US Treasury wanted Baldridge to continue his efforts to manage the steel problem on part of the US. Van Der Ven and Grunert (1987:165) suspect that despite Baldridge's claims that he should have waited for positive feedback from the
US steel industry before publicly announcing an agreement could have been a calculated move. Negotiating a deal with a high chance of being rejected by the US steel industry left Baldridge with three specific advantages. Firstly, he was able to demonstrate the goodwill of the US administration towards the Community. Secondly, he was able to put the blame squarely on the US steel industry, enabling him to increase his political leverage over an otherwise highly uncooperative industry in order to improve his chances to achieve a deal next time around. Van Der Ven and Grunert's suspicion that Baldridge's main opponent was indeed the US steel industry is given further weight by comments of one Commission official (Interview with DG III Official, 28.4.1998), who pointed out that relations during negotiations between US and Community officials have been very positive and indeed personal. Thirdly, the looming imposition of preliminary anti-dumping duties would at least not harm his bargaining position. While chances were that the restlessness within the European group of four might grow so as to get a better deal from the Community with the final deadline approaching, the US steel industry nevertheless continued to use the advantage given to it by generous provisions in US trade law (Van Der Ven and Grunert, 1987:165).

Following the US industry's rejection of the tentative agreement, the DOC announced its preliminary findings in the anti-dumping cases in August 1982 (Agence Europe, 12.8.1982:2). They included artificially inflated margins and served the purpose of not only enhancing the US steel industry's bargaining power, since a negotiated settlement still remained the industry's ultimate aim, but also to protect the US steel industry from foreign competition during the final month of investigation.

The final determinations on subsidies and countervailing duty margins were announced by the Department of Commerce on 24 August 1982, were significantly lower than expected (Agence Europe, 26.8.1982:3), and showed that the DOC had taken account of earlier European complaints about the methods it used in calculating subsidies. Nevertheless, the fundamental disagreement about the interpretation of the GATT subsidy code remained. A significant point in this context is that in the absence of an independent legal body to determine which interpretation of a subsidy was the correct one, the US judgement prevailed automatically (Van Der Ven and Grunert, 1987:167). This left the EC in a position where it could only accept or not accept the
US determination of what constituted a subsidy and what did not. Once again, US trade law and US interpretations of trade issues unilaterally set the boundaries of the EC's scope of action. To some extent, however, the announcement of the findings of the DOC also helped to clarify the situation and to find a solution. Since overall 50 percent of European exports would have been able to continue penetrating the US market and several companies were totally unaffected (Van Der Ven and Grunert, 1987: 168), the findings re-enforced the US steel industry's desire to find a settlement. The EC even tried to foster this process by discussing market swaps among European companies and with the final countervailing duty determinations known, the stage was now set for decisive last negotiation rounds.

6.3.3 The September 1982 Deal

The final stages of the negotiations were characterised by 'more intra European than transatlantic negotiations', with the political authorities on both sides of the Atlantic were more willing to reach an agreement than the respective industries (Van Der Ven and Grunert, 1987: 168). Since Davignon and Baldridge decided to stick to the terms agreed in the August 1982 agreement (Agence Europe, 1.9.1982: 4) and the US industry remained unwilling to compromise, the final stages concentrated more on intra-European deliberations on finding a compromise among European steel producers and creating a legal framework for the implementation of an agreement (Benyon and Bourgeois, 1984: 337-50; Van Der Ven and Grunert, 1987: 168). As for the latter, the process of introducing a regulatory framework in order to implement the arrangement turned problematic when in September 1982 several legislative drafts had to be passed and the British and Dutch governments questioned the legal basis for supra-national decision-making in this area. Moreover, controversial issues, such as the granting of export licences to trade companies or individual firms, the function of a Community reserve and the role of Member States in the administration of a quota system, had to be addressed (Van Der Ven and Grunert, 1987: 168). The outstanding bone of contention, however, was the US steel industry's demand to include alloyed steels and tubes into the agreement and its consequences for the internal burden-sharing.
With the exemption of alloyed products, Eurofer managed to solve most of its problems concerning the burden-sharing, leaving only 1.5 percent of total Community steel exports contested among its members (Agence Europe, 15.9.1982:5). On the basis of these results, the Commission approached the Council in order to establish another common European approach to the US demands (Agence Europe, 18.9.1982:5). The proposal was based on the August 5 tentative agreement, but broader in scope. On 19 October, Baldridge and Davignon were able to reach a second tentative agreement. In contrast to the first agreement, this time Baldridge had obtained the prior consent of the US steel industry, so that the conclusion of the deal depended on the approval of the Member States. The total package as laid out in the agreement was accepted by all the delegations. However, the German delegation resisted the inclusion of pipes and tubes, mainly because the German steel industry had a market share of approximately 70 percent in this segment (Conrad, 1997:128; Agence Europe, 16.10.1982:7). It pointed out that only the German cabinet could decide on such an important matter.

Internal disagreement between Genscher, the Minister of Foreign Affairs who was in favour of the agreement for the sake of improving overall transatlantic relations, and Graf Lambsdorff, the Minister of Economy, led the German cabinet to eventually tabling three conditions upon which German approval of the deal depended (Van Der Ven and Grunert, 1987:170). Firstly, any extension of product coverage under the arrangement would be prohibited without prior unanimous agreement of the Council of Ministers. Secondly, Germany must be compensated for the negative impact of the inclusion of alloyed and Eurofer must agree on a burden-sharing formula for all products before the conclusion of an agreement. Thirdly, both the US and the EC had to accept the German interpretation of the consultation clause contained in the agreement. Under intense time pressure and following emergency sessions of Eurofer and the Council, Germany's condition were fulfilled. Its annual export share was raised by 17,000 tonnes, Eurofer found a solution to the remaining contingents in the burden-sharing key, and under time pressure the Council also yielded to Germany's request that the arrangement was not to be extended to include other products without the approval of all Member States. The US and the European Member States also accepted the German interpretation of the consultation clause, which in effect meant that the clause was not binding at all (Van Der Ven and Grunert, 1987:170-1).
Having satisfied Germany's demands, Baldridge and Davignon were able to conclude an agreement that regulated steel exports from the Community to the US between 1 October 1982 and the end of 1985. The agreement limited exports of carbon and alloy steels to an average of 5.44 percent of projected apparent consumption. (C285 of 26 October 1982). In addition to the fixed share of the US market, there were also a number of flexibilities to these ceilings. These include provisions for carry-overs, advance use, and product switches. All of these aimed at establishing a degree of flexibility in order to enable the Community and the US to administer the system in a smooth fashion and to cater for fluctuations in demand and supply. In addition, a short supply clause was included. The ceilings were to be assured by a system of export licences, covering all products of the arrangement, for which the Community was responsible. In order to enforce the arrangement, the Member States were to ensure that appropriate sanctions were applied to all those who export without licences or otherwise breach the provisions relating to these licences. In order to enable the Commission to make sure that the Community fulfils its obligation to the US, the Member States were to keep the Commission informed of their administration of the licences and to take measures aimed at the enforcement of the arrangement pursuant to their respective national law on export or customs matters (Benyon and Bourgeois, 1984:349). The Commission proceeded to manage the agreement, fixing exports for each Member State on a quarterly basis.

The US steel industry withdrew all pending countervailing duty and anti-dumping investigations for the products concerned (Kulms, 1988:92). Furthermore, it undertook not to file any new suits under US trade law while the agreement was in place. While the reactions of both industries were rather reserved, politicians on both side of the Atlantic hailed the deal as it eliminated a major problem from the transatlantic agenda. President Reagan announced that the mutual understanding that had been achieved was 'reassuring evidence that America and her Allies and her trading partners can work together for the amicable settlement of differences in an atmosphere of cooperation and understanding' (Benyon and Bourgeois, 1984:350). Commission officials presented the deal as a victory for the EC steel industry. (Agence Europe, 23.10.1982:10; Benyon and Bourgeois, 1984:350-51). Nonetheless, there were still some areas of conflict as the agreement established only vague terms on the inclusion of pipes and tubes and excluded speciality steels (see section 6.4).
Following the conclusion of the 1982 VRA, the EC increased its external protection by the means of VRAs. It justified this step with the necessity of having to compensate for the reduction of EC exports to the US (Jones, 1985:396). Moreover, in 1983 the Commission observed that the effective application of the quota system required that the external measures remained in force (COM(83) 589fin of 10 October 1983). The trump card of the Commission in negotiations with foreign suppliers was access to its market and the exporting countries generally felt compelled, after an initial period of protest, to accede to the terms offered by the Commission (Howell, et al., 1988:99). In addition, the Commission initiated anti-dumping investigations when it felt that this was necessary in order to ease the pressure on the internal market (Conrad, 1997:95). Table 8 in the appendix shows the development of anti-dumping and anti-subsidy cases as well as VRAs negotiated by the Commission for the steel sector.

Compared to the possible loss of 50 percent of the US steel market through imposition of anti-dumping and countervailing duties, the conclusion of a VER certainly represented a successful negotiation for the Commission. Moreover, the promise not to file any further legal suits against steel exports from the EC decreased the risks of European producers to export to the US. However, as the EC-US steel conflict provided for the first major test of the multilateral rules on subsidies and countervailing duties and was resolved by a VRA, doubts were cast on the credibility of the multilateral regime. Those who drafted the codes might have hoped that the EC-US conflict would prove to be the first step toward the operationalisation of multilateral rules by the evolution of a kind of GATT case law. However, the steel dispute resulted in the operationalisation of divergent US and EC rules, so that it weakened the multilateral regime in general and set an important precedent for other industries and services (Woolcock, et al., 1985:15).

6.4 Contested Issues after the 1982 Agreement

Despite the wide-spread relief on both sides of the Atlantic that a formal agreement had finally been reached, it soon became clear that the trouble was not yet over (Mueller and Van Der Ven, 1982). There were three main problems: firstly, the terms of the agreement on pipes and tubes were only vague. Secondly, speciality steels had
not been included. Thirdly, in agreeing the 1982 VRA, the US had only regulated one third of its steel imports (Van Der Ven and Grunert, 1987:172). It was therefore only a matter of time before the US steel industry would attempt to complete its shield of protection. As a result, the rest of the 1980s continued to be characterised by intense interactions between the EC and the US in the steel sector, with the initiation of problems almost exclusively stemming from the US steel industry and the Commission almost constantly engaged in negotiations with its US counterparts.

In the case of speciality steel, President Reagan in July 1983 granted four years of import protection to US special steel producers, involving a doubling of tariffs and the imposition of quotas (Van Der Ven and Grunert, 1987:174). The European producers, whose exports to the US had jumped from 350,000 tonnes in 1980 to 880,000 tonnes in 1982, were the main victims of the new measures (Agence Europe, 22.7.1983:8). A trade war ensued between the EC and the US (Conrad, 1997:129), in the course of which the EC took the US to the GATT. The EC demanded a compensation of 150m dollars per annum to offset the damage caused by the US measures. Should this demand be declined, the EC was inclined to retaliate against US exports to the EC countries. The EC had the backing of the OECD's steel committee, where the US found itself completely isolated from the other 23 countries. The US, in accordance with the US steel industry which again aimed for a negotiated settlement, offered another VRA for speciality steel, but the EC immediately rejected the offer and demanded reduced US tariffs on steel-related products, chemicals and textiles, to compensate for the speciality steel measures (Agence Europe, 7.7.1983:14). The US, which meanwhile had negotiated orderly market arrangements with most of the countries supplying speciality steel to the US, tried to put pressure on the EC to move into the same direction. Yet this time the EC was unwilling to yield (Van Der Ven and Grunert, 1987:17) and in late November 1983, the Council of Ministers decided on retaliatory measures against the US as of 15 January 1984. On 14 January, the EC deposited a list of compensatory duties it intended to take against the US at the World Trade Court in Geneva (Handelsblatt, 16.1.1984:13). Negotiations were eventually resumed and led to a settlement of the speciality steel conflict out of Court. At the end of 1984, in a GATT Council meeting, the US and the EC agreed to raise quotas and tariffs on US exports of various chemical products, security devises, sporting guns and athletic equipment in order to compensate for the US special steel measures. The
US steel industry had its way again and the EC was compensated. Thus speciality steel dispute between the EC and the US had been settled following a determined posture of the Commission.

Despite the evident advantages of the 1982 agreement, the US industry continued its legal campaign against carbon steel imports. Particularly the small Gilmore Steel Company did not feel bound to the agreement and opened anti-dumping suits against hot-rolled carbon steel plate from Germany and Belgium. As these suits affected products covered by the 1982 agreement, the suits represented an open violation of the terms of the 1982 agreement. In addition to protests from the Commission, European interests such as the German Wirtschaftsvereinigung Stahl threatened to contravene the steel agreement because of the Gilmoore suits and called upon the German government to give notice of termination to the 1983 agreement (Van Der Ven and Grunert, 1987:176). While the Gilmore's complaint went through the administrative process, the DOC eventually decided not to impose sanctions since it wanted to avoid a new steel conflict with the EC (Van Der Ven and Grunert, 1987:176; Agence Europe, 18.4.1984:5).

Similarly, in January 1984 Bethlehem Steel, the second biggest US steel producer, filed a complaint calling for a 15 percent limit on all steel import for five years. Again, the petition represented an open violation of the 1982 agreement and risked the collapse of the whole agreement. The Commission immediately stated that should the US administration respond to the renewed protectionist demands by the US industry it would have a disastrous effect on world trade and on EC-US relations in general (Agence Europe, 26.1.1984:7). Following the ITC's recommendation to impose protectionist measures in the form of tariffs and quantitative restrictions, the Commission re-enforced its call on the US government in July 1984 (Agence Europe 13.7.1984:7; 16.7.1984:11), stating that non-compliance with the 1982 agreement would endanger trade relations between the US and the EC. On 18 September 1984, the US President turned down the ITC's recommendation to restrict the Community's market share to 15 percent. He justified his decision by pointing out that such a solution to the steel problem was not in accordance with the US's national trade interests. At the same time, however, he announced vigorous prosecution of alleged unfair trade practices by foreign producers, a strict enforcement and monitoring of the
1982 agreement, and the negotiation of additional restraint arrangements with those supplier countries that previously had rapidly increased their deliveries to the US (Agence Europe, 19.9.1984:8; 20.9.1984:11). The authority to enforce VRAs was granted to the President by the 'Steel Import Stabilization Act' contained in Title VIII of the US Trade and Tariff Act of 1984. This new powerful tool represented a compromise between protectionism and liberal interests in the US. It contained a 'sense of the Congress' that the national policy for the steel industry should, when implemented, result in a foreign share of the US steel market of between 17.0 and 20.2 percent. For up to five years, it authorised the US President to carry out those actions that may be necessary or appropriate to enforce quantitative limitations and other terms agreed to in bilateral agreements (Kulms, 1988:39). The act even legitimised the extension of managed trade mechanisms to steel outside the Escape Clause, countervailing duty legislation, section 301, and multilateral arrangements or commitments, regardless of a link between the accordance of temporary protection and structural adjustment commitments of the industry (Wetter, 1986:492). With such powerful legislation in place, it seemed that only overall political interests of the US enabled the EC to announce that the terms of the 1982 agreement were to remain unchanged and in place.

On pipes and tubes, Davignon and Baldridge had only agreed on a vague formula within an exchange of letters that accompanied the 1982 carbon steel agreement (Wetter, 1986:494). It had been agreed that in case of a distortion of US trade patterns within the pipe and tube segment consultations would take place. Negotiations began when EC exports represented more than 14 percent in 1984. It soon became clear the EC and the US differed concerning the interpretation of the exchange of letters: While the US Congress and administration regarded the pact as a serious commitment, the EC considered the percentage of 5.9 percent as a forecast/guideline (Wetter, 1986:494). In November 1984, the delegations from the US government and the Commission were able to agree on a compromise (Agence Europe, 21.11.1984:9). However, in November 1984, based on the authority of the Steel Import Stabilization Act, which in accordance with the terms of the 1982 agreement provided the Secretary of the Department of Commerce with the authority to enforce restrictions on tubes and pipes, the US government rejected the arrangement and imposed total embargo on EC exports of this segment until the end of the calendar year. The US
also imposed a unilateral ceiling for EC exports to the US of 5.9 percent of US consumption. The reaction of the EC authorities was to give the Commission the mandate to terminate the exchange of letters on the 1982 steel agreement (Agence Europe, 28.11.1984:7; 29.11.1984:7). On 7 January 1985, again against the background of very tense transatlantic relations, the Commission and the US government arrived at an agreement that limited the Community's exports of pipes and tubes to 7.6 percent for two years (Wetter, 1986:494).

However, during the negotiations on pipes and tubes, the European steel exporters started to ignore their quotas and substantially increased their exports to the US. In response, US customs were instructed to 'arrest' the excess deliveries on their entry into the US (Agence Europe, 22.5.1985:8). This US measure triggered strong protest from the pipes and tubes producers, who sent large lorries with pipes and tubes to block the Round Point Schuman in Brussels in order to increase the pressure on the Commission. The Commission had to establish which producer had exported which quality and that no accurate monitoring system was in place. Of course, accommodating the excess deliveries posed another serious threat to the burden-sharing system between the members of Eurofer. In this situation, the Commission officials, with the co-operation of their American counterparts, resorted to a trick in order to establish the amount of excess deliveries (Interview with DG III Official, 28.4.1998; Agence Europe, 5.3.1985:12). The producers were instructed to ask the national authorities to issue a postori licences for the deliveries held in US customs. The national authorities issued the licences and necessary certificates. Then the national authorities were asked to come to Brussels with the customs stamps and the Commission took account of the amounts blocked by the US. The customs block was lifted and the European producers could sell their exports on the US market. The a posteri system was organised within a week and the Commission was able to established the amounts that had to be taken into account for the negotiation of a separate agreement on pipes and tubes. With this problem out of the way, an agreement on pipes and tubes an agreement could be found. On 6 August 1985, the Council of Ministers agreed on a sharing key for pipe and tube exports to the US and a separate deal on pipes and tubes was concluded (Agence Europe, 24.7.1985:7; L9 of January 1985). The pipe and tubes problem thus provides further evidence of the extreme complexities that were involved in the Commission's work. While it had to
work towards solutions that were acceptable to the members of Eurofer and the Member States, it was undermined in its efforts by the market behaviour of EC steel producers. On the other hand, the Commission was constantly forced to adapt along the lines of US enforcement of domestic trade legislation.

After the inclusion of pipes and tubes into a separate agreement, the US steel industry still continued its drive to seek quantitative restrictions to European imports for all steel categories. In the course of negotiations, the Commission sought to obtain more flexibility each time the arrangements were extended (Interview with DG III Official, 28.4.1998)\(^43\). These flexibilities were especially sought in the field of transfers of quotas between categories and the advance use of carry-overs as they enabled the Commission to manage some of the difficulties occurring among the Member States. However, the US turned increasingly unilateral in its measures and also sought new restrictions on products that had not been covered by agreements. On 31 October 1985, the Commission and the US government agreed on another series of self restraint agreements, limiting Community exports to the US until the end of October 1989 (Agence Europe, 1.11.1985:8; 22.11.1985:5). Having established a much more comprehensive shield protecting the US market from imports than in the 1982 agreement, it could have been expected that new arrangement was to regulate steel trade between the EC and the US until 1989. However, on the last day of 1985 the US government, unilaterally and without consultations, restricted the European exports in semi-finished steels to 400,000 tonnes, plus a special contingent of 200,000 tonnes granted to the British Steel Corporation, for the same period as the new agreements. Similar to its response to the import protection granted to US speciality steel producers in July 1983, the Council of Ministers decided to restrict US exports to the EC of certain non-steel products (Agence Europe 10.1.1986:12; 17.2.1986:10; 21.2.1986:5). These measures were planned for the period from 15.2.1986 to 15.2.1989. Given that it was two weeks before the retaliatory measures were to take effect, it seems that the Community was hoping that during these two weeks an

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\(^43\) Both the rigidity of the US in protecting the US steel market and the Commission's strategy of including more and more flexibilities can also evidenced in a rather bizarre incident involving British telephone boxes. Stating that the telephone boxes were fabricated structural, and therefore covered by the EC-US steel agreement, US authorities blocked their export. In order to settle this issue, the Commission was forced to play 'strange games', which were not at all covered by the existing legislation, but accepted by the US and within the Community (Interview with DG III official, 28.4.1998). In agreement with the Member States, the Commission decided to issue their own certificates for the boxes, create its own stamps and sent them to the US. The products were then allowed to enter the US and the system continued its operations smoothly.
agreement could be achieved with the US government. Since the US did not yield, the Council on 9 June 1986 gave the mandate to the Commission to enter negotiations on semi-finished steels with the US government. The aim was to include semi-finished steels into the series of agreements that regulated steel trade until the end of 1989. On 15 July 1986, the Council of Ministers approved of an agreement based on an exchange of letters between the US and the EC. As part of the settlement, the EC agreed to drop the retaliatory measures in place since 15 February (Agence Europe, 17.7.1986:8). At this point, the US steel industry had achieved its aim of establishing a comprehensive shield of protection for the US steel market. All important steel exports to the US were subjected to VRAs until 30 September 1989 (Austmann, 1989:162).

6.5 The 1989 Re-Negotiation of the EC-US VRAs

When the VRAs were about to expire, it soon became clear that the leaders of the US steel industry wanted a 5 year extension of the VRAs. The US industry had earned $2bn in profits the previous year, but considered that continued financial recovery was necessary to off-set the losses from the beginning of the decade (Financial Times, 31.5.1989:3). Already in February 1989, a draft bill had been submitted to Congress to extend these arrangements for another five years. Although it was considered that there was enough support in both houses, there were also many US legislators in favour of changing the existing scheme (Agence Europe, 27.5.1988:7). Although the intentions of the new US administration were unclear, steel consumers in the US were expected to support a liberalisation of the arrangements for the steel industry. Trade Representative Carla Hill thus promised an innovative renewal of the VRAs, incorporating the needs of both US steel producers and users (Financial Times, 13.4.1989:2; Economist, 20.5.1989:34; International Herald Tribune, 28.2.1989:7)

The re-negotiation of the VRAs developed in the context of the GATT Uruguay Round (see also chapter eight). While talks were the most ambitious ever and well under way, it was clear that the most difficult stages were yet to come. The EC was now pressing other nations to take account of the forthcoming Single Market and to incorporate the 'reciprocity principle' since it was anticipated that in the future it was going to be much easier for supplier countries to penetrate Community markets. On
the other hand, there was a growing suspicion, particularly in the US that the EC wanted to use the completion of the Internal Market to increase protectionist elements in its trade policy (Financial Times, 8.4.1989:4). Commissioner Narjes argued that there was a risk that it would be harder for the EC to defend its legitimate interests and cited a series of cases of strategic importance in which the Community was refused reciprocal arrangements and urged the Member States to find solutions to the obstacles placed before the Community for political reasons (Agence Europe, 27.5.1988:7). On the other hand, Commissioner Bangemann declared that the time had come to return to normal GATT rules governing international steel trade and to progressively put an end to voluntary restrictions between the Community and third countries. This should also apply to the VRAs between the Community and the US. He now called for the principle of 'standstill and roll back', agreed in Punta del Este, to be applied to the steel industry (Commission Press Release, IP/89/358, 19.5.1989).

Among those working within the GATT negotiations, the idea of a renewed VRA in steel was clearly not appreciated since 'another VRA would not have set a good example' (Interview with DG III Official, 6.5.1998). The Commission hence initially decided not to agree to another VRA with the US. Moreover, since the US was the strongest player in the world economy and the Commission had already experienced the power of the US foreign trade legislation, the Commission decided that only chance the EC stood was to align its policies with GATT provisions and try to push the US to sign up to it (Interview with DG III Official, 6.5.1998). The Commission had realised that it would be advantageous to tackle the steel problems with the US at the source. Since subsidies created the conditions of selling dumped products, the Commission subsequently tried to deny the possibility of exporting subsidised products and then be exposed to anti-dumping or countervailing duty cases. Thus the steel aids code was extended in 1989, allowing for state aids only in the fields of R&D and environmental protection (L38 of 21 March 1989). However, given the strong pressure from the US steel industry and within Congress to renew the old VRAs, it became clear that the Community would be forced to sign up to another agreement. If there was going to be another VRA, then the Community wanted it to be accompanied by a bilateral consensus on subsidies. The US administration agreed to making efforts to find this consensus on subsidies, but it was clear from the outset that achieving it
was going to be a very difficult process and that subsidies would continue to pose the biggest obstacle.

Aware of the complexities surrounding the steel quotas and to the disappointment of the US steel producers, President Bush at the end July 1989 eventually announced what he called a Steel Trade Liberalisation Programme, which extended US steel restrictions for a further 2 ½ years. The quotas were to be raised by 1 percent a year while the US was also to seek an international agreement to eliminate unfair practices in steel trade. For EC steel producers, Bush's proposition was hence a good deal better than it might have been as it reflected a slightly more liberal approach to US trade policy than previously expected. The proposals nevertheless drew an unpopular response from the EC. Aware of the fact that the well-working EC market could weaken any time, the Commission expressed the opinion that the US industry was in a healthy state that did not require a renewal of the VRAs (Financial Times, 27.7.89:4). The Commission pointed out that EC steel products have had only limited access to the US market while a number of other exports to the US have not been subject to such limitations. Furthermore, EC exports to the US had fallen substantially and the EC's share of the US market has likewise been considerably reduced since 1982 (Commission Press Release, IP/89/607, 26.7.1989). The Community on the whole had generally no problem with the idea of establishing an international steel consensus, though some Member States resented the implication of the proposal that subsidies and protection were all one-sided. Overall, however, there was a strong feeling in the EC that continuing the VRAs was unnecessary. Within the Council of Ministers most Member States, with the exception of Britain and Germany who saw no justification for such a step, indicated that they would agree to a temporary extension of the restraint agreement with the US. Yet it was felt that the German and British opposition was more of a tactical move, since the general assumption was that the EC would not categorically block an new arrangement in the light of mounting anti-dumping threats by US producers. Here, the continuation of the existing arrangement appeared a preferable alternative (Neue Züricher Zeitung, 28.9.1989:7).

The VRA talks proved difficult and politically charged. In the run up to the negotiations, Trade Representative Carla Hills stressed the US desire to phase out steel quotas in return for an international agreement to end subsidies (Times,
22.9.1989: 5). Although there was no direct link, the Commission's efforts to persuade Italy to shut down its Bagnoli liquid steel plant became entangled in the negotiations. In 1988, the Commission had given its blessing to Italy's provision of a £2.3bn debt write-off on condition that the plant was shut. As this involved issues relating to subsidies and market access, the closure of the plant became a bargaining point in the negotiations of the new system of VRAs. Since Italy refused to accept the restructuring plan on 26 September, anger at the Italians was mounting because their attitude was thought to weaken the EC position in the EC-US talks. This gave rise to a feeling within the Council of Ministers that the Italians were 'letting the side down' (Financial Times, 26.9.1989: 4) or, as one diplomat put it, the Italians '[were] leading us by the nose' (International Herald Tribune, 26.10.1989: 7).

The initial offer of the US was greeted by the EC with fury. Its terms involved 15-20 percent cuts in export quantities, depending on which of the product categories were chosen. The US indicated that it intended to match the new arrangements with the previous ones, namely an 18.4 percent global figure with a possible 1 percent tied to consensus pact conditions. The EC, on the other hand, was looking for an improvement in terms of the flexibility between products (the existing arrangements allowed for transfers up to five percent), more generous rules for carrying quotas into the following year, and advance use of the quantities of the next year. One EC official was quoted as saying that 'What they had in mind on the agreement was far from compatible with GATT principles' (Financial Times, 26.9.1989: 4). Subsequently, chances that the US revised its quantity demands upwards were considered unlikely.

One day before the negotiation deadline on 30 September 1989, only a few small steel producers of the 29 nations involved agreed to sign new voluntary restraint agreements. Yet none of the big five, Japan, the EC, South Korea Brazil and Mexico, which held 87 percent of the US import market, had signed up.

On 12 October 1989, after weeks of tough bargaining, the EC reached an agreement that preserved its share of the US steel market (Commission Press Release, IP/89/761, 12.10.1989). The new VRA raised the share of the EC from 6.68 to 7 percent of the US market and represented an improvement on the initial offer. Improvements were made in the area of flexibility, mainly concerning the short supply clause which enabled the Community to export extra quantities in cases where the US steel industry
was unable to satisfy the specific needs of US consumers. All bilateral agreements included a prohibition against future subsidies and other forms of government support for steel, prohibitions against the establishment or reinstatement of non-tariff measures, commitments to eliminate subsidies and to work for a reduction of 'trade-distorting' assistance for steel within the Uruguay Round, and a dispute settlement provision involving binding arbitration when a violation of the agreement occurs. The agreement was approved by the Council of Ministers (L368 of 18 December 1988). After the Community had signed the deal, the other countries followed suit and entered into VRAs with the US. They had watched the Community agree a settlement before agreeing their own.

As part of its negotiations on trade with the US, the EC also agreed to phase out its VRAs with all third countries (Commission, 1991:359). This was in line with existing EC steel policy, since the effect on the steel market was deemed minimal given that imports accounted for only 10 percent of European steel demand and only a fifth of which originated from countries covered by import quotas. Moreover, in the light of the 1992 Single Market, a liberalisation of these was already on the way given their incompatibility with the dismantling of internal trade barriers (Handelsblatt, 2.10.1989:6). The continuation of the existing licensing system would not have been suitable in these conditions as producers exporting steel to the Single Market would simply face one big market.

While the new US steel pacts were celebrated by the US administration as a triumph, hailing an end to 'the cycles of government intervention followed by restrictions in this country [the US] and others' (Financial Times, 14.12.1989:6), US producers were more cautious but welcomed the achievement. However, although the bilateral agreements included provisions for future subsidies, the agreement on subsidies did not change. The EC thus suffered a drawback as the US did not approve of basing the consensus pact on the EC Steel Aids code as favoured by European producers. Yet, the US conceded new arrangements that would have extended the application of the agreement to 39 steel products. It settled for an arrangement that applied to the previously existing range of 15 products. Although the agreement did not open the US market as European producers had wanted, negotiators were reported to have felt that what they had achieved was the best they could have hoped for. The Commission
called the pact a 'credible step towards liberalising steel trade' (Financial Times, 13.10.1989:12). It stressed that the deal was better than the previous agreement, not only because of the increase in the EC' market share, but also because the clause of 'short supply' had been revised to make easier above-quota shipments in advance of actual shortages in the US market.

**Conclusions**

This chapter has analysed EC steel policy-making vis-à-vis the US throughout the 1980s. It has shown in great detail how the EC was forced into a comprehensive system of VRAs with the US, how the Community's global approach was shaped and developed in response to US pressure, how it responded on a number of contested steel issues, and how the Community was forced to re-enter into VRAs in 1989. An interesting insight of this chapter is that the US approach to the steel problem, which was decidedly shaped by the preferences of the US steel industry, in some ways fostered or made it necessary that the Commission spearheaded the Community's global approach. The US preference to treat the EC as a cohesive trading bloc in order to negotiate overall quotas for steel, the US administration's tendency to resort to the arbitrary application of unilateral measures that affected the whole of the EC, the US rejection of bilateral negotiations all amounted to pressure on the EC Member States to stick to and develop a global Community approach. Of course, this is not to suggest that the Community approach was not based in the need to ensure coherence between internal and external measures in order to make the Community's anti-crisis programme succeed. Yet at times when negotiations with the US were deadlocked, US actions provided crucial incentives for the Member States to restore and maintain a unified approach and to achieve the necessary degree of consensus and compromise. Without such a global Community approach, the conclusion of the 1982 VRA would have been unlikely and the successful functioning of the internal crisis measures jeopardised.

The EC-US steel dispute was partly solved because the difficult overall political situation between the US and the EC required the resolution of at least one of the contentious issues on the Transatlantic agenda. The steel issue was chosen because it was deemed to be the easiest to resolve. While the existence of the Atlantic alliance
therefore helped to contain the dispute, it is remarkable that the EC and the US were able to achieve solutions to their conflicts largely by way of discussion. Despite the often arbitrary and unilateral nature of many US actions, this seems to suggest that the EC despite its underdeveloped status was deemed by the US government too important a political counterpart to let the steel issue escalate. One of the few relative advantages of the EC was that in contrast to the US administration, the EC did not have an 'ideological problem' in negotiating a system of managed trade. As the EC had already established an administered market within the EC, it was not unduly concerned by a further extension of external regulation. Moreover, it is remarkable that conflicts were often taken out not between the American and European negotiators themselves, but between the negotiators and their respective domestic industries. In fact, in trying to find a solution, negotiators from both sides were sitting in the same boat as they had to please the often exaggerated and legally conflicting demands of their respective industries. It is therefore suggested that these conflicting relationships between administration and industry on both sides of the Atlantic also helped to facilitate the negotiation process on a practical level.

Concerning the operationalisation of the EC's competence, it can be concluded that despite the difficult circumstances and limitations of the Commission's negotiation competence, the EC showed itself able to adapt to external and internal pressures and to creatively fill and interpret loopholes in ECSC Treaty provisions. In practice, the Treaty assured the permanence of spheres of influence for each national steel industry, corresponding more or less to the borders of the Member States. Given that the provisions of Art. 74 ECSC do not give the powers of negotiation in matters of foreign trade to the EC, that the Community was subsequently required to obtain consent from all national ministers concerned with industrial affairs, and that national interests needed to subordinate to a common Community goal, the Commission's management of the EC-US steel conflict can be deemed a remarkable success. Again, it needs to be stressed that US pressure provided much input to this process.

Due to the severity of the steel crisis, the strong demands of the US steel industry and most importantly due to the permissiveness of the GATT mechanism, the steel dispute could not be resolved on the GATT level. On the contrary, the steel dispute left open the important question as to what extent a signatory party can unilaterally interpret the
subsidy code and the question as to when and to what extent subsidies can be
countervailed. Therefore, the steel dispute did not produce a step towards a common
multilateral interpretation of the codes on subsidies. Rather the steel dispute brought a
clear move towards divergent US and European interpretations, with both sides being
able to claim that they were acting within the bounds of the code. Since both the US' and EC's support was needed to make the GATT provisions work and the steel
question was settled through VRAs, the multilateral regime was undermined.
However, the Commission recognised that the question of subsidies was to remain a
irreconcilable issue between the EC and the US and subsequently made efforts to
align its policies with GATT provisions in order to improve its stance vis-à-vis the
US. Yet the interconnections between internal restructuring and agreeing an
international consensus on steel prevented the Community from making progress in
this direction. The restructuring of the EC steel industry, marked by both an
overriding national interest of the Member States and interference with the
Commission's subsidy regime, and the US unilateral interpretation of GATT
provisions posed immense problems to improving the EC's international stance. While
the EC was consequently unable to introduce its Steel Aids Code into multilateral
practice, and therefore failed to improve its international position by structuring
international norms, there is nevertheless evidence that over the 1980s the EC had
developed into the main counterpart of the US, not only in steel but also in the larger
GATT context. Of course, to a large extent this is a consequence of the growing
magnitude and leverage the Single Market Programme gave to the EC.

That the Commission developed the principles and operations of its foreign trade
instruments along the lines of US legislation has been pointed out in chapter four
already. During the 1980s, and based on the size of the internal market, the EC
successfully continued its external trade regime by offering the dismissal of anti-
dumping and countervailing duty cases in return for orderly market arrangements with
third country suppliers. On the other hand, the EC successfully tried to encounter the
pressure it faced from the pending US countervailing duty and anti-dumping cases by
pressing for commitments of the US to withdraw anti-dumping and countervailing
duty suits and not to file new suits in the future. Here, the US seemed to recognise the
importance of the EC in that it worked towards convincing the US steel industry to
enter such a commitment.
Overall, this chapter showed that the EC was able to act strategically once the Member States showed the political will and solidarity to act in unison and enabled the Commission to negotiate with the US on a more or less equal footing. Seen against the background of the complexities of the EC's decision-making process in steel and the fact the EC had practically no choice but entering VRAs with the US, the Commission has to be credited with obtaining a result that guaranteed not only the continuation of the Community's internal steel restructuring programme, but also allowed for a number of flexibilities that reduced the complexities involved in reconciling external constraints with internal crisis and restructuring measures.
EVALUATION PART III: STRATEGIC ACTION IN STEEL IN THE 1980s

The 1980s were a decisive decade for the European steel community and the EC as a whole. Given the cyclical effects of the steel crisis on the national economies and the high degree of economic and political interdependence within Europe, the Member States and the Commission had to accept many compromises. To that extent, and despite the numerous disagreements and obstacles, the developments affecting the EC steel sector have resulted in a certain convergence of approaches and a strengthening of the European regime. As a result of the effects of the steel crisis, the national governments and steel producers united in their demand for the Commission to adopt a dirigiste and interventionist policy. Despite contrasting perceptions as to how the steel crisis should be resolved on the supranational level, widespread political support for the adoption of Art. 58 measures pushed the Commission to the political forefront. On the basis of a perception of steel as a special case and despite the obstructive behaviour of national governments and steel producers, Davignon, for a while at least, succeeded in creating a policy community in the steel sector, where consensus, however fragile, was achieved by mutual adjustment and accommodation between Commission, Eurofer and the Council of Ministers. More than any Commissioner before and since, Davignon responded to the demands from national governments and companies and provided a high degree of leadership to the European steel industry. On the basis of the powerful provisions contained in the ECSC Treaty, the EC, spearheaded by the Commission, consequently increased its strategic action capacities in the steel sector.

Nonetheless, throughout the 1980s, decision-making processes within the EC were highly complicated, involved actors on many levels, and had to be carried out under strong external constraints (see below). Moreover, the actions of national governments and steel producers in respect to subsidisation and market behaviour complicated, if not at times ridiculed, the entire decision-making process. As a consequence, the Commission's management of the steel industry was characterised by fragile compromises, often of an hesitant and ad hoc nature, and ultimately lacked long-term vision. The strong position of the Council of Ministers in EC decision-making processes often acted as a break to the effectiveness and thoroughness of internal crisis measures. Moreover, the important powers that the ECSC Treaty...
confers upon the Commission did not easily translate into political action and the Commission lacked the effective means to enforce decisions. As a result, the Commission had to strive hard in its efforts to bring about and co-ordinate the restructuring process. Despite Davignon's remarkable ability to broker deals where others had failed, the Commission encountered massive problems in agreeing rationalisation measures with national governments and steel producers alike. As these problems transcended into interactions with the US, they highlighted the clash of domestic restructuring politics with international politics and ultimately limited the EC's strategic action capacities.

In the light of these limitations, a certain learning curve occurred within the Commission and the wider steel policy community during the second half of the 1980s. Facilitated by changes in personnel, most notably the arrival in office of Commissioners Narjes in DG III (in 1985) and Brittan in DG IV (in 1988), a realisation grew stronger that Community involvement in the steel industry had gone too far and that the interventionist direction of steel policy-making ultimately limited what the EC could achieve internationally. Internally, factors such as the improvement in steel market conditions, the commitment to the Single Market Programme, the gradual demise of the notion of steel as a special sector, changes in national policy lines, and, within the Commission, disillusionment with the obstructive behaviour of steel companies and national governments contributed to this development. As a result, the balance of intra-institutional competition within the Commission altered, i.e. DG IV increasingly asserted itself over DG III, and the Commission started to alter its internal as well as external policies towards the incorporation of free-market ideas. This significant policy development not only gradually liberated the Commission from internal commitments and complications in connection with the ongoing restructuring process, but also enlarged its international scope for action by aligning steel policies with the broader thrust of the Single Market Programme.

However, the strengthening of the internal regime during the early 1980s did not result in an ability to actively shape its trading environment per se. While the EC was able to develop and shape its means to impose its preferences on all major steel-supplying countries, the same is not true for the case of the US. In steel policies vis-à-vis the US, the EC throughout the 1980s has been forced to react rather than it has
been able to act. Of course, this was not only a consequence of the fact that the EC being dependent on the US market had the objective preserving as much of the US market as possible in order to secure the functioning and stability of the internal steel market, but also a consequence of the complexities involved in the EC's decision-making process.

Under Davignon, the Commission largely succeeded in reconciling the divergent interests of the EC's Member States and their respective producers during negotiations with the US administration. This was no easy task given the economic and ideological differences among the Member States and the number of political and legal uncertainties the Commission faced in establishing a global approach of the Community vis-à-vis the US. Considering that the US used its foreign trade legislation and the interpretation of which to fuel the intra-European conflict concerning subsidies among the Community's Member States, Davignon created and maintained a remarkable degree of cohesion within the European steel industry. The market behaviour of the European steel producers, who readily used every loophole available to survive the cut-throat competition of the domestic market did not facilitate the Commission's negotiation stance and added to the complexity of the Commission's mandate. Equally, the complications the Commission encountered in organising the successive crisis cartels and in facilitating the process of agreeing to a burden-sharing key added to the complexity of the task. The fact that a global arrangement was eventually finalised showed that the Europeans were able to achieve favourable results when acting as a single negotiation entity and to create an element of stability in times of acute crisis for the export-dependent EC steel producers.

The development of the Community's global approach was strongly influenced by the insistence of the US to reach an overall agreement with the EC. Furthermore, it has been shown that the EC's global approach has been decidedly shaped by and along the lines of US trade legislation as well as the US' interpretation of which. For most of the time during the 1980s, the EC found itself in a position in which it had to accommodate US action, i.e. the application of US trade remedies, and to construct a consensus among the Member States and producers. Only on occasions, particularly concerning incidents involving unilateral measures of the US, was the EC able to reverse the direction of negotiations towards the inclusion of European interests by
addressing steel trade issues within multilateral organisations. In the second half of the 1980s, a policy learning effect took place and the Commission realised that if it was to improve its international position it had to tackle the subsidy problem at the source and align its policies with the GATT. Although efforts aimed at agreeing an international steel consensus on subsidies failed in the late 1980s, it had become clear by this time that in the wake of the SEM Programme the EC had matured into a major player in the international political economy, second only to the US.
PART IV: STRATEGIC ACTION IN STEEL IN THE 1990S

In parts II and III of the case study, the thesis has investigated EC strategic action up until the end of the 1970s and during the 1980s. It has been shown how the EC has gradually assumed the responsibility to manage policy-making in the steel sector (in chapter four) and how the EC has resorted to an interventionist policy-making style during the 1980s (chapters five and six). The latter two chapters also shown the beginnings of a transition in policy-making in the steel sector, i.e. the departure from interventionist policy-making towards efforts to liberalise the steel sector and international steel trade. In part IV, the thesis turns to EC steel policies during the 1990s and continues to investigate the transition of policy-making in steel. As in part III, the chapter distinguishes between the EC's internal and external policy-making and the focus adopted in part III is extended here in that analysis concentrates on the EC's interactions with steel producers and Member States during the 1990s steel crisis and the EC's approach to the 1990s EC-US trade conflict in steel on both the bilateral and multilateral level. Conclusions with regards to the EC's capacity to act strategically in steel during the 1990s at the end of this part bring the longitudinal study of the EC steel industry to a close.
CHAPTER SEVEN: INTERNAL POLICY-MAKING IN STEEL IN THE 1990s

Introduction

This chapter analyses internal EC policy-making in the context of the 1990s steel crisis. After a brief review of the landscape of the steel industry and the beginning of the 1990s, the chapter analyses the Commission's new, liberal approach to market regulation in the steel industry at the beginning of the 1990s. Similar to events in the 1980s, a worsening in the market situation during 1992/3 then led to calls for the Commission to once again activate the crisis provisions of Art. 58 ECSC. This chapter shows how, as a consequence of a number of changes internal and external to the EC (see also chapter eight), the Commission decided against direct intervention in the steel industry and attempted to restructure the steel industry by the means of a steel rescue plan. The structure of this chapter closely mirrors the structure adopted in chapter five and distinguishes between two major sections on the EC's regulation of the steel market and the EC's restructuring efforts.

7.1 Landscape of the Steel Industry in the 1990s

In 1991, the EC accounted for 18.7 percent of total world steel production, compared with 10.8 percent for the US and 14.9 percent for Japan. Between 1974 and 1993, employment in the steel industry fell from 870,000 to approximately 320,000. The capacity utilisation rate stood at an average of 69 percent in 1992. While the capacity of the European steel industries had declined only moderately, there was a considerable increase in productivity (from 170 tonnes per worker in 1975 to 400 tonnes in 1993) following the substantial investment of an estimated 65bn ECU in subsidies between 1975 and 1993 (Wienert, 1995a:324). Of course, a substantial part of these payments went towards the covering of losses and social measures in the steel sector.

While over-capacities continued to exist, the Community's steel industry had undergone a process of concentration (Wienert, 1995a, b). In France, the two dominating steel producers Usinor and Sacilor had been united into Usinor-Sacilor in 1987, after they had individually swallowed up a great number of smaller producers. As a result, practically the entire French steel production was state-owned. With a
production of 23m tonnes (Oberender and Rüter, 1993:73) and share of 21.1 percent of the Community market in 1992 (Wienert, 1995b:325), Usinor-Sacilor was by far the most important steel producer in the EC. In the UK, British Steel emerged as the dominating steel producer (12.4 percent in 1992), again as a consequence of a concentration policy of the government. In contrast to France, however, the Thatcher government had poured billions of pounds into the company and then privatised it. The share of the Italian state-owned Ilva group (formerly Finsider) was about 11.0 percent of the EC market. Since Ilva had to share the national market with many successfully operating electro-minimills, its share of the Italian market was only 45 percent. In the privately organised German steel industry, Thyssen was traditionally the biggest producer. Yet after the merger of Krupp and Hoesch it had to share this position (10.2 and 8.6 percent of the EC market in 1992). In the EC steel industry as a whole, no company had a market dominating position (see table 5 in the appendix).

The slow process of privatisation that had begun in the late 1980s continued in the 1990s. The privatisation of British Steel through approximately £8bn of public money not only enabled the British government to take a decidedly anti-subsidy stance during the 1990s, but also had repercussions in countries such as France. In parallel to gradual changes in French industrial culture away from Colbertism, the newly appointed chairman of Usinor-Sacilor, Francis Mer, instituted policies that had strong echoes of those carried out at British Steel (Dudley and Richardson, 1999: 239-40). These significant developments in two of the most influential Member States had the effect that free-market ideas slowly gathered support across the EC and within the Commission.

7.2 EC Market Regulation in the 1990s

In the General Objectives Steel - 1995, the Commission set out the political and legal framework for the EC steel industry in the 1990s. The Commission concluded that the steel crisis had finally come an end and that in the future steel producers would have to determine their strategies without the help of the Member States (COM(90) 201 final of 7 May 1990). Officials from DG III made a big contribution to this report, reflecting their own weariness and disillusionment following their long-standing involvement with the active management of the steel industry as well as their belief
that steel companies should undergo a change of heart (Dudley and Richardson, 1997:7).

In an economic climate deemed totally different from previous ones, the Community's steel policy was to be characterised firstly by 'continuing liberalisation of economic policies, a clearly less interventionist stance on part of the Community and a fully competitive environment' (COM(90) 201 final of 7 May 1990:9). This new framework was intended to give steel producers not only the initiative, but also the responsibility, for all decisions affecting their industrial structures and commercial practices. Secondly, the Commission announced 'a greater commitment by the Commission to secure compliance with the rules of free competition both within the Community, by firms (agreements or concerted practices) and by Member States (state aids), and in international trade' (COM(90) 201 final of 7 May 1990:9). Thirdly, the Commission stated its 'genuine determination ... to support, if necessary, corporate initiatives using the instruments of the ECSC Treaty, which will bring steel closer to the industrial sectors by the EEC Treaty' (Commission, 1990:9). Specifically addressing steel companies, the Commission made it plain that the new policy framework implied for them that the Commission would 'pursue a very strict policy regarding state aids and monitoring compliance with Articles 65 and 66 of the Treaty'. Similarly, companies would 'no longer be able to count on an interventionist policy for the organisation of the Community market (based on Art. 58)', since Art. 58 provisions were not applicable in the event of normal cyclical fluctuations in a period of economic stability, as was expected for the steel market over the forthcoming years (COM(90) 201 final of 7 May 1990:11). Nevertheless, the Commission did not outrule the possibility of normal cyclical fluctuations.

The Single Market was expected to have a strong positive - though indirect - effect on the steel industry. Although steel was acknowledged to have been a special case, the thrust for deregulation coming with the 1992 Programme was expected to make the emphasis on the free market irreversible. In particular, the Commission expected the 1992 Programme to have repercussions on competition, cost structure and the strategies of European steel producers. The Commission subsequently expected from

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44 The Commission expected that the 1992 Programme would provide windfalls for the industry, with considerable effects on energy costs and financing costs, thus enabling steel prices to come down without squeezing benefits.
companies that they show a new dynamism. The Commission report claimed that companies' management had undergone a fundamental reappraisal and that they had already taken action in order to protect themselves against future downturns and strong competition from outside. More specifically, companies paid increasingly attention to customer service and commercial investment, diversified into areas other than steel, had already carried out a number of take-overs and mergers, and increasingly specialised in high-quality products and more integrated production techniques. As the Economist (10.3.1990:7) put it: '[T]he real revolution in the EC's steel industry...has been the rediscovery of the customer'. The Commission pointed out that bid mergers, especially cross-border ones, were necessary in order to succeed in restructuring the industry. The emphasis of Commission policies on the liberalisation of the steel industry is furthermore underlined in the report's suggestion that big steel firms would do well to consider expanding further into distribution into other Member States, while making it clear that it would not tolerate steel companies' attempts to tighten their grip on distribution in their home markets.

The Steel Objectives 1995 also made it clear that there were no grounds for complacency since the European steel industry still lagged behind its two most important competitors and the Commission urged companies to use the good years ahead to invest in the future. Nonetheless, it was also clear that the industry continued to look for the Member States to provide subsidies in order to maintain and improve their position should another crisis hit the steel sector. The 'collective reasoning' of European steel producers (Handlesblatt, 2.10.1989:5), i.e. their readiness to scale their production back should demand slow down and not resort to price competition with other European producers, was still questionable as differences in competitiveness among European producers were bound to lead to reiteration of the 1980s subsidy cycle. Moreover, even at this time of relative recovery, European steel producers continued to display a certain readiness to make full use of the crisis measures of the ECSC treaty. Despite the gradual disappearance of over-capacity, Francis Mer, the chairman of Usinor-Sacilor, warned that steel demand would inevitably wane again and that a re-imposition of the production quotas by the Commission may be necessary (Financial Times, 26.4.89:3). However, the Commission's policy statement for the first part of the 1990s clearly rebuffed such hopes on the part of steel makers.
In July 1990, the Commission's emphasis on competition within the steel sector was underlined by its announcement of a fine against producers of cold-rolled stainless steel products⁴⁵, which had never been covered by the quota system. The investigation had been initiated in 1988 (Commission Press Release, IP/88/261, 4.5.1988) and the Commission's decision to fine seven producers a total of 425,000 ECU was the first of its kind since 1980. Yet the fines were very much reduced from the levels that would normally have been appropriate in cases of serious infringements of competition rules. In its decision, the Commission explained that the quota system established for the other steel products may have given the companies concerned the impression that the normal operation of the rules of competition had been modified, but that the unusual circumstances in this case would not apply in the future. Since steel was not considered a special case anymore, the Commission expressed its intention to take severe action against any steel producers attempting to form cartels or make less formal arrangements to restrict or control markets or prices under the EEC Treaty (Commission Press Release IP/90/584, 18.7.1990). Underlining that times had changed and despite its moderate treatment of the Art. 60 violation, the Commission nevertheless made it clear that it regarded cartels to be glaring contradictions to the Community's campaign to create the Single Market by 1992 and that it could not tolerate any substitution of the Community system by unofficial and illegal arrangements.

The Commission henceforth continued its tough line on violations of Art. 65 ECSC. For instance, in February 1994, when the Community was engaged in crucial and politically charged negotiations on the implementation of its steel rescue plan, the Commission had no hesitation to announce fines amounting to ECU 104.4 million against a cartel of 16 steel producers supplying steel beams to the construction industry (Financial Times, 15.2. 1994b:3; FAZ, 18.2.1994:14). Here, the timing of the announcement of the decision appeared to have been chosen by the Commission in order to put additional pressure on EC steel producers to agree on the Commission's steel rescue plan (Süddeutsche Zeitung, 17.2.1994:10; see section 7.3.3). In a novel case, ten of these companies and Eurofer applied to the Court of First Instance for

⁴⁵The so-called 'Sendzimir Club', named after a stainless steel production method, included eight leading stainless steel producers (British Steel, Thyssen and Krupp from Germany, Acerinox from Spain, Temi Speciali from Italy, ALZ from Belgium and Ugine from France).
annulment of the decision on the grounds that the Commission had infringed their procedural rights and misinterpreted ECSC competition rules. They also claimed that the Commission had been implicated in the producer's practices and that the fines were disproportionate. Following the review of a total of some 11000 documents, the Court in March 1999 upheld most of the Commission's findings and rejected the accusations that the Commission had been involved in the infringements. The Court none the less ruled that the Commission had to some extent exaggerated the anti-competitive effect and reduced the fines accordingly (EJC Press Release No 14/99, 11.3.1999). In the last case of this kind to date, the Commission in January 1998 fined another stainless steel cartel a total of ECU 32.67m for concerted practices since December 1993. The agreement contributed to what was almost a doubling of steel prices between January 1994 and March 1995 (Commission Press Release, IP/98/70, 21.1.1998).

7.2.1 ECSC Question

In the end of August 1990, the Commission's emphasis on deregulation and liberalisation was further underlined by Competition Commissioner Brittan's attack on steel's special status within the EC. Together with sympathetic officials, members of the new policy advocacy coalition that favoured free-market ideas, he proposed to abolish the ECSC Treaty and to align the steel sector with other sectors of the European economy. He made it clear that with the upcoming establishment of the Single Market, steel should be treated like any other industry covered by the 1957 Treaty of Rome (Financial Times, 31.8.1990:6). His move came as a consequence of both the huge costs the steel industry had accounted for since the 1970s and the recovery in the steel sector that made the powers of the Treaty unnecessary. His prime intention was thus to stop the industry from using the Treaty's interventionist provisions in crisis situations and to prevent the Commission from once again getting involved in managing possible steel crises. Moreover, he took the view that the Treaty only slowed down the industry's adjustment to lower demand. The abolition of the Treaty would create a more competitive market place and force the industry to quicken the pace of reconstruction. Inspired by the modest fine the Commission was forced to levy on the cold-rolled steel cartel, he also suggested that price rules
imposed under Art. 60 ECSC could be replaced by Arts. 85 and 86 of the EEC Treaty (Financial Times, 31.8.1990:6).

Although steel consumers strongly supported Sir Leon's initiative, the proposal was not only opposed by industry and Member States, but also faced opposition from within the Commission. Industry Commissioner Bangemann, who was by no means opposed to free-market ideas but also saw the need for an industrial policy on the grounds of practical politics (Dudley and Richardson, 1999:238), at most seemed prepared to accept minor modifications to the Treaty (Financial Times, 31.8.1990:6). Trade unions, participating through the ECSC Committee, were heavily opposed to the proposal. Apart from British Steel, the industry rejected the proposal not least because of the downturn many expected to hit the industry in the near future. Since the industry was still burdened with an estimated over-capacity of 20-35m tonnes and only the buoyant markets of the previous three years had lifted producers into profits, most companies argued that Art. 58 ECSC should be kept in case it was needed later. The industry was largely prepared to consider some amendments, such as the way the Treaty was applied and in respect to Art. 60 ECSC, but not concerning its principles and rules or the abolition of Art. 58. The opposition was led by the German producers, with Ruprecht Vondran, chairman of the German steel federation, arguing that in view of the heavy burdens on the steel industry as a result of the changes in Eastern Europe, it was especially important to maintain the stability the ECSC treaty provided for the industry (Financial Times, 31.8.1990:6). In a series of meetings with Sir Leon, the industry pointed out that the Davignon Plan had ensured that the European steel industry emerged strong enough to compete internationally in the 1990s and that steel required special treatment due to the special characteristics of the industry. The Treaty should therefore be allowed to naturally expire in 2002.

In the end, the opinion of most companies, namely that abolishing the Treaty would be virtually impossible on a political level since it required a unanimous vote in the Council of Ministers and ratification by the EP, held true. Since the German government rejected the idea of abolishing the Treaty, the plan was eventually dropped at the Council meeting on 29 April 1991. Instead, the Commission recommended that the Treaty should be maintained until its expiry in 2002, but revised so that it gradually dovetailed with the EEC Treaty (Financial Times.
In its March 1991 communication on the future of the treaty, the Commission decided 'to adopt, as its political position, the general option which provides for the ECSC Treaty to expire as scheduled in 2002, taking advantage of the flexibility which this provides in order to modify the application of the Treaty, as far as possible, to the two industries so that they are gradually taken over by the EEC Treaty in 2002' (SEC(91) 407 final of 15 March 1991).

In the stark confrontation of the old and new policy advocacy coalitions, for which Brittan's initiative is an early example, it became obvious that national governments and the majority of steel companies were still not prepared to forgo the industry's ultimate status as a special case. Yet it showed that, as Dudley and Richardson (1999:240) put it, the policy discourse had shifted fundamentally while the usual constraints were still in place. After Sir Leon's original plan failed there were two alternatives available to achieve the same end: Firstly, subjecting the industry to more stringent competition rules, and secondly, using multilateral steel talks (the MSA talks) to commit the EC to a liberal regime. The Commission ensured the first already in its communication, by making the point that it 'in the event of a revision of the ECSC Treaty were to take place before its expiration, [was] to ensure that the provisions of the ECSC Treaty related to price rules (Art. 60) and trade policy (Art. 71-75) are repealed, with it understood that these areas would then automatically fall under the corresponding provisions of the EEC Treaty' (SEC(91) 407 final of 15 March 1991). The second alternative, to incorporate the steel industry in a multinational agreement in order commit the steel industry to a liberal regime, is treated in the context of chapter eight.

7.3 EC Restructuring during the 1990s

In 1989, the positive trend in steel prices that had previously characterised EC steel markets reversed. Against the background of a decline in steel demand, steel prices fell by an average of 20 percent between 1989 to 1992. Between 1989 and 1991, company profits fell by an estimated average of 65 percent. Increased imports from the CEECs, which rose from 1991 to 1992 by 34 percent had an additional downward effect on EC steel prices (Conrad, 1994:338-9). Therefore, in mid-1992, many EC steel producers therefore once again demanded Commission intervention. However,
this time, the industry was not almost unanimous in its demand for the declaration of a manifest crisis and even Eurofer resisted calls from some members to press for more intervention by the Community (Financial Times, 15.2.1993:2). Even more significantly, the situation in Brussels had changed profoundly and the Commission was unwilling to return to the interventionist management of the steel industry for a situation which was clearly of a cyclical nature. As Dudley and Richardson (1997:8) point out, the situation was additionally complicated by exogenous factors such as the end of the cold war and the unification of Germany. It should be added that the Commission's commitment to the SEM, the liberalisation of steel trade in general, and the efforts vis-à-vis the US at arriving at a multilateral agreement added to the complexity of the situation (see chapter eight). All these factors had repercussions on the Commission's unfavourable response to demands to declare another manifest crisis.

The new steel crisis had diverse effects on the national steel industries (Conrad, 1997:139-40). Hit by the largest reduction of their capacity utilisation rate, the German and the Spanish steel industry were affected most. While these development partly explain the individual reactions and policies pursued by the Member States (see also the interest determinants of Member States at the beginning of the 1990s steel crisis in table 8 in the appendix), it is also important to consider the effect of the new policy ideas on Member State strategies. Germany, while generally being a firm member of the free-market coalition had the problem that the steel producers in eastern Germany required large-scale subsidies in order to pay for restructuring. Social and regional considerations linked to German unification thus somewhat undermined the German government's traditional anti-subsidy stance. Nevertheless, Germany joined ranks with the UK and France in opposing the old subsidy system (Dudley and Richardson, 1999:241). The British and French opposition to a another circle of large-scale subsidies can be explained by political changes in both countries and a transnational policy convergence that led British Steel and Usinor-Sacilor to campaign vigorously against subsidies in the steel sector during the 1990s (Dudley and Richardson, 1999:238-40).

As a result of this new constellation of preferences across the EC, Member States and steel producers, the Commission decided in favour of indirect measures. The
Commission estimated that a restructuring of the EC's steel sector required the shedding of 31-42 million tonnes per year in crude steel products and 19-26 million tonnes per year in hot-rolled products (SEC(92) 930fin. of 1991:3). In addition, the Commission wanted to improve the competitiveness of the steel industry by tying subsidies not covered by the subsidy code to capacity reductions. The following section examines the Commission's efforts in respect to these two aspects.

7.3.1 The Steel Rescue Plan

At the end of February 1993, the Council accepted a rescue plan proposed by the Commission. The package contained a number of individual measures aimed at a reduction of production capacity and a restructuring of the European steel industry. Conrad (1994:341-2) summarised the measures as follows: Firstly, the Commission was to pre-finance capacity reductions through loans granted under Art. 53 ECSC. These loans were due for repayment once the producers started to profit from capacity reductions or at the latest in June 2002. Secondly, the Commission was to approve of subsidies outside the EC's Steel Aids Code, but strictly in connection to capacity reductions. Thirdly, the Commission was to take measures aimed at improving market transparency, i.e. publish quarterly, product-specific production and delivery forecasts. Fourthly, in accordance with ECSC competition rules the Commission was to support company fusions and production co-operation. Fifthly, the Commission was to provide social aid measures as incentives for capacity reductions. Subject to the approval of the Council of Ministers, the Commission decided to provide the amount of ECU 240m in addition to the ECU 210m provided through Art. 56 ECSC. For the period from 1993 to 1995, and including Member State contributions, the Commission planned to provide a total of ECU 900m for the social aspects of restructuring. However, the provision of these aids were tied to steel companies agreeing to binding commitments on capacity reductions.

In order to secure short-term sales of Community steel producers, the Commission established temporary import protection, especially for CEEC and Russian steel imports. However, establishing protection against the prospective future Member States in Central and Eastern Europe was a politically sensitive issue and coincided with the negotiation of the EAs. The steel crisis and the loss of the US market
(through renewed US anti-dumping and countervailing actions; see chapter eight), and
the on-going structural crisis of the EC Steel industry subsequently cast a shadow over
the negotiations of the EAs (for detailed treatments of the negotiation process see
Sedelmeier, 1995 and Torreblanca Payá, 1997; on the treatment of ECSC products
under the EAs see Wang and Winter, 1993; Winters, 1992; Montaguti, 1997; Van den
Hende, 1997). Due to different starting points, the regulation of Eastern European
steel imports within the context of enlargement and recession caused some tensions
between DG I, DG III and DG IV (Interview with DG IV Official, 27.4.1998). DGI
performed a central role in these negotiations, supporting a broad-based trade
liberalisation and responsible for the Commission's general reluctance to apply trade
defence measures against CEECs. DG I was also supportive of including some
flexibility concerning state aids in the case of Poland, which met with resistance from
DG IV since it tried to establish a degree of Community discipline in regard of state
aids. DG-III, on the other hand, displayed a tendency to raise arguments in favour of
trade defence instruments against CEEC steel imports. Moreover, in the context of the
negotiation of the special protocols of the EAs, DG III actually allowed Eurofer
official's immediate input by placing them 'in the room next door' throughout the
crucial stages (Wang and Winter, 1993:22). Overall, however, and influenced by
changes in the economic climate, the emergence and later unravelling of restructuring
plans, and the influence of lobbying, DG III oscillated between market-opening and

Agreeing the external measures of the rescue plan provided for a political battle
between Commissioner Brittan, who had taken of the DG I portfolio, and
Commissioner Bangemann. Brittan as a committed free trader and now even more
concerned with looking at the broader picture of EC foreign trade, took the view that
in threatening to restrict steel imports the EC was neglecting its promises to the
prospective EC members in Eastern Europe. Bangemann, under pressure from
German steel producers, argued that unless cheap imports from Eastern Europe were
brought under control, restructuring was difficult to achieve (Financial Times,
20.3.1993:2). Eventually, tariff quotas were negotiated with the Czech and Slovak
Republics and Poland and ceilings established for CIS imports (COM(94)125final of

With the external protection in place, the Commission's attention shifted to the implementation of the other measures contained in the rescue plan. The restructuring of the Community's private steel producers overlapped with the restructuring of the state-owned subsidised steel producers, who were set to receive another (last) round of subsidies. This led to much political controversy and a gulf between the private and state-owned steel producers, which was mirrored on the Member State level (see for instance Times 22.2.1993:3; FAZ 23.2.1993:5; Financial Times, 25.2.1993:3; Handelsblatt, 26.2.1993:4; Die Zeit, 5.3.1993:22). Here, Germany found itself in a peculiar situation given the contradictions between the political imperatives attached to the Eastern German steel producer EKO-Stahl and its traditional anti-subsidy stance as demanded by the private West German steel industry. Since the private steel producers were not prepared to agree on capacity cuts among themselves in the light of these subsidies, the aid cases hence became 'a bit of a stumbling-block towards the wider restructuring' (Interview with DG IV Official, 27.4.1998).

In the following, analysis turns first to the Commission's application of the Aids Steel Code vis-à-vis the state-owned companies and then to the process of agreeing capacity cuts with private companies.

7.3.2 The Control of Subsidies in the 1990s

The Commission's subsidy policy during the 1980s had been unable to contain the subsidy race among the Member States, in the course of which the Commission had been forced to approve of many operating aids in order to maintain the stability of the EC steel market. Although the Commission tried to progressively tighten the rules on state aids through the publication of successive subsidy codes, the Member States' tendency to delay the necessary restructuring through operational subsidies had led to substantial over-capacities (see chapter five). Since 1988, DG IV had started to assert

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46 The quotas for Poland were negotiated but not realised.
47 Moreover, some of the cases were later legally attacked by individual steel producers and steel associations (British Steel, EISA, and Wirtschaftsvereinigung Stahl), but the European Court of Justice in 1997 upheld the Commission's decisions.
itself more on matters relating to the steel sector and in 1991 the Commission announced that under the new fifth Steel Aids Code operating aids were strictly forbidden. However, the new code did allow for aid to be granted for R&D in accordance with the normal rules and also contained special provisions permitting limited aid for environmental protection and plant closures (L362 of 31 of December 1991). In 1992, the Commission was notified of six major restructuring plans for publicly-owned steel companies, involving large amounts of state aid. These cases concerned two companies in Spain (CSI and Sidenor), two in Germany (SEW Freital and EKO-Stahl), Italy's Ilva and Portugal's Siderurgia Naticional. In the case of Italy's Ilva, the government had already paid out without awaiting the Commission's decision. None of these cases could be approved under the Steel Aids Code and the Commission duly refused to forward the proposals to the Council of Ministers for approval under Art. 94 ECSC.

For each of these cases, the Commission had to make sure that there were sound justifications for granting aids. Apart from cases where the objective was to privatise the company, the Commission employed independent consultants in order to assess the viability. The Commission attempted to strike a balance between the amounts of aid authorised and the size of the capacity reduction (a rough rule of thumb used by the Commission stipulated that for each billion of ECU in aid there should be a capacity reduction of 750,000 tonnes). Yet after allowance was made for special circumstances, there was a wide variation in the amount of aid per tonne of capacity reduction (Interview with DG IV Official, 27.4.1998). In order to receive the subsidies determined this way, Spain, Italy and Germany had to agree to privatise their state-owned steel companies (Agence Europe, 16.9.1993:8). After negotiating appropriate adjustments to the proposals with the Member States concerned (Agence Europe, 7.7.1993:5; 8.9.1993:6; 20/21.9.1993:7), the Commission concluded that the plans could make a significant contribution to EC objectives to justify granting state aid to ease the restructuring process.

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48 For the peculiarities involved in the case of the Italian sector see Masi (1996) and SEC(91) 930fin. of 10 June 1991.
49 Spain privatised CDI fully and Sidenor partially; Italy privatised Ilva, and Germany privatised EKO-Stahl.
Due to the interference between the process of approving subsidy proposals and the process of agreeing capacity reductions among private producers (see also next section), the approval of the rescue plan by the Council of Ministers was delayed. In the run-up to the crucial December Council meeting the German Minister for Trade and Economics, Rexrodt, declared that the German government could only agree to the aids for Italy's Ilva and Spain's CSI if the aids for German's EKO-Stahl would be approved too. Another obstacle was that some Member States were late in submitting their restructuring plans. The UK, Germany, Denmark, the Netherlands and Portugal thus demanded to vote on all subsidy proposals simultaneously once all restructuring plans had been received (Agence Europe, 20/21.9.1993:7). In December 1993, the Council of Ministers eventually agreed unanimously to all restructuring plans and granted £5.33bn in subsidies under Art. 95 ECSC. Neither the old nor the new advocacy coalition were able to realise their ideas to the full, but both received side payments as part of the deal (Dudley and Richardson, 1999:241). The subsidies were granted, but strict monitoring conditions were imposed and the Council of Ministers declared that on no account would any further subsidies be granted (hence the notion of 'one last subsidy'). In return for the Commission's positive reaction to the restructuring plans, the Member States had to agree to shed 5.4 million tonnes in hot-rolled and 2 million tonnes in crude steel production as well as to partly privatise state-owned producers (Agence Europe, 14.1.1994:5).

Following intense negotiations over several months, the Council gave its assent under Art. 95 to adopt the current 5th Steel Aid Code in December 1996 (L338 of 28 December 1996). It covers the period from 1997 to the expiry of the ECSC Treaty in 2002 and includes some modifications to the Commission's initial proposal. Under the same rules that are in force for other sectors falling under the EC Treaty, Member States may grant aid to steel companies only for R&D, environmental protection and full or partial capacity closures. A special provision allows Greece to grant up to ECU 50m for the restructuring of its steel companies up until the end of the year 2000. The code also establishes a strict procedure to ensure transparency and to prevent circumvention. The Commission may now require the provisional recovery of aid that was, contrary to the rules, granted without prior notification and authorisation by the Commission even before a final decision regarding its compatibility is taken. Thus,
the procedural rights of the Commission have been strengthened to allow for an even more strict and efficient prohibition of subsidies in the future.

Thereafter, the Commission asserted itself more with regard to illegal subsidies paid out by the Member States. For instance, in May 1996, the Commission ordered the German steel company Walzwerk Ilsenberg in Saxony Anhalt to pay back DM 6.8m plus interest, which it received illegally in 1994. Similarly, the Commission ordered the return of around LIT 125bn in aid illegally received by the Italian company Fucine Meridionali. The Commission concluded that the aid was granted by Italian authorities with the sole aim of artificially keeping the company alive (Commission Press Release, IP/96/458, 30.5.1996). Despite this firm line taken by the Commission, some Member States continued to by-pass the subsidy code. For instance, the Commission in 1998 found that aid granted by Italy to steel firms by way of tax relief was incompatible with the Steel Aid Code. The aid had not been notified and was therefore not authorised by the Commission (Commission Press Release, IP/98/434, 13.5.1998). In a different case, the Commission found that aid paid by the German privatisation agency Treuhandanstalt to the company Gröditzer Stahlwerke fell partly under the Steel Aids Code and ordered the return of dm 176.4M. Here, Germany had made use of legal distinctions that separate products falling under the ECSC Treaty from those falling under the EU Treaty (Commission Press Release, IP/99/477, 8.7.1999). There is thus a continuing trend to subsidise steel national steel producers despite the Commission's efforts and the progressive enhancement of the subsidy codes.

7.3.3 Agreeing Capacity Cuts for Private Producers

In dispatching the former Commission official Fernand Braun, who was to engage private steel companies in discussions on capacity cuts and, if necessary, to act as a 'father confessor' to the private producers (Financial Times, 15.2.1993:2), the Commission opted for a consensual policy style (see also Dudley and Richardson, 1999:241-3). The steel producers also welcomed the Commission's proposal to both pre-finance capacity reductions and to provide assistance for the social costs involved (FAZ, 10.2.1993:13). Encouraged by the positive reaction of the producers, the Commission moved the closing date for the end of the rescue plan back from 1995 to
1994 and send Braun to collect the offers by 30 September 1993 (Agence Europe, 27.2.1993:7).

Braun soon encountered difficulties in persuading the private producers to commit themselves to definitive cuts, but eventually tentatively suggested that the industry was prepared to cut 25.8 million tonnes in crude steel capacity and 17.9 million in hot-rolled products. However, the successful implementation of the Braun plan required a high degree of transnational co-ordination and political will at both EC and national levels. This was clearly lacking because Commissioners Bangemann and Van Miert refused to apply direct ECSC provisions (Dudley and Richardson, 1999:242)50. With the industry split into private and subsidised producers, the process of agreeing capacity cuts turned out to be both long and complicated. Neither side was able to secure what Héretier (1996) termed a 'home run' and each side demanded side payments as part of a deal (Dudley and Richardson, 1999:241). Between 1993 and 1994, the Commission not only had to call repeatedly upon steel producers to assume their responsibilities and to make their contributions to the restructuring (Süddeutsche Zeitung, 18.2.1993:8 Commission Press Release, IP/93/1096, 7.12.1993), but also had to remind the Member States of their role in this process (COM(94) 466 final. of 25 October 1994:5).

Arguing that the restructuring efforts of the state-owned companies were not enforceable (Financial Times 15.2.1994a:5), the private producers were not able to identify any more capacity reductions than those notified to Braun in 1993 (COM(94) 466 final. of 25 October 1994:2). In addition, the private producers demanded that in return for their offer to take over a share of the costs associated with the closures of capacity-reducing producers, the Commission should grant them fixed market shares. However, the Commission denied this request by referring to ECSC competition rules (Conrad, 1994:344). As they failed to agree on binding offers for capacity cuts by September 1993, the Council of Ministers could subsequently not approve of the pre-finance schemes according to Art. 53 ECSC in December as it had been planned and the Commission set another dead line for the 27th of January 1994. By mid-January 1994, the private producers still had not entered binding agreements. Up until

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50 In January 1993, the Belgian Carol Van Miert took over the DG IV portfolio from Leon Brittan, who went on to become Commissioner for External Relations (DG I).
this point, the Commission had only finalised the capacity reductions of the state-owned steel producers (see previous section). In addition to a slight increase in demand in the fourth quarter of 1993 which reduced their interest in undertaking capacity cuts (Conrad, 1994:344), the private producers were incensed that the Council of Ministers had granted the subsidies to state-owned producers and staged a strong opposition. In an effort to silence this opposition and to make producers enter binding agreements, Commissioner Bangemann warned that ECU240m intended to help pay for redundancies and safeguards to limit exports from Eastern Europe would be withdrawn if they did not volunteer capacity cuts (Dudley and Richardson, 1999:241; Conrad 1994:344). Given the increase in steel demand during the previous quarter, Bangemann in February 1994 reduced the Commission's targets for capacity reductions and called upon steel producers to enter binding commitments by 23 March 1994. Shortly before this deadline expired, the producers were able to present an offer that met the Commission's minimum target. Because of this positive development and the potential negative consequences of an immediate stop of the accompanying measures, the Commission in April 1994 suggested to extend all measures until September 1994 (Commission Press Release, P/94/30, 13.4.1994).

In May 1994, however, a deep split occurred within the Commission concerning a restructuring plan for Italy's Bresciani steel works. Achieving a cut of 5m tonnes at the Bresciani was an essential building block of the restructuring process, but the restructuring of the Italian steel sector had been one of the most controversial issues during the 1990s steel crisis and caused deep resentments on part of Italy vis-à-vis Germany, France and the Commission (see Masi, 1996:78-80). In the event, Competition Commissioner Van Miert recommended to the Commission the acceptance of a restructuring plan for the privately-owned Bresciani. He was challenged by Commissioner Brittan, who argued that the state aid offered to the Bresciani contravened European law, jeopardised on-going negotiations on a MSA and contravened the subsidy code of the GATT Uruguay Round (Financial Times, 20.5.1994:2). With Commissioner Bangemann absent, the Commission cast a vote and Van Miert was defeated by 11 votes to four. The result dealt an almost terminal blow to the Braun Plan and was a public humiliation for Van Miert. While a deal was struck for the Bresciani later that year, the event according to Dudley and Richardson (1999: 242-3) was of great importance since it represented an open and clear cut
defeat of the interventionist advocacy coalition and indicated that the old coalition had entered a terminal phase.

Van Miert consequently declared that the Braun Plan was dead (Financial Times 20.5.1994:2) and refused to have anything to do with it in the future (Guardian, 28.5.1994:5). In order to avoid a potential subsidy race and to prevent renewed US trade sanctions against EC steel exports, Commission President Jacques Delors and Commissioner Bangemann unsuccessfully attempted to revive the rescue plan, but by October 1994 it was clear that the steel rescue plan was doomed to collapse after two years of haggling. Reacting to improvements in demand, German steel producers indicated that they were prepared to let the plan collapse and wait for the next recession before trying once more to agree on capacity cuts. They were also prepared to forego the aid package the Commission promised if the cuts were implemented in full (Financial Times, 26.10.1994:4). Since the industry did not agree on the minimum level of 19m tonnes in capacity reductions, Commissioners Bangemann and Van Miert in late October recommended not to extend the market stabilisation measures implemented under Art. 46 ECSC beyond the fourth quarter of 1994, to drop the tariff quotas negotiated with the Czech and Slovak Republics, and to abandon the structural measures under Art. 53a ECSC. While quarterly production and delivery forecasts were replaced with bi-annual forecasts, the Commission nevertheless proposed to maintain the ECU 240m from ECSC funds to support the social costs associated with plant closures. It also proposed to introduce a system of 'advance' monitoring of imports. State aids were to be strictly monitored by the Commission and the industry was once again reminded of its responsibility to complete, with its own resources, the adaptation of production structures to changes in demand (Commission Press Release, P/94/59, 26.10.1994.). The Commission also announced that the industry could not count on Brussels help should another crisis hit the steel industry in the future (Die Welt, 10.11.1994:7). The Council endorsed the Commission's communication apart from the steel quotas for the Czech and Slovak Republics and the rescue plan was abandoned.

In order to improve the industry's competitiveness, and despite the clear prohibition of such practices under Art. 65 ECSC, the Commission approved of 29 company fusions and specialisation agreements in 1993. Of the initial over-capacities of 23-42m tonnes
in crude steel only 13m tonnes were eventually shed. Similarly, of the estimated 19-26m tonnes in hot-rolled steel the producers only realised 11.2m tonnes in capacity reductions. Reductions of 2m tonnes in crude steel and 4.4m tonnes in hot-rolled steel were realised by state-owned producers. It is impossible to estimate which of these reductions would have been realised without the activities of the Commission (Conrad, 1997:139). The example and success of British Steel’s privatisation in 1995 inspired the privatisation of Usinor-Saciior as part of a large-scale French privatisation programme as well as the privatisation of Italy’s Ilva. Privatisation has and is taking place in Portugal and Spain in 1996 approximately 85 percent of the Community’s steel industry was owned privately (Die Welt, 30.8.1996:4). In addition, the steel industry’s tendency to be politically salient has been reduced since the controversial closures of steel works such as Bagnoli in Italy and Ravenscraig in Scotland removed particularly sensitive regional issues from the domestic agendas of the respective countries (Dudley and Richardson, 1999:244). Modernisation and specialisation have become key words for the industry and resulted in an increase in investment and a reconfiguration of the European steel landscape (COM(1999) 453 fin of October 1999:2-5). In particular, European producers want to step up transnational investment and to speed up the restructuring process in order to avoid the possibility of particularly Japanese take-overs of the industry (Masi, 1996:79).

Steel imports from Eastern Europe continue to be regulated under the special protocols of the EAs. In addition, the Commission is actively involved in the restructuring of the steel sectors in CEEC countries. While the Community contributes directly to the restructuring through the Phare programme and acts as a catalyst to stimulate investment from international financial institutions and the private sector (Kramer, 1993:223), it makes Community assistance conditional upon a number of criteria. These include compliance with the Europe agreements, compliance with the priorities specified in the Accession partnerships concerning steel companies receiving social adjustment assistance and the monitoring of these, the adoption of a sound and comprehensive restructuring programme with a clear timetable for implementation, and strict compliance with state aid rules (Commission Press Release, IP/98/341, 7.4.1998). This programme aims at establishing a viable and competitive steel industry in CEEC countries and is designed to facilitate this industry’s integration into the internal market as the Community enlarges to the East.
Hence the cyclical nature of the steel industry once again prevented a thorough restructuring of the steel industry. Conrad (1997: 143) points out that the Commission's efforts to make producers agree to binding agreements on production cuts was an attempt to find a solution to the prisoner's dilemma that exists in the reduction of over-capacity. While the Commission's approach was a suitable one to find a way out of the dilemma, national subsidies offered a way to finance over-capacities, which led to a continuation of the dilemma. Accordingly, Conrad concludes that the Braun mission was a 'second-best' solution since the Commission failed to carry the 'first-best' solution of enforcing the prohibition of subsidies. In addition, Masi (1996: 85) points out that it is difficult to estimate whether EC policies or globalisation, domestic political change or domestic pressures on public finance have been the decisive factors on the restructuring that did take place.

Conclusions

In the 1990s, the Community continued its attempts to liberalise the steel industry and took steps towards the integration of the steel sectors into the 1992 Single Market. However, the Commission was obstructed in achieving this aim by both Member States and steel producers throughout the 1990s. Although the perception of steel as a special industry waned across the Community, most notably as a consequence of the experience of the 1980s and the broader thrust of the Single Market Programme, the social and regional effects of restructuring and privatisation meant that a number of Member States maintained a strong and privileged relationship with national industries. Hence, the attempt early in the 1990s to terminate the special steel status for the steel industry under the ECSC Treaty failed.

Given its objective to liberalise the steel sector and stated objective to avoid a renewed recourse to direct ECSC Treaty provisions, and in the face of the 1992/3 steel crisis, the Commission resorted to indirect means and attempted to achieve a restructuring of the steel industry by developing a steel rescue plan. Similar to the 1980s, the Commission's external measures brought the desired results, but it failed again to bring about a thorough restructuring of the steel industry. Although the process privatisation is almost complete, the substantial over-capacities that continue to exist in the steel industry are likely to undermine a co-ordinated Community
response should another crisis set in. Notwithstanding this, and looking at the EC's steel policies through the 1990s on the whole, it emerges that, despite the familiar obstacles it encountered, the Commission has established increasing clarity as to the steel sectors status within the Single Market and worked towards improving the industry's international competitiveness.

Despite the Commission's defeat on the issue of the abolishment of the ECSC Treaty, the Commission continued its drive to liberalise the steel industry by enforcing competition rules with increasing rigour. Over the 1990s, the Commission thus levelled increasingly high fines on steel producers for concerted practices. In the course of which, the 'symbiotic relationship' that had characterised relations between Commission and steel producers especially during the early 1980s broke apart. While the industry continued to maintain close relations with DG III, especially in the context of the regulation of Eastern European steel imports, the increasing influence and involvement of DGs I and IV in matters relating to the steel industry led to an increasingly conflictual relationship between EC and industry. This split between Commission and (private) producers became even more pronounced in the context of the steel rescue plan. The Commission was ultimately dependent on the co-operation of the steel producers if it was to achieve its aim of making the European steel industry internationally more competitive through a restructuring process. Yet the emphasis on free-market policies, supported by a growing number of supporters across all levels within the EC, set clear boundaries to what the Commission was willing to concede to steel producers. In the end, the waning of the steel crisis and the inherent contradictions and complexities involved in agreeing adequate capacity cuts among private and public producers led to the abandonment of the rescue plan and the continuation of the problem.

As in the 1980s, the regulation of the EC steel industry was largely a function of the interplay between Commission and Member States within the Council of Ministers. Throughout the 1990s, the Commission's liberalisation efforts were stalled through divergent Member States preferences and the loophole provided through Art. 95 ECSC. Although the Commission made some considerable advances towards the phasing in of the steel sector into the larger Single Market, the backlog of unresolved problems from the 1980s and diverse national structures of the steel sector hindered
progress and a coherent approach to both the general regulation of the steel industry and the EC's restructuring. In respect to subsidisation, some Member States continued to circumvent Community rules and, as long as the production of steel is intrinsically linked to social and regional considerations in some Member States, this is likely to continue despite the progressive enhancement of the Steel Aid Codes.
CHAPTER EIGHT: THE 1990s EC-US STEEL CONFLICT

Introduction

In continuation of the previous chapter and set against the background of the EC's endeavours to liberalise steel trade and the 1990s steel crisis, the present chapter analyses the interactions between the EC and the US during the 1990s. While the course of events that characterised the 1990s EC-US steel conflict is similar to the course of the 1980s steel conflict, this time it was not resolved through the negotiation of a VRA. Instead, US steel producers achieved the degree of protection they desired by resorting to US anti-dumping and anti-subsidy remedies provided under US foreign trade legislation. A further distinction to the 1980s steel conflict is that during the 1990s EC-US interactions in steel to a great extent shifted to the multilateral plane and became entangled in more general questions relating to the regulation of international trade. For this reason, the first section reviews the background of the 1990s steel conflict by establishing the link between the EC's policies vis-à-vis the US and the EC's internal policies as developed in the previous chapter. The second section then concentrates on the 1990s steel conflict between the two adversaries and shows how interactions in steel gradually moved from the bilateral plane to the multilateral plane. The last section then concentrates on EC interactions in steel between the EC and the US in the context of the GATT and the WTO.

8.1 The Background of the 1990s EC-US Steel Conflict

Already during the second half of the 1980s, the realisation had grown that if the EC wanted to improve its future stance in steel trade vis-à-vis the US, it had to draw a line under the past by phasing out subsidisation, aligning steel regulation with other sectors of the European economy under the SEM Programme, and to strengthen the multilateral regime of the GATT (see sections 6.5 and 7.2). In the light of the US steel industry's unwillingness to forget the 1980s and continuing drive for external protection, the existence of strong US trade legislation, and the protectionist mood in the US in the second half of the 1980s, establishing a subsidy-free open market, strengthening and developing the multilateral regulation steel trade (through GATT and WTO) and bringing steel trade under a multilateral steel agreement, appeared the only viable way forward.
This realisation was written into the Commission's most significant policy document relating to the steel sector for the 1990s, the *Steel Objectives 1995*. It outlined the steel sector's new political and economic framework as well as the main policy lines (COM(90) 201 final of 7 May 1990:9-18). Based on the increasing importance of the Single Market and the liberalisation of steel trade (see also chapter seven), the Commission outlined the external policies it was to pursue during the 1990s: Firstly, the Commission undertook, with the US government, to abolish all VRAs on steel trade. In order to facilitate the smooth transition to the post-1992 environment, the Commission also intended to progressively liberalise its own external steel trade policy system, a process that had already started in 1989. Secondly, the Commission stated its commitment to seeking to obtain 'a multilateral agreement imposing strict and effective discipline in international steel trade as regards state intervention and tariff and non-tariff barriers to access to steel markets' within the Uruguay Round and in any case before 1992. Thirdly, the Commission was to press for the liberalisation of steel trade and the settling of trade conflicts on the multilateral plane. Here, the Commission intended to prevent unfair trading practices having a negative effect on the EC market by exhausting all the possibilities under GATT to improve the effectiveness of anti-dumping procedures (COM(90) 201 final of 7 May 1990:12).

The Commission held out hopes for a general freeing of steel trade over the following five years and promised to fight hard at the Uruguay Round talks to establish a level playing field in the steel market. The Commission had increased the quantities permitted under its VRAs since 1989 and also cut down the number of categories to which they applied (see also table 9 in the appendix). Instead, the Commission's committed itself to continued and even stiffer antidumping measures that would be taken against countries unfairly subsidising their industries. In respect to both external and internal policy-making, the Commission's policies in the steel sector were therefore set to become cleaner and leaner in order to avoid a reiteration of the problems of the past and to enable the EC to take a more assertive and proactive stance on international steel issues. 'Cleaner' refers to the notion of bringing Community policy practices in line with international norms (as previously almost single-handedly determined by the US) and seeking the regulation of steel trade on the multilateral level. 'Leaner' refers to a less interventionist policy-making style and the liberalisation of steel trade based on the Single Market Programme. By phasing out
subsidies and privatising the steel industry, the EC could reduce the chances to come under attack of protectionist and/or unilateral US trade legislation. In view of both the steel sector and the larger thrust of the EC in the 1990s, the cleaner and leaner policy style announced in the Steel Objectives 1995 thus represents not only a classic example of a policy-learning effect, but also an attempt to enable the EC to take a more assertive and proactive stance on international trade issues, particularly vis-à-vis the US.

The US steel industry was well prepared for all possibilities: another steel crisis, the expiry of the 1989 VRAs in 1992 and the possible failure of MSA negotiations. From the outset, the US steel industry knew anti-dumping and countervailing action would produce the degree of protection it aspired. Therefore, according to a spokesman for the US speciality steel industry, Bert Delano, '[e]very part of the industry ha[d] kept cases in some state of readiness as an insurance policy against the failure of the multilateral talks' (Financial Times, 2.4.1992a:2). For US producers, initiating anti-dumping and countervailing duty actions offers a number of opportunities, which in turn explains the US' industry's propensity to apply them. Firstly, the actions could, and in view of the US steel industry ideally would, be 'traded' for VRAs. Secondly, even in cases where only preliminary duties were to be imposed, producers knew that they would be benefiting as prices would rise in the aftermath of their imposition and foreign suppliers would be put off from exporting to the US. Thirdly, filing a surge of suits could be used to exercise strong political pressure within the US towards the conclusion of another round of VRAs. In addition, the probability of the ITC determining injury increased by the cumulative effect on imports ascertained in its investigations. There was also a possibility that the administration, overloaded by a flood of actions, would be unable to carry out the preliminary dumping investigation meticulously within the fixed time-span of 115 days. Subsequently, it may be inclined to impose a provisional anti-dumping duty in order keep its options open. Fourthly, for US producers anti-dumping and countervailing duty actions represent a lucrative business option. Particularly so since the US is a large market and legal costs remain roughly constant (Conrad, 1995:155-6). Even if a case is finally rejected, the benefits of an anti-dumping petition for US producers substantially exceeds the average legal costs of $400,000, since foreign producers are temporarily pushed out of the market by the provisional duties and price levels increase. In fact, based upon the US
integrated steel producers' annual output of approx. 40m tonnes in 1993, even an average price increase of $1 per tonne would mean an increase in profit of $40 million.

Albeit, the case for relying on US anti-dumping and countervailing duty laws was not that clear-cut in the 1990s as for a complaint to be successful, a finding is required by the independent ITC that an industry has suffered damage or would suffer damage in the future. In addition, there was a feeling among the affected nations that the US industry would find it more difficult than in the past to prove that injury had been caused by imports as US district courts and the Court of International Trade had started to overrule the ITC and forced it to pay close attention to the evidence that was in the record. Similarly, the DOC, which determines the existence of subsidies, had also been disciplined by the courts. As the rulings of ITC and DOC had become more consistent and 'less arbitrary and capricious', the US industry had to take more of a gamble than in the past (Financial Times, 22.7.1992:3). Nevertheless, the US steel industry's reliance on US foreign trade legislation, its 'unwillingness to forget the past' and its demand to apply anti-dumping and anti-subsidy law retroactively remained a thorn in the side of EC producers throughout the 1990 (Interview with German company official, 14.4.1997; Interview with Eurofer Official, 7.5.1998), with Eurofer and the industry consistently accusing the US producers of misusing US trade law to harass them.

8.2 US Anti-Dumping Procedures vs. EC Harassment Claims

At the beginning of the 1990s, the profits of European, American and Japanese steel industries started falling and in May 1991 the US steel industry started to worry. Since the US industry thought itself capable of resisting another recession, the approaching expiry of the VRAs at the end of March 1992, and not the on-going recession in the US steel sector, was its foremost concern (Nachrichten für den Aussenhandel, 27.5.1991:13). Claiming not to be able to compete internationally, US producers started their lobbying activities for a 'safety net' to be installed before the expiry of the VRAs on the annual meeting of the American Iron and Steel Institute in Washington in 1991. Here, the industry expressed its top-priority to maintain and re-enforce US trade legislation affecting the steel industry and its readiness to file unfair trading
complaints by keeping all its legal and political options open. On the other hand, some major steel consumers in the US expected lower costs once the VRAs expired and therefore attempted to influence the President and the US public to prevent the agreements from being extended. The integrated steel producers were also undermined in their demands by the American mini-mills that explicitly distanced themselves from the demands for import restrictions, pointing out their high levels of competitiveness (Conrad, 1995:150).

Fully aware of the US industry's domestic influence and propensity to resort to US trade legislation in order to achieve its objectives, steel producers in Europe and elsewhere therefore pinned their hopes on the negotiations of an MSA on steel within the GATT Uruguay Round. Yet by March 1992 signs were those of another trade clash in steel with the US (Financial Times, 26.3.92:2). While US steel producers began to feel the effects of a low in the US domestic market (Conrad, 1997:145), there was also the very real prospect of a failure to negotiate MSA by the March 31 deadline (which marked the end of the EC's VRAs with the US). Since the EC was a net exporter in steel, with ca. 7 percent of the US market, the Commission feared another surge of US anti-dumping complains should the deadline not be met and thus hoped for a political agreement. Yet the Commission was also aware of the political pressure American steel producers would exercise on President Bush in his election year in order to maintain some form of protection.

When negotiations on the MSA within the GATT Uruguay Round failed and President Bush refused to extend the VRAs, US steel producers opened another series of anti-dumping and countervailing duty procedures. The six big integrated steel producers submitted a total of 92 anti-dumping and countervailing duty suits with the ITC (FAZ, 18.4.1992:11, Guardian, 2.7.1992:6). It was the most extensive set of unfair trade cases in the industry's history and came at a time when talks about the possibility a triangular trade war between the US, the EC and Japan became increasingly frequent. After 10 years of continuous import regulation through VRAs, it took US producers a mere 16 days to claim that harm had been caused to the US.

51 With the concentration of speciality steel in a few key electoral states, Ohio, Pennsylvania and Indiana, the possibility that President Bush could be brought around to steel producers views was reportedly very real (Financial Times, 28.4.1989:2).
steel industry. Overshadowed by a simmering dispute between the US and the EC concerning Airbus, agriculture, oilseeds and shipbuilding within the GATT, the US steel industry's actions added to the 'atmospheric tensions' that had already built up between the US and the Community (Wienert, 1993b:61)\textsuperscript{52}. Arguing that world-wide over-capacity and a softening steel market had made it attractive for producers to 'routinely and systematically' dump in the US market 'far below fair market value and often below the costs of production', the big six integrated producer alleged that 21 foreign governments had given massive export subsidies to their national producers, causing the US steel industry to a $2.2bn loss in 1991 (Financial Times, 22.7.1992:3).

Almost all major steel-producing countries were named, including Germany, France, the UK, Belgium, the Netherlands, Italy, and Spain\textsuperscript{53}. Overall, 6.5 million tonnes of Community steel imports to the US were affected (Financial Times, 1.7.1992:4). The loss of the US market as an export outlet would have had a strong impact on employment in the European steel industry since approximately 15,000 jobs depend on deliveries to the US market (Wienert, 1993b:81). Although the US administration's decision was still due, there was, according to a Commission official, clear evidence that the imminence of the US presidential elections could have grave consequences on the Community's trade relations with the US, with the steel issue described by another Commission official as 'a real time bomb' (Guardian, 2.7.1992:6).

Given that the steel industry was severely hit by 1992/3 steel crisis, the potential closure of the US market to EC steel products aggravated the situation of the EC steel industry and incited other steel exporters to redirect their exports to the Community (Wienert, 1993b:76-9). With the US market closed to exports, the duties had a double impact, as the Community now feared a flood of diverted imports from CEEC countries, which were also hit by the US duties (see section 7.3.1). However, in contrast the Canada and Mexico who announced retaliatory action, the Community only reacted verbally. Eurofer accused the US anti-dumping and anti-subsidy measures of being 'blackmail equivalent to starting up a trade war with global repercussions' and called upon the Community to use all political and legal means

\textsuperscript{52} Japan was deeply 'disappointed and annoyed' by the steel cases since Japanese companies had invested technology and capital in US steel companies and helped the US industry modernising (FAZ, 2.7.1992:10).

\textsuperscript{53} For example, Germany was accused of subsidising its steel production by 5.39 - 64.46 percent and of selling its exports in the US market at 1.97-64.46 percent below what US considered fair market value. Britain was accused of 20.15 and percent subsidies 18.05 - 114.81 percent dumping margins (Financial Times, 1.7.1992:4; Wienert 1993a).
possible to defend the interest of the European steel industry (Agence Europe, 3.7.1992:12). Usinor Sacilor of France, one of the producers most affected, announced that it was to fight back through the French government, the GATT and the Commission. It demanded in November 1992 that the Commission took retaliatory action, but the Commission declined due to the small scope of the dispute (International Herald Tribune, 3.12.1992:15). The Commission viewed anti-dumping and countervailing duty action as having the real objective of either to obstruct legitimate steel in trade or to force others to accept the renewal of VRA, rather than to sanction the non-respect of normal commercial rules. It stressed that the opening of procedures represented a return to the 'practices of harassment' bitterly experienced by trading partners of the US in 1982 and 1984, and was clearly at variance with the public declarations of the US government emphasising the need to liberalise trade flows in steel (Commission Press Release, IP/92/300, 15.4.1992). On the informal Industry Council in March 1993, several Ministers (France, Belgium, Spain, and Luxembourg) actually criticised the attitude adopted by the Commission vis-à-vis the US and called for a more determined trade policy vis-à-vis the US and the new Clinton administration. The Ministers from Germany, the UK, the Netherlands, Denmark and Portugal, on the other hand, pleaded in favour of a more cautious EC approach so as to avoid triggering off a trade war with the US as long as negotiations had not been exhausted (Agence Europe, 22.3.1993:5).

Commission Vice President Andriessen thus commented that he could not avoid the feeling that the US actions were not a consequence of the judicious use of commercial defence instruments by the main US Big Six, but a clear attempt to harass trade flows. He urged the US government to be severe in the examination of complaints and not to admit any cases where the main purpose was to harass legitimate trade. Should the US not respect these rules, the Commission advised the US government that it would not hesitate to use all methods of recourse available under the GATT. He then re-iterated the Community's readiness to resume talks on an MSA and reminded the US that during the MSA negotiations all parties, with the exemption of the US, had agreed on the need to find an effective mechanism to prevent harassment through misuse of the anti-dumping instrument. Furthermore, all had supported the Community's proposal for a clause foreseeing meaningful consultations previous to the initiation of an anti-dumping investigation (Commission Press Release, IP/92/537, 1.7.1992). However,
Community circles reportedly found it difficult to imagine that Washington was ready to embark on serious MSA talks given the US steel industry's strong objections (Agence Europe, 21.9.1992:13).

In January 1993, the ITA imposed preliminary anti-dumping duties ranging from 0.77 to 109.22 percent against 19 countries (among them seven Community countries). The ITC in March 1993 concluded that injury had been caused to the US steel industry and in June imposed final anti-dumping duties. For US producers, the real costs involved in filing the suits were substantially offset by the profits resulting from rising prices (Conrad, 1995:155-6). The final duties were considerably increased by the ITA, and in some cases even doubled. For instance, the preliminary duties for French exports were raised from 11-23 percent to 44-79 percent in the final ruling. Then, at the end of July 1993, the ITC delivered its ruling on countervailing duty cases. However, here the final duties were reduced substantially, except for those against Italy. In its final decision delivered in September 1993, the ITC rejected 42 of the 74 remaining actions. The US producers' attempt to establish yet another comprehensive shield of protection thus failed (Conrad, 1995:151). Ultimately, the anti-dumping and countervailing duty campaign of the US producers thus ran up against the politically independent ITC. For the most part, the various votes within the ITC were relatively close. As the ITC consists of six members, their individual opinions determine whether the injury proved is substantial. Their opinions depend not least on their personal economic and political beliefs. According to Conrad (1995:159), two factors were supposed to have played a role in the predominantly negative opinion of the ITC: Firstly, despite the difficulties experienced by US producers, there were only few redundancies. Secondly, by the time of the final determination of injury the situation of the integrated producers had improved considerably as a result of the international demand for steel. Most importantly, however, the ITC's decision helped to diffuse what had become a very grave trade dispute.

Although the Community was keen on avoiding a confrontation with the US over steel, the anti-dumping and anti-subsidy duties imposed by the US in January on steel exports from seven Member States, which affected 2 million tonnes of exports per year and were estimated to cost the Community steel industry $1bn (Agence Europe, 10.2.1993:13), eventually made it call for urgent talks with the US under the GATT
world trade body. Against the background of a worrisome state of EC-US relations, Foreign Trade Commissioner Leon Brittan warned that the duties sent the wrong political signals when the world needed reassurance of America's intention to stand by its commitment to free global trade (Guardian, 3.3.1993:5). The Commission was positive that a GATT panel, if set up, would rule in its favour as previous consultations held in accordance with GATT rules had allegedly confirmed that the EC was in a strong position and that the US measures were not justified (Agence Europe, 16.4.1993:5). In its claims that the US industry was trying to claim a second time round advantages that they had already reaped, the Community was also supported by Japan, Sweden, Australia, Brazil, Canada, and Austria (Agence Europe, 5.6.1993:11,12). Before the issue came to the panel, however, the US announced the determination of the level of duties to be applied to flat-rolled products. Community exports of 1.9m tonnes per year were affected representing a value of £815m, but the ITC's ruling on injury, needed to introduce these duties, was still due. Yet US measures already showed serious repercussions. The provisional duties essentially made exports to the US uneconomic and had the effect that some EC producers gave up on the US market. Others were continuing with contracts already begun, but would not be able to renew these. Furthermore, since February, EC exports had already dropped by 25 percent (Agence Europe, 24.6.1993:6).

In the GATT panel, Commission officials questioned the methods used by the US in deciding on the duties, including a decision that the privatisation of British Steel resulted in unfair government subsidies. Commission officials also complained about the DOC systematically taking a hard line in the anti-dumping and subsidy investigation, using any of its discretion fully into one direction only. In addition the Commission pointed out that: Firstly, some of the duties imposed related to subsidies that had been granted up to 15 years ago; Secondly, a sharp reduction in steel imports to the US had been achieved since 1978 and that European steel producers had not used their quotas fully; Thirdly, the US claims were calculated incorrectly as they were not based on the actual amount of the subsidy but on the discounted present value; Fourthly, ECSC loans should not be classified as subsidies as they were financed through the ECSC levy which was raised from the industry itself; and other company-specific objections to US countervailing duty actions (for the full details see Conrad 1995:153-4).
In October 1994, the GATT panel substantially agreed with the Community. It decided that the US' application of the subsidy code constituted an infringement of the GATT. In the case against British Steel, the panel decided that the subsidies received by the company were already reflected in its purchasing price. In the case of Usinor Sacilor, it ruled that the interest calculation used by the ITA to determine the benefit received by Usinor Sacilor from government credits was unjustified, due to the ITA not giving sufficient grounds for its decision. As concerns the treatment given by the ITA to both credit renouncements from private companies and increases in government shareholdings as subsidies, the panel also rejected the ITA's ruling. The ITA's ruling was only confirmed in two cases, namely taking into account the amount of subsidies granted during a preceding period of 15 years and its general classification of increases in government shareholdings as subsidies (Conrad, 1995:154).

Anti-dumping duties, countervailing duties as well as an upturn in the business cycle in the US nevertheless enabled the US steel industry to raise its prices. From January to February 1993, the preliminary duties caused a decline in imports to the US by approx. 45 percent. In fact, the import quota fell to its lowest record since 1975. Nevertheless, it has to be taken into account that a low Dollar contributed to this development. In the beginning of 1994, the US market actually experienced a steel shortage. According to Commission estimates, duties imposed during this time led to a reduction of European exports to the US by 25 percent. From January to February 1993, European exports to the US fell by another 48 percent as a consequence of the imposition of the final duties. The duties imposed on non-EC countries led to diversion of steel exports amongst others countries into the EC and worsened the situation of the already affected Community steel producers (Conrad 1997:146). Dating back to the ITC rulings in 1993/94, in March 1998 15.77 percent of EC exports to the US were affected by US anti-dumping and countervailing duty cases (Interview with DG III official, 6.5.1998b). One Commission official dealing specifically with anti-dumping and anti-subsidy cases expects that even if the US continues to allocate pre-privatisation subsidies over time, the impact of subsidisation of EC-US steel trade will run out by 2002/3 (Interview DG I Official, 4.5.1998). By then, the US will not be able to impose duties on subsidies granted around the mid-1980s since the subsidies then granted were the most substantial ones. Ever since the
EC imposed progressively tighter Steel Aid Codes, the subsidisation of the EC steel industry has been reduced and the US industry will therefore find it increasingly more difficult to claim injury.

8.3 The EC-US Steel Problem in the Multilateral Context

In the GATT Uruguay Round, the EC and the US clashed head-on on a number of issues, but mostly EC-US relations were dominated by frictions over agricultural issues (Croome, 1995; Paemen and Busch, 1995; Murphy, 1990a, b). Together with Japan, the EC criticised the US' refusal to abandon unilateral measures and to agree on a speedier and more effective dispute settlement procedure. While lesser frictions existed over aircraft subsidies and restrictions on financial services in the US, frictions over agriculture in February 1992 became so heated that a collapse of the GATT negotiations appeared imminent (Hopkinson, 1992: 16; Paemen and Busch, 1995). The US criticised the EC's lack of vision on trade policy and its ability to carry on a real trade negotiation beyond position-taking and rejecting US initiatives. The US also viewed enlargement of an inward-looking Community with suspicion. Furthermore, minimalism and incrementalism of EC positions contrasted markedly with the maximalism of US positions, which Europeans found difficult to take seriously (Hopkinson, 1992: 17).

8.3.1 Steel in the GATT Context

In the context of steel, however, the position of the US was complicated by the fact that the US steel industry wanted dumping findings to be made easier, whereas American export industries wanted it made more difficult. When the Uruguay Round was concluded in December 1993, the Commission showed itself pleased with the outcome of the new anti-dumping code as it reduced the scope for arbitrary unilateral findings against successful foreign competitors and provided greater certainty in combating unfair trade practices on a global level (COM(94) 16 final of 15 February 1994: 92). Although the Community had to accept a compromise, particularly towards the establishment of dumping, the new code contained a clearer set of rules, which the Commission hoped would help to avoid dispute panels. Moreover, the Commission was able to write into the new code a number of rules that reflected existing
Community practice. For instance, all EC proposals concerning the re-enforcement of disciplines and transparency\(^{54}\) had been adopted in the new code. Furthermore, the new code established firm guidelines on the termination of cases where the share of import volume held by the exporter is *de minimis*, thus increasing legal certainty in an area that had previously been contentious. Of particular importance in regard of anti-dumping action by third countries against the EC was also the introduction of a new 'sunset' provision. It obliges all countries, including the US which previously did not apply such rules, to terminate duties after 5 years unless the need for their continued action has been positively established. Nonetheless, both the Commission and the US conceded that the result of the Uruguay Round was not sufficient enough as rules concerning the circumvention of anti-dumping duties had not been agreed as the remedies they were seeking would have constituted a breach of Art. VI of the GATT\(^{55}\) (Hopkinson, 1992:6).

As concerns anti-subsidy and compensatory duties, the final text of the agreement largely corresponded to the objectives of the EC (COM(95) 16 final of 15 February 1995:56). However, in the final rounds of negotiation the EC had to agree on a number of changes regarding the 'green list' on actionable and non-countervailable subsidies. Albeit, the new agreement contained a number of clarifications and improvements concerning the definition of subsidies, their specific availability to certain enterprises and on the calculation of a subsidy in terms of benefit to the recipient. It prohibited *per se* export subsidies (*de jure* and *de facto*) and subsidies contingent upon the use of domestic over imported goods. All other subsidies were actionable or countervailable if found to cause adverse effects to the interests of another WTO member. Unless they meet a number of precise conditions, four 'green' subsidy categories were exempted. These include generally available subsidies, subsidies for the purpose of R&D\(^{56}\), regional assistance, and environmental assistance\(^{57}\).

\(^{54}\)Precise rules on initiation, the subsequent investigation and the imposition of provisional or definitive measures.

\(^{55}\)A GATT panel had previously ruled that Community legislation in this area was GATT inconsistent.

\(^{56}\)Here, 75 percent of the costs of industrial research and 50 percent of the costs of pre-competitive development may be subsidised.

\(^{57}\)Limited to 20 percent of the cost of adaptation to new environmental requirements.
One Commission official commented that during the Uruguay Round negotiations 'we were rather suspicious of the US approach which we thought was rather too liberal as regards the control of subsidies' (Interview with DG I Official, 4.5.1998) Since the EC put in place a very tight code on subsidies, it has become very difficult to subsidise European producers (in general). On the other hand, the EC was able to increasingly move from a very defensive stance on subsidies to a very aggressive stance in the sense that the EC is now able to look very closely at third country subsidisation. Accordingly, the EC recently received far more anti-subsidy complaints from the industry than before, which reflects that European industries have become much more confident about attacking the use of subsidies in other countries (COM(97) 428fin. of 16 September 1997, see also table 9 in the appendix)

8.3.2 MSA Negotiations and other EC Initiatives Relating to Steel

Negotiations on an MSA initially took place within the context of the GATT Uruguay Round, but were subsequently separated from these. The 36 nations negotiating on the MSA intended to phase out tariffs on steel, eliminate non-tariff barriers and outlaw direct state subsidies. Through agreeing on an MSA, the EC wanted its own aids discipline and liberal trade policy followed by other countries (Commission Press Release, IP/92/241, 1.4.1992). The US, on the other hand, wanted to retain unfettered rights to pursue disputes through US anti-dumping and countervailing duty actions, which represented the greatest concern among European producers and governments. This issue unresolved, it became clear by the beginning of March 1992 that the deadline to negotiate an MSA would not be met. When the talks officially ended, negotiators had agreed on zero tariffs and a long list of forbidden non-tariff barriers, with the exception of public procurement restrictions that the US had refused to waive. They had also agreed, in principle, to permit state aid to steel companies for R&D, environment, and plant closure purposes. But the US refused to exempt such aids from possible countervailing duty action under US trade legislation (Financial Times, 2.4.1992b:2).

The EC hoped for a political settlement to prolong talks, but was still fearful of pressure by US steel producers on the Bush administration in the election year to maintain some form of protection (Financial Times, 26.3.1992:2). Although the Bush
administration subsequently made it clear that it would not extend the VRAs, it was not discouraging governments from offering to keep the quotas in place until an agreement was reached (Financial Times, 1.4.1992:3). With no timetable set, negotiators meanwhile continued to meet bilaterally and multilaterally to resolve outstanding issues. Commission Vice-President Andriessen hoped that negotiations would resume in order to avoid disruptions of the market, which in the absence of multinational discipline could be provoked by unilateral measures. He thus called on all interested parties to show the flexibility needed to arrive at a timely agreement. Furthermore, although talks on the MSA were now technically separate from the ongoing Uruguay Round, he considered that a rapid conclusion of an MSA could have a positive impact on the successful completion of the GATT Round (Commission Press Release, IP/92/241, 1.4.1992).

The extent of the deadlock between the US and the EC becomes clear when looking at the division of interests. The position of the US industry is well expressed in a statement of Bert Delano, a spokesman for the US speciality steel industry, according to whom 'the effort to get other nations to give up their regional aids, environmental subsidies, assistance to redundant workers and the rest [was] naive'. The other nations at the bargaining table took the view that the very country that launched the talks, the US, stood as the principal obstacle to finding an agreement as it refused to amend its anti-dumping and countervailing duty laws. Consequently, Delano saw the failure of the talks as all the fault of the other negotiating parties, who understood that the US 'badly' wanted an MSA and used the opportunity to try to remove US trade laws (Financial Times, 2.4.1992a:2).

When talks on an MSA were resumed in December 1992, several delegations, led by Japan and Brazil and supported by the Community countries Austria and Sweden, called upon the US to repeal its anti-dumping and compensation action (Agence Europe, 17.12.1992:16). Yet the US split issues. The MSA talks were to deal with future dumping and subsidies, while the steel cases were considered protection against uncompetitive practices (Financial Times, 9.12.1992:6). The Community proposed that the MSA should prohibit support subsidies for uncompetitive suppliers if the US withdrew the anti-dumping complaints against European producers. Subsidies granted for the purpose of restructuring were to be permitted. However, this was rejected by
the US integrated producers who did not want to withdraw their files. In addition, the Americans feared that support subsidies for uncompetitive firms could be disguised as restructuring subsidies. On the initiative of European steel producers, the Community withdrew its proposal a short time later and repeated its demand that the MSA be conditional on the withdrawal of anti-dumping actions. The US declined by stating that an MSA could not deprive US steel producers of their right to pursue anti-dumping actions (Conrad, 1995:153). Overall, it was believed that the resumption of talks on the MSA was in itself of little consequence. Sources close to the Commission indicated that it was purely formal gesture on part of the US at a time 'when its behaviour [was] totally unacceptable, because compensatory amounts [were] applied and procedures continuing' (Agence Europe, 12.12.1992:11). As the General Affairs Council of the same month had entrusted the Commission with the mandate to obtain the elimination of US anti-subsidy measures and to investigate as soon as possible the compatibility of the US approach with the GATT subsidy code, the goodwill of the US to re-launch MSA negotiations appear to have been a response to the new steps the Commission was going to undertake.

However, as certain of the Community's objectives in the MSA negotiations, such as the legislation of regional aid, R&D subsidies and an increase in the lower limits for dumping and injury (de minimis criteria) were already written into the text of the Uruguay Round, the interest in a separate MSA eventually waned over time. The only point that remains of interest to the Community is an anti-harassment clause. It is intended to prevent US producers from excluding EC producers from the US market for a given period of time by concentrating a large number of anti-dumping actions at one time and by imposing provisional anti-dumping duties, even if the duties are consequently proven to be unjustified. US steel producers, however, continue to have too much political influence for this bargaining point to stand any chance of success (Conrad, 1995:153).

Claiming that the EC is itself one of the most open markets in the world, Sir Leon Brittan reopened the debate and outlined his objective for an MSA on steel in 1996. His objective depended on a 'policy image' of steel as a multinational business in a free market, with the state kept at a safe distance, and regulation on a global scale. He warned that failure to agree an MSA eliminating all tariff and non-tariff barriers over
a number of years and containing strict disciplines banning state subsidies, could renew calls for government assistance, which would in turn be followed by requests for protection. As a result, the Community would go back to the same old vicious circle which would be in nobody's interests (Brittan, 1996:6). For the foreseeable future, however, an MSA seems difficult to imagine as it is likely that the large integrated US companies will continue to lobby with some success for the imposition of duties on imported steel from a number of countries, including many from the Community. US companies continue to claim unfair competition on the grounds of state aids and there remains a powerful culture of protectionism within their ranks. In fact, the US administration came under strong pressure from industry and Congress to stem import following a strong increase in imports in 1998. The US steel industry presented another waive of anti-dumping, anti-subsidy and safeguard complaints and Congress launched a series of bills containing provisions that appear at variance with WTO rules. Furthermore, a new steel action plan of 1999 proposes a strengthening of US trade laws and certain other measures and the Commission fears that this plan may lead to new VRAs (COM(1999) 453 final of 5 October 1999:6).

There were hopes on the European side that the expanding influence of US mini-mills, who are more inclined to free trade than the large integrated steel works, could bring at least a Multilateral Speciality Steel Agreement (MSSA). Yet in 1998 negotiations on both MSA and MSSA deteriorated (Interview DG I Official, 4.5.1998) since particularly in times of recession US producers tend to resume a united protectionist front against imports and because the aim is to go beyond of the content of current WTO agreements. Overall, the Community's strategy of pursuing a multilateral agreement has therefore been unsuccessful, despite its repeated demands and offers to find a multilateral framework for steel trade. Since the collapse of MSA talks, the OECD Steel Committee remains the only international forum for dialogue on steel (COM(1999) 453 final of 5 October 1999:6).

There is a wide-spread belief in the European steel industry that in view of the US steel industry's reliance on US trade legislation the only way to ensure the existence of the US market as an export outlet is to develop and utilise the WTO (Interview Wirtschaftsvereinigung Stahl, 15.4.1997). The Commission has generally been very receptive to the concerns of the European steel producers (Interview with German
company official, 14.4.1997) and following a complaint made by Eurofer in January 1997, the Community investigated the 1916 US Anti-Dumping Act under the TBR procedure (Commission, 1998; IP/98/1032, 25.11.1998; L126 of 28 April 1998). The 1916 Anti-Dumping Act is a powerful, but unused piece of US legislation that allows for the criminal prosecution of importers that have been found guilty of selling on the US market at a price lower than in the country of production. Although a recent case under the 1916 Act against the German producer Thyssen has been dismissed in the Ohio State Courts, the Community wants this particular piece of legislation removed since it believes that the US by keeping it in force breaches its obligation to bring existing legislation into conformity with WTO anti-dumping rules and threatens European exports. Since bilateral discussions and WTO consultations failed to resolve the issue, the Community in November 1998 formally requested a WTO panel. It was the first time that a TBR procedure led to a formal request for a WTO panel. There is also a second WTO panel, requested by Japan, aiming at the removal of the 1916 Act and both are still active at the time of writing. Similarly, there is an active WTO panel between the EC and the US concerning sections 301-10 of the US Trade Act of 1974. The Community contends that these unilateral provisions in US trade law are inconsistent with the GATT and WTO. While the US generally manages to avoid to most damaging panels that could take place (Interview with DG I Official, 4.5.1998) and although these cases are inconclusive at the time of writing, they provide further evidence for both the shift of EC steel policy into the wider framework of EC external policy-making as part of the SEM and a more assertive stance of the EC against potentially damaging US trade legislation by challenging the US on the multilateral level.

Conclusions

The EC's approach to the 1990s steel dispute with the US was firmly based on the Steel Objectives 1995 and strongly interconnected with internal liberalisation measures. In becoming what has been characterised cleaner and leaner, the EC attempted to draw a line under the past. It began to withdraw from interventionism in the steel sector, to phase out subsidisation, to induce the privatisation of the industry and sought the regulation of steel trade on the multilateral level in order to secure the US market as an outlet for EC steel exports. Similarly, the EC challenged the US steel
industry's anti-dumping and anti-subsidy cases by taking the US to dispute settlement panels within the GATT and its successor WTO. Furthermore, within the context of the Uruguay Round, the EC pressed for clear and standardised rules on state aid and anti-dumping procedures.

The results were mixed and not necessarily a product of the EC's policies. Considering the anti-dumping and anti-subsidy cases brought by the US steel industry against Community steel producers, the Commission's initial response was cautious and clearly toned down in order to avoid a direct confrontation with the US. Instead, the EC attempted to find a solution to the steel cases as part of the MSA negotiations and only once these failed, due to the objections of the US steel industry, the EC took the cases to a GATT panel. This move was in line with the policy lines stated in the *Steel Objectives 1995*. As a result of both, the ITC final rulings and the GATT panel, the problem was then reduced as the independent ITC dismissed some of the cases and the GATT panel in most cases found in favour of the EC. Although the US industry failed to achieve another comprehensive shield of protection, the imposition of temporary duties nevertheless produced higher steel prices in the US, resulted in a reduction in EC exports and aggravated the situation in the Community's steel industry. Taking into account both the damage caused to the EC steel industry and that the cases were substantially reduced by the findings of the ITC, the EC cannot claim that its steel policies were particularly successful.

However, considering the larger picture of EC-US interactions in steel during the 1990s, i.e. the regulation of steel under the GATT anti-dumping/anti-subsidy code, the failed MSA/MSSA negotiations and active WTO panels, it can be concluded that the EC's strategy of becoming leaner and cleaner in order to secure access to the US market is likely to produce positive effects in the long run. Although the EC failed to negotiate the much-wanted MSA, at the very least the strategy of becoming cleaner and leaner in the steel sector has increasingly enabled the EC to assert itself much more on questions relating to steel *vis-à-vis* the US and the rest of the world. While this chapter demonstrated the interconnectedness between internal and external policy making, the future success of EC steel policies *vis-à-vis* the US is of course also dependent on factors beyond the EC's control. Potential problems could arise from the
politicisation of steel policy-making in the US especially in the event of another steel crisis, the effectiveness of the WTO and the signatories' adherence to WTO rulings.
EVALUATION PART IV: STRATEGIC ACTION IN STEEL IN THE 1990s

When the 1970s witnessed the development of the EC, and particularly of the Commission, into a relevant industrial-political actor in steel, the establishment and size of the Common Market during the 1980s had made the EC a major player in the international political economy. In steel, however, the EC had only been partially able to draw on the action capacities thus acquired. Through the imposition of anti-dumping procedures all major steel suppliers to the EC were forced to enter VRAs in order to stabilise the EC steel market, but vis-à-vis the US the EC found itself on the other end of the stick. Here, the Community's interventionist policy style, large-scale subsidisation and government involvement within the EC, and divergent Member State interests left the EC vulnerable vis-à-vis the strongest player in the international political economy. As a result, the EC had to settle for a limited, though guaranteed, share of the US market until the early 1990s. In the second half the 1980s and during the early 1990s, a process of policy learning started in the steel sector and, facilitated by the promotion of free-market ideas through a policy advocacy group that grew increasingly influential across the EC and the Member States, the steel industry was gradually phased into the framework of the SEM. This often painful and complicated process is as yet not fully completed, but, as this part of the thesis has shown, the new approach is beginning to pay off some dividends. Consequently, it can be concluded that the EC's strategic action capacities in steel have been further increased during the 1990s.

This conclusion rests on both factors relating directly to steel and factors concerned to the EC's overall development during the 1990s. As for the first, the long-term process of becoming cleaner and leaner clearly had a decisive impact on the development of strategic action capacities in the steel sector and provided a good example for the interconnectedness of internal and external policy-making. Progress towards the restructuring and the privatisation of the steel industry, the tightening of the rules on state aid, the enforcement of competition rules, and the withdrawal from direct intervention in the steel sector provided the foundation for an increasingly assertive stance by the EC on steel matters particularly vis-à-vis the US. Similar to the 1980s, however, the Commission's progress in this direction has been limited by the strong
position of the Council on Ministers in EC decision-making processes. This strong position of the Council of Ministers not only prevented an early and certainly advantageous incorporation of the steel sector into the SEM, but also resulted in a number of exceptions for state-owned steel industries and subsequently contributed to a delay of the necessary restructuring process. Nonetheless, as a result of the progress achieved particularly in respect to subsidisation, the EC has decreased its vulnerability to countervailing actions by the US steel industry and created the basis for a more assertive stance on subsidised steel imports from third countries.

On the other hand, the improvement of the EC's strategic action capacities in steel cannot be separated from its overall development during the 1990s. Based on the SEM, the EC was able to assert itself even more than during the 1980s vis-à-vis the US as the clashes and deadlocks between the two within the GATT Uruguay Round indicate. Although attempts to negotiate an MSA failed, the EC was able to shape the content of GATT anti-dumping and anti-subsidy codes and thereby reduced the dependency of EC steel producers on the interpretation of US trade legislation. In addition, the instalment of the TBR as an aggressive commercial policy-instrument on the EC level is currently being used by the EC steel industry to put additional pressure on the US to bring its trade legislation into line with GATT and WTO obligations and to reduce the scope of US trade legislation in general. Furthermore, the adoption of a strict GATT code on subsidies, in conjunction with the strict control of subsidies in the Community, now enables the Community to move from defensive to more aggressive policies on subsidised steel imports to the EC.

Although the notion of steel as a special product has declined and although the Community's steel industry has largely been privatised, steel remains a vital industrial product with some socio-economic and regional importance attached to it. Therefore, the possibility cannot be discounted that in the event of another steel crisis Member States resort again to a special treatment of national steel industries and subsequently undermine the Community regime in steel.
CONCLUSIONS: STEEL, THE EC AND STRATEGIC ACTION IN THE INTERNATIONAL POLITICAL ECONOMY

This thesis adopted a systematic approach to developing a framework for the evaluation of strategic action capacities in the IPE. In chapter one, the thesis generated a framework for the evaluation of strategic action capacities and adopted the concept of state economic functions in order to create a level playing field for the actions of actors in IPE. In an initial exploration in chapter two, the framework was applied to the case of the special case of the EC as an actor in IPE and a case study approach developed that suggested to investigate the EC's strategic action capacities in steel by means of a longitudinal study. Parts II, III and IV subsequently analysed EC policy-making in steel from the mid-1970s to the mid-1990. The conclusions presented in this chapter are arranged in three sections. In the first section, the insights derived from the longitudinal study of EC policy-making in steel are summarised by using the template of the research framework. The second section looks at the insights gained from the steel case study and relates them to the case of the EC as a strategic actor in the IPE. Here, reflections are presented on the provision of state economic functions through the EC. The third section reviews the lessons that can be derived from the analysis of the EC as a strategic actor and puts them into the context of IPE. Together with suggestions for other actors wishing to improve their strategic action capacities in the IPE, this section reflects on the research framework and presents some suggestions for further research.

9.1 Strategic Action in Steel

The longitudinal case study of EC policy-making in the steel sector presented detailed evidence for the gradual development of the EC's strategic action capacities under complex internal and external constraints. The initial 20 years of the Common Market in steel were characterised by efforts to liberalise the steel market and to prevent cartel practices among EC producers. Given this focus of EC policy-making and the post-war boom in steel demand, the EC cannot be said to have been engaged in strategic action steel during this initial period. Responding to market developments in the second half of the 1970s, the EC then became gradually involved in the management of the steel sector and experienced enormous difficulties in making the
transition from trade liberalisation to the form of interventionist joint economic management that dominated EC policy-making in steel for the next decade. Similarly, the EC experienced numerous obstacles to retreat from the interventionist policy-making style in steel that had been established during the first half of the 1980s. In the light of the four factors of analysis set out at the end of chapter two, the broad conclusions on the longitudinal study of policy-making in the steel sector look as follows: Firstly, the EC has been very limited in its ability to bring about structural adjustment in the steel sector; Secondly, the EC has been highly successful in imposing its preferences on steel supplying countries, but this capacity degenerated vis-à-vis the US; Thirdly, the EC experienced severe difficulties in setting norms and standards in its interactions with the Member States and steel producers; Fourthly, the EC found it very difficult to ensure compliance with negotiated agreements within the EC. In order to take analysis further and to see what these conclusions mean in respect to the EC’s capacity to act strategically in the steel sector, the following brings together the conclusions of parts II, III, and IV by concentrating on the four elements of the framework.

*International Relations*

Generally, it has to be distinguished between EC policy-making in steel vis-à-vis the US and EC policy-making in steel vis-à-vis the rest of the world. In the late 1970s, the EC succeeded in controlling deliveries to the EC by copying US trade practices and forcing supplier countries into voluntary restrain agreements. Here, the size of the Common Market and hints of EC trade policy measures should steel-supplying countries not respect EC crisis measures sufficed to convince these countries to restrict their deliveries into the EC despite the fact that the Commission was only conducting ‘talks’ and not empowered to conduct proper negotiations. The EC subsequently improved its anti-dumping legislation, established the basic price system and was thereafter able to press any country exporting into the EC into VRAs. While the EC over time undertook various modifications to its anti-dumping and anti-subsidy legislation and amended it in line with GATT codes, the size of the Common/Internal Market was at all times incentive enough for steel-supplying to restrict their steel deliveries should the EC wish so.
Early VRAs between the EC steel industry and the Japanese and US steel industry had been agreed without EC involvement, partly because of the political and legal problems associated with VRAs under GATT, EC and US trade law. It is clear from chapter four that the EC's contested position under that GATT and its orientation towards trade liberalisation contributed to the hesitant reaction of the EC when the crisis worsened after 1975. While the Commission was initially unwilling to depart from its essentially liberal stance on steel trade, this changed as the crisis worsened in the late 1970s and the EC in parallel to the US started to adopt increasingly protectionist policies. By creating a system of VRAs that protected their internal steel markets from external competition, both the US and the EC undermined the multilateral trading regime. Of course, the permissiveness of the GATT code on subsidies eventually contributed to the US and the EC settling outside the GATT framework. Subsequently, multilateral channels were hardly used to find solutions to the steel problem and attempts at establishing managed steel trade within the framework of the OECD did not succeed because of US resistance to such attempts and general disagreements as to the desirability of steel quotas. Thus, EC steel policies were hardly bound by GATT provisions during the early 1980s and through its actions the EC indeed contributed to its ineffectiveness. As a result of a policy learning effect, the EC in the late 1980s then realised that if it was to improve its strategic action capacities vis-à-vis the US it had to work towards the strengthening of the GATT system and to tackle the main constraint on its strategic action capacities at its source, i.e. subsidies and government intervention, by becoming what has been termed 'leaner and cleaner'. While attempts to negotiate a MSA failed mainly due to the obstructive attitude of the integrated US steel industry, the EC was nevertheless able to write some of its preferences into the GATT anti-dumping and anti-subsidy codes and this has, as chapter eight indicated, improved the EC's strategic action capacities in steel.

Not least because the European steel industry is dependent on the US market as an export outlet, the situation is not as clear-cut in terms of EC strategic action as regards EC-US interactions in steel. From the outset, the determination of the EC's external policies had to be handled carefully for the danger of a protectionist backlash of the US in response to a redirection to the US of exports originally destined to the EC. Furthermore, the US acted as a hegemon in the international system and the GATT
system essentially mirrored US free-trade and *laissez-faire* ideology. As chapters four and five showed, the EC's initial approach to steel trade was subsequently shaped under strong consideration of US preferences. In the early 1980s, when the steel crisis escalated, the EC's dependency on the US market as an export outlet came to bear even stronger on the EC as access to the US market was crucial to the success of internal crisis measures. This constellation subsequently put the EC into a weaker position for strategic action *vis-à-vis* the US and the EC ultimately had to agree to VRAs in steel that limited EC exports to a certain market share up until the 1990s. In this context, chapter six showed that in a situation of extremely tense transatlantic relations the political will on both sides of the Atlantic to find a solution to the steel problem was an important aspect in finding a solution to the steel conflict. The high degree of international trade interdependence between the US and the EC made the EC too important an economic and political counterpart to let transatlantic tensions escalate. Chapter eight in particular showed how the balance of power between the US and the EC underwent a transformation towards a greater assertiveness of the EC on the basis of the SEM. The EC's greater assertiveness *vis-à-vis* the US was particularly felt in the context the GATT Uruguay Round, where the EC started to live up to its economic potential and clashed head-on with the US on numerous issues. Chapter eight provided some initial evidence for the conclusion that on the basis of the significance of the SEA on the EC's overall position in the international system and the liberalisation of the steel sector, the EC was subsequently able to improve its strategic action capacities in steel.

*Institutional Capacity*

Although the ECSC Treaty in theory gave the EC strong institutional basis for strategic action, the development of an institutional capacity to act strategically in the steel sector was always hindered by the fact that the ECSC Treaty, in contrast to the EEC Treaty, left commercial competences to the Member States. Because of the differences among the Member States concerning the form and extent EC involvement should take, the establishment and operation of a supranational framework for the regulation of the steel industry was difficult and highly-contested. A number of factors were influential in this context: Firstly, transferring powers to the EC touched heavily on the issues of national sovereignty and the national interest in
the steel industry. As the ECSC Treaty had contributed to the formation of national champions and strong ties between national governments and steel producers, the steel crisis had to create immense social and regional problems within the Member States before the political to transfer powers was forthcoming. Secondly, there were legal problems that had to be overcome. On the one hand, the Treaty did not provide for half measure between indicative and obligatory measures. On the other, competition policy provisions had to circumvented in order to establish a crisis cartel on the EC level. The establishment of an EC framework was furthermore shaped under consideration of possible counteractions of the US, the EC's tenuous status under the GATT, and the EC's formal commitment to trade liberalisation. Thus it was difficult to summon the political will to resort to the dirigiste provisions contained in the ECSC Treaty and it required a high degree of legal creativity to entrust the Commission with the authority to take and implement crisis policy measures. As the Member States jealously safeguarded their national interest through the strong position in ECSC decision-making processes, the EC's steel polices were subsequently characterised by fragile compromises and often ineffective. Chapter six illustrated that the fragility of the EC's competence in the steel showed most strongly when dealing with the US. The point to make here is that the insistence of the US, or more specifically the insistence of the US steel industry, on a global agreement with the whole of the EC contributed to the continuation of supranational regulation in the steel sector. Chapter seven and eight then showed that aligning the steel sector with the broader thrust of the SEM improved the EC institutional capacity, mainly because the EC was able to increasingly rid itself from the complexities and intricacies involved in ECSC decision-making.

Chapter two showed that the EC has a powerful arsenal of commercial trade instruments at its disposal and that these form a substantial part of the EC's strategic action capacities. The point that emerged strongly in the case study of the steel sector is that the development and application of commercial policy measures by the EC in the steel sector has been strongly influenced by the US' use of foreign trade measures and US trade legislation. The main commercial policy instrument used in the steel sector were anti-dumping procedures and chapters four and five showed how anti-dumping procedures were refined along the lines the US TPM and used to press steel suppliers into VRAs. Early VRAs were agreed without EC involvement, because:
firstly, the EC had not developed the authority or bureaucratic structure to participate in negotiations; secondly, the political will of the Member States to consider VRA-type arrangements was not existent as the Member States preferred national forms of protection; and thirdly; VRAs involved aspects that were legally questionable under US law and under GATT law. Once the US had started using VRAs to protect its steel market during the 1980, however, the Member States were quickly ready to empower the Commission with the mandate to conclude a comprehensive series of VRAs in order to stabilise the internal steel market. After VRAs in steel were phased out in the late 1980s, the protection of the EC was achieved mainly through the initiation of anti-dumping procedures and, in the case of CEEC steel deliveries, through safeguards. On the other hand, the EC was able to write somewhat clearer rules into the GATT anti-dumping and anti subsidy codes in the context of the Uruguay Round, which reduces the possibility to be subjected again to unilateral interpretations and findings by the US authorities.

Furthermore, parts III and IV on the whole showed that the EC's steel aids codes had some important repercussions on the EC's capacity for strategic action. During the 1980s, the Commission's insufficient authority on state aids proved to undermine the EC's capacity to act strategically. On the one hand, the EC was forced to approve of subsidies and to violate Art. 4c ECSC. On the other hand, the Member States continued to subsidise their national steel producers in various forms. Thus, subsidisation not only caused legal problems that effected the EC's ability to assert itself on subsidised imports from abroad, but also left EC exports to the US vulnerable to US countervailing action. As chapters five and eight show, however, the establishment of a greater authority of the Commission, the changes in voting procedure on state aids, and the establishment of increasingly stricter discipline on state aids within the EC and within the GATT enabled the EC to become less vulnerable vis-à-vis US countervailing action and to assert itself more on subsidised steel imports by other countries in the 1990s.

Inspired by the existence of powerful US trade legislation, the EC in the second half of the 1980s started to develop its own aggressive commercial policy instruments. The latest addition to the EC's commercial policy instruments, the TBR, is possibly about to show some effect in the steel sector, but the possible repercussions of a possible
removal of powerful trade legislation such as 1916 Trade Act from the US body of law are far more significant. Although the WTO panel is inconclusive at the time of writing, it is clear that the TBR procedure, if successful, has an strong effect on the EC's capacity the act strategically and in its repercussions goes well beyond the steel sector. In contrast to the 1916 or 1979 US Trade Acts, however, the TBR has been developed in the context of and in compliance with GATT provisions, reflecting the EC's 'learning curve' and the desire to make better use of multilateral dispute settlement procedures. Of course, there is always the question as to the adherence of major players like the US and the EC to multilateral rulings, but it can be generally be concluded that the EC's strategic action capacities have been usefully complemented by the development of the TBR.

Decision-Making Capacity

On the basis of the measures adopted under the Simonet Plan, the decision-making structure of the EC in steel changed in the late 1970s. Chapter four showed how the EC's crisis policies were thereafter determined as an understanding based on cooperation between producers, workers, dealers, producers and Member States, with the Commission emerging as an interlocutor between external and internal spheres of policy-making. Chapters four and five then showed how EC steel polices experienced a qualitative and quantitative extension and turned increasingly protectionist when Davignon was in charge of DG III. From the beginning of active EC involvement in steel in the late 1970 up to the mid-1990s, decision-making processes in steel were highly contested and often resulted in ineffective policies that lacked long-term vision. The problems in agreeing EC policies came from multiple corners: Firstly, the conflictual institutional context within which EC decision-making in steel took place added complexity to decision-making and slowed the process down. Secondly, through jealously pursuing the national interest in the Council of Ministers and actively undermining agreed EC policies the Member States reduced the effectiveness of EC policies. Thirdly, ideological differences between the Member States as to the extent and form of measures complicated the finding of compromises. Fourthly, voting rules, especially in areas requiring unanimity, required the Member States to find difficult compromises. Fifthly, the nationalised market structures and divergent social pressures caused divides among the Member States. As a result, the
Commission was limited in its capacity to pursue the EC interest and to adopt a coherent set of policies. The longitudinal analysis of EC decision-making in steel therefore underlines the notion of policy-making as a series of strategic bargaining games. As the EC failed to properly adjust to structural change in steel, decision-making during the 1990s was hardly less complex despite the increasing liberalisation of the steel sector and general shift in the capacities of the Commission following the adoption of the SEA. In general, as parts III and IV show, policy-making concerning external matters was generally more effective than policy-making concerning internal matters. While different patterns of export dependencies and divergent levels of subsidisation complicated policy-making vis-a-vis the US, establishing negotiation mandates to empower the Commission to take measures against steel suppliers generally did not cause a problem. However, the interventionist policy-making style created by Davignon may have prevented the breakdown of the Common Market in steel during early the 1980s, but this analysis suggests that the interventionist policy-making style served only short-term ends and had a negative effect on the EC's capacity to act strategically. Especially chapters seven and eight suggest that policy-making based on free-market ideas and embedded in a strengthened multilateral system is a more promising basis for successful EC strategic action in steel. Overall, it therefore has to be concluded that due to numerous problems involved in decision-making the EC's capacity to act strategically has been constrained for most part of the EC's active involvement in steel.

**Market Structure**

Pressures derived from the EC's market structure in steel and market developments have been decisive elements of EC steel policies and the longitudinal analysis of EC-policy-making in steel demonstrated their important ramification on the EC's capacity to act strategically. The single most important effect was of course the fact that the steel industry was heavily affected by the business cycle. Market developments linked to the course of the business cycle not only triggered EC involvement in the steel sector and led to the adoption of dirigiste policies on the EC level, but also set important limits as to the success of the EC's restructuring efforts. Structural change and the resulting high numbers of redundancies had a direct influence on the preferences of the Member States, who, based on the nationalised structures of the
steel industries within the Common Market clearly preferred national solutions to the steel problem. As the social pressures grew, however, it became apparent that EC solutions had to be found and the Member States reluctantly agreed to render powers to the Commission. By pursuing the national interest through the Council of Ministers and simultaneously subsidising national steel industries, however, many Member States especially during 1980s limited the chances of bringing about the necessary restructuring process. On the other hand, a low demand for steel and over-capacities had a devastating effect on steel prices and resulted in cut-throat competition within the Common Market for steel. Thus hopes to bring about a restructuring process by means of voluntary agreements and close co-operation with Eurofer proved futile and the EC resorted to Art. 58 and 61 measures. As the steel crisis persisted, however, many Member States continued to subsidise their national steel industries, while the producers undermined the carefully orchestrated crisis cartel by offering products below production costs. Nationalised market structures and market developments in steel thus had a direct influence on political choices of the Member States.

Moreover, chapter six showed that the dirigiste crisis measures not only failed to produce a lasting restructuring process, but also reduced the EC's capacity for strategic action vis-à-vis the US. While the diverse market structures in steel within the EC made practically no difference as to the determination of policies aimed at getting steel-supplying countries into restricting their steel deliveries to the Common/Single Market, they became a major problem in the context of the EC-US steel conflict. In the EC's attempts to keep the US steel market open, the divergent patters of export dependencies and divergent levels of Member State involvement and subsidisation in the national steel industries firstly complicated the decision-making process within the Council of Ministers. The strong variations in countervailing duty margins imposed by the US authorities then drove an additional wedge into the EC's attempts to agree on coherent crisis measures and caused a clear divide between subsidised and non-subsidised national steel producers. This contributed to the EC's eventually settling for a guaranteed market share of the US market throughout the 1980s. With the liberalisation efforts brought under way by the Commission in the late 1980s and early 1990 and the gradual changes in the steel industries market structure, however, the situation began to change. By establishing increasingly stricter discipline as regards subsidisation, encouraging transnational co-operation and
mergers, pressing for the privatisation of the industry by linking it to investment decisions, and increasingly aligning the regulation of the steel sector with the SEM by enforcing competition law, the Commission was able to improve its strategic action capacities vis-à-vis the US and became less vulnerable to US trade legislation.

However, the recoveries in steel demand towards the end of the 1980s and in middle of the 1990s were significant influences on the EC steel industry only undertaking an incomplete restructuring process. Should another steel crisis affect the steel sector some time in the next Millennium, it is not difficult to foresee that some Member States will be tempted to intervene again despite the process of liberalisation that has been under way since the late 1980s. It will then be a matter of timing, i.e. whether the steel crisis hits before or after the expiry of the ECSC Treaty, and a matter of the extent of the steel crisis that determines the reaction of the Member States and the steel industry. The conclusion stands regardless: direct intervention in the steel industry and producer’s tendency to dump steel products reduce the EC’s strategic action capacities vis-à-vis the US as it leaves the steel industry vulnerable to attack under US trade legislation and increasingly also under GATT/WTO rules.

A final point to make is that although it could have been expected that the oligopolistic structure of the steel industry and almost insignificant level of foreign ownership in the EC’s steel production would facilitate decision-making processes and result in a relatively high level of concerted action, the steel case study suggests a different view. Chapters four, five and seven showed that the nationalised structure of the steel industry, the divergent levels of government intervention and state ownership, and frictions between competitive and uncompetitive national industries made decision-making and the determination of a coherent set of crisis policies rather unsuccessful. Despite the industry’s long standing tendency to cartelise and the organisation of an official EC-administered crisis cartel, it was shown that the producer’s actions in response to market developments in fact undermined the EC’s efforts to stabilise the steel market. As a result, it cannot be concluded that the relatively high concentration of steel production in the EC necessarily translates into the ability for concerted action or to agree on coherent strategic policies.
It is thus clear that the EC's capacity to act strategically in steel has undergone a qualitative transformation over the past 20 or so years. From what has been termed an 'infant strategic actor' in steel in the late 1970s, the EC increased its strategic action capacities on the basis of the development of the SEM and as a result of a policy learning effect matured into a fully-fledged strategic actor in steel in the 1990s. Of course, the transition of the steel sector is as yet incomplete and there is still a chance of a possible reversal to interventionist policy-making in steel considering the possibility of a future downturn in steel demand and the incomplete restructuring process. However, all things considered it is unlikely that the EC will revert to an overtly interventionist policy-making style in steel and render itself vulnerable vis-à-vis the US again.

9.2 The EC's Strategic Action Capacities in IPE

Although there is a number of important constraints on the EC's capacity for strategic action, the exploration of the EC's strategic action capacities in chapter two and the longitudinal study of EC policy-making in steel show that the EC is a powerful strategic actor in the IPE. On the basis of the size of the SEM and its comprehensive arsenal of commercial trade instruments, the EC has the potential leverage to get all other actors, with the exception of the US, to act in a fashion favourable to the EC. The EC can press for reciprocity in trade relations, force others to liberalise and even sanction or reward the actions of other actors. Furthermore, since the re-launch of European integration and the associated institutional developments, the EC was able to become more assertive vis-à-vis the US in the context of the GATT Uruguay Round, to co-write international trade rules and to provide leadership in some previously underdeveloped areas. The EC's strategic action capacities are surpassed only by the United States. Today, the EC interacts more or less on level terms with the US and there is a highly institutionalised and even strategic relationship between the EC and the US that incorporates elements of both co-operation and conflict. Although the US were not a central element of the present thesis, it can be asserted however that not least because of the institutional advantages of the US system and its role as a provider of global security the US remains the most powerful strategic actor in the IPE.
However, the broad characterisation of the EC as a powerful strategic actor has to be differentiated since the detailed exploration of the EC's strategic action capacities in chapter two showed the significant variations and limitations in the EC's strategic action capacities in sectors and over time. The effects of these on the EC's capacity to act strategically show most prominently in the elements of institutional capacity and decision-making capacity. The process of transferring institutional powers to the EC has not only been gradual and stagnated at different points in time, it also varied according to sectors of European integration. Accordingly, different patterns of decision-making processes developed in the various sectors of European integration, with varying divisions of competences and varying sets of participating actors with varying action capacities over time. Linked to the existence of divergent sectoral market structures, these variations resulted in a number of divergent sectoral regimes within the EC and created not only tensions between the EC and the global economic system, but also as concerns the interplay of functional policies within the European market place. The analysis of the EC by means of the research framework helped to detail the factors that are influential upon the EC's strategic action capacities, but the need to analyse the EC's strategic action capacities on a sectoral basis emerged clearly. Thus the steel sector was chosen for a longitudinal analysis in order to obtain a more detailed picture of the EC's strategic action capacities. Some insights derived from the longitudinal case study on steel are symptomatic for the case of the EC as a strategic actor in the IPE and there are some important lessons that can be drawn from the experience of EC policy-making in steel.

An important way for the EC to increase its strategic action capacities is to model of copy the policies of the US. On the one hand, it the steel case study showed that in an international system dominated and largely modelled on US free-trade and *laissez-faire* ideology, the EC was well advised to mimic the US. In copying the US TPM in the form of the basic price mechanism and subsequently refining its anti-dumping legislation, the EC was able to force steel suppliers into VRAs. Of course, this way the multilateral system was undermined, yet this strategy enabled the EC to achieve the short-term objective to protect and stabilise the Common Market in steel. On the other hand, it is clear from the ECSC experience that the EC improves its capacity to act strategically by adopting non-interventionist policies, establishing strict discipline on subsidies, facilitating privatisation in sectors characterised by government
intervention and ownership and strictly enforcing competition law within the SEM. The ECSC Treaty may have given the EC great powers for intervention in the steel sector, but greater powers for intervention do not translate in a greater capacity for strategic action in a global system dominated US laissez-faire ideology and enforced by its powerful foreign trade legislation. In undertaking a liberalisation process in the steel sector and dovetailing the ECSC Treaty with the EEC Treaty, the EC removed a 'trouble child' that restricted its overall capacity to act strategically. Furthermore, modelled on the aggressive trade remedies available to the US, the EC created its own aggressive commercial policy instrument in the TBR. Significantly, the TBR provides the EC with the opportunity 'go on the counterattack' against the US and may well force the US to make amends to some of its most powerful trade legislation.

The best way of improving the EC's capacity to act strategically vis-à-vis the US is to align its policies with GATT and WTO provisions and to work towards the strengthening of multilateral dispute settlement procedures. Based on the weight that the Single Market gives the EC in the international system, the EC in the 1990s has improved its strategic action capacities by starting to co-write the international trade rules of the GATT in the context of the Uruguay Round. While the EC was able to favourably influence the GATT codes on anti-dumping and states aids, the EC was also able to actively shape previously underdeveloped or new areas of the GATT. As the steel case study demonstrates, the adoption of a stricter code on subsidies in the GATT influenced by EC preferences now enables the European industry to assert itself more on subsidised deliveries to the Internal Market. Similarly, the strengthening of multilateral dispute settlement procedures reduces the EC's vulnerability to unilateral action by the US.

By working towards the homogenisation of market structures within the Single Market and the removal of protectionist regimes, the EC can improve its strategic action capacities. A further homogenisation of market structures in the EC implies not only smaller divides between the Member States preferences and less complex decision-making processes, but also lesser tensions with the international system and particularly the US. As the steel case study demonstrates, even a sector characterised by a relatively small number of market participants and low levels of foreign ownership can pose considerable problems in the determination of mutually
acceptable policies. Yet by further shaping and developing the mechanisms underlying decision-making and co-ordination processes, and increasing the homogenisation of modes of regulation and market structures within the SEM, the complexity of the process of identifying the Community interest can be operationalised. Factors such as divergent market structures and different positions of specific industries in the business cycle and their effect on the behaviour of market and policy participants within the EC may at all times reduce the effectiveness of policies and of the internal decision-making process. Yet by placing the emphasis on competition policy, facilitating the flow of the four freedoms within the Single Market, and departing from specialised sectoral regimes, the EC can improve its strategic action capacities particularly vis-à-vis the US.

Although the thesis adopted the concept of state economic functions in the first place in order to create a level playing field upon which the EC could be analysed as a strategic actor, chapter two showed that the EC has developed into a 'parallel' or 'complementary' provider of state economic functions in Europe. The steel case study provided further evidence for the adjustment strategies and policies adopted by the EC ever since the 1970s as well as the EC's activities in the pursuit of state economic functions. While the case study did not equally focus on the EC's activities in the pursuit of state economic functions in the steel sector, it nevertheless transpired that the Commission assumed a position in which it effectively shares the responsibility of providing state economic functions with the Member States.

In the case of steel, the Member States in the late 1970s increasingly transferred powers to the EC in order to adjust to structural change in the steel industry and chapter two stressed that the transfer of powers to the EC level is also linked to economic rationale that underpins regional integration. Over time, the Member States thus invested the EC with increasingly with the competence to provide state economic function in a growing number of sectors, but at all times maintained a controlling influence through the Council of Ministers. The fact that the provision of state economic functions is handled in shared responsibility between the EC and the Member States creates two important problems: Firstly, because the Commission is not a passive bureaucratic organisation and therefore not only brings preferences on its own into the process, but also tries to expand its competences in order to pursue its
objectives, there is a tension in the performance of state economic functions. Similar to decision-making processes in the EC that have been characterised as a 'series of strategic bargaining games' or a 'mixed motive' game in chapter two, the provision of state economic functions now engages the Member States, acting in the national interest, and the Commission in strategic bargaining games, with each side to trying to justify its usefulness to the (national and European) public. As the steel case study showed, the inherent danger of the arrangement that distributes the provision of state economic functions between the Member States and the Commission is that it may result in sub-optimal policies. Secondly, there is the problem of legitimacy. The Commission is appointed by the Member States, but it is not democratically elected to pursue these functions. In acts on behalf of the Member States, but is often creating policies that go against the preferences identified by the nationally elected governments. Both these tensions are related and constrain the EC's capacity to act strategically.

9.3 Strategic Action in IPE and Reflections on the Framework

Chapter one developed an integrative framework for the evaluation of strategic action capacities of state actors in the IPE. The framework rested on the assertion that all state actors act strategically in the pursuit of state economic functions in the age of globalisation and internationalisation and that their strategic action capacities can be evaluated on a sectoral basis by analysing the interplay of actor's international relations, their institutional capacity, their decision-making capacity and the market structure. The framework furthermore asserted that the most successful actors are those who can complement their resources with collaborative power arrangements with state and non-state actors and that regulatory policy, industrial policy and competition policy complement commercial policy instruments as the instruments of competition in today's IPE.

Despite the complexities involved in the exercise of power in the IPE, the analysis of the EC provides powerful evidence for the claim that the most successful actors in the IPE are those who complement their conventional power resources with collaborative power arrangements. The thesis demonstrated that the Member States of the EC successfully used the framework of collaboration that the ECSC, EEC and SEA
offered in order to adjust to changes in the IPE and in order to obtain a greater weight in the world economy. As the size of a market is the most important building block to any actor's strategic action capacities, smaller and less developed market economies are ultimately limited in the influence they can exert in the IPE. Collaborative power arrangements such as regional integration increase the leverage actors can exercise on the bilateral and multilateral level. There is thus a strong case in addition to the associated economic rationale for actors in IPE to enter regional trade agreements in order to increase their capacities for strategic action.

The thesis also provided some evidence for the claim that next to collaborative power arrangements commercial trade instruments and functional policies play an important role in respect to strategic action capacities. As firms continue to perform a crucial role in the creation of wealth within domestic territories, it is important for state actors not only to create a business environment that attracts foreign investment, but also to enable firms to flourish and to assist them with their expansion into new markets. While commercial policy instruments, such as the EC's TBR, and regulatory and industrial policies play an important part in providing such an environment, it is also advisable to remove protectionist sectoral regimes. The predominant free-trade and laissez-faire ideologies that underpin the international system make it advisable to adopt such principles into the regulation their economic system, because in the international system dominated by the US and the EC intervention in economic life renders state actors vulnerable to attack from commercial policy instrument of either the US or the EC or under multilateral trade rules. As the case of the EC steel policies demonstrated, there is a strong rationale towards phasing out protectionist sectoral regimes and to work towards the strengthening of multilateral dispute settlement procedures. Of course, this presupposes both an economic culture and a market structure that supports the adoption of such policies.

The analysis of the EC as a strategic actor is a particularly challenging case, but the thesis showed that it is possible to derive important insights into the factors that underpin strategic action capacities from the complex case of the EC. Notwithstanding, from the outset of this thesis it was clear that pressing strategic action capacities into a template of a framework with four elements could only be artificial as there are considerable overlaps and the individual elements are highly
interactive. This is particularly obvious when considering the overlaps and interactions between the elements of institutional capacity and decision-making capacity. Yet as actor's capacities in these have distinguishable ramifications, i.e. institutional capacity bears strongly on what an actor can do in the international system whereas decision-making capacity bears strongly on the generation of preferences, the separation of the two are deemed analytically useful by the author.

Moreover, the comprehensiveness of the research framework sets limits to the thoroughness of the investigation carried out in this thesis. There is an inevitable tension between the flexibility for which the framework allows and the demands arising on the researcher when attempting to investigate all elements to equal measure. While the framework deliberately left some space for variations within the individual elements, the broad nature of the four elements and the considerable amount of research that has been on the various aspects contained in them made it inevitable that not all aspects have been investigated with the same degree of detail. For instance, macro-economic variables have generally been taken into account, but the longitudinal study of steel did not provide much detail on the economic effects of interest rate changes on steel trade or the influence of rising numbers of unemployment on Member State preferences. As the latter aspects, which touch on the interaction between economic and political action in steel have been treated elsewhere in detail (in particular Mény and Wright (1987a) and Conrad, 1997), were not central to this thesis a more thorough analysis of the causality of economic variables on policy-making in steel was sacrificed in favour of a concentration on the broader thrust in policy-making. This is not to suggest that such an approach can necessarily be taken in an application of the framework to other actors and sectors since macro-economic variables create strong pressures on actors for action and set specific limits to their scope for action. Notwithstanding the analytical overlaps and the limitations concerning the investigation of particular aspects contained in the four elements of the framework, the sometimes delicate balance between comprehensiveness and flexibility incorporated in the framework allows to evaluate the strategic action capacities of any actor in IPE.

The framework developed in chapter one a need to approach the strategic action capacities of actors on a sectoral basis. Generally, the framework could have been
used on either a longitudinal basis or on a cross-sectoral basis. In this thesis, the longitudinal approach was adopted as in the case of the EC we are dealing with an actor that underwent significant developments in the course of its history and because, apart from other reasons presented at the end of chapter two, the steel sector bears a particular relevance to European integration and strategic action. On the other hand, the comprehensiveness of the elements contained in the research framework puts a thorough application of the framework to two or more sectors beyond the scope of this thesis. Given the transition of the steel sector from a highly-regulated sector to a 'normal sector' within the SEM and the conclusion, if accepted, that strategic action capacities are enhanced by playing along with the established rules of free trade and *laissez-faire* in the international system, however, it is the belief of the author that similar insights would have emerged from an analysis of two sectors with opposed modes of regulation.

As the thesis primarily used the concept of state economic functions as a conceptual tool in order to create a level playing field between the variety of actors in IPE, some aspects of the EC as a provider of state economic functions inevitably remained underdeveloped due to the scope and aims of the thesis. For instance, had the thesis aimed at further developing the subject of the EC as a provider of state economic functions, more emphasis should have been given on the social aspects of restructuring in the steel sector. Both the capacity of the EC to provide the individual state economic functions and the tensions that have been identified in the relationship between the EC and the Member States in the 'parallel' or 'joint' provision of state economic functions deserves further research, and this not necessarily in the context of the IPE.

Overall, it is suggested that the concept of strategic action and the analysis of strategic action capacities of actors are a useful way of analysing the complex exercise of power in today's IPE and help to explain outcomes in IPE. The empirical application of the research framework to the case of the EC captured the basis of the EC's strategic action capacities and showed how the EC has developed its strategic action capacities in the context of complex internal and external constraints. From the longitudinal analysis of EC policy-making in the steel, the thesis was able to produce policy recommendations for actors in IPE wishing to improve their strategic action
capacities and to improve their chances to influence the outcomes of trade issues in today's IPE.
### Appendix

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Table 4: Member State Share of EC Steel Production.
Source: Conrad (1997:209). Based on Eurostat Data and Authors Calculations (Rounded up to 1st Digit after Comma); Translated by C.G.

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Table 5: Share of Large Companies of EC Crude Steel Production
Source: Conrad (1997:215); Translated by C.G.

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1 EC including the respective Member States.
### Table 6: Development of Employment in the Member States and the EC

Source: Conrad (1997:214); Translated by C.G.

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.: Entry not possible as no proof available.
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<td>Yes</td>
</tr>
<tr>
<td>Belgium</td>
<td>Yes</td>
<td>Low</td>
<td>Very High</td>
<td>High</td>
<td>High</td>
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<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Yes</td>
<td>Very High</td>
<td>Very High</td>
<td>Very High</td>
<td>Rising</td>
<td>Very High</td>
<td>Positive</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>No</td>
<td>High</td>
<td>Very High</td>
<td>Very High</td>
<td>High</td>
<td>Very High</td>
<td>No</td>
<td>Very Low</td>
<td>No</td>
</tr>
</tbody>
</table>

Table 7: Interest Determinants of the Member States in the Steel Sector at the Beginning of the 1980s Steel Crisis. Source: Conrad (1997:121); Translated by C.G.

¹ Based on Productivity and Labour Costs, Expert Estimates and Interview with Commission.
² As an Increase in Import Ratio: [Imports (From EC and Third Countries) ÷ Market Supplies] × 100.
³ [Exports (into EC and into Third Countries), Including Trade Exports] ÷ Production] × 100.
⁴ Low: Very Low; Bresciani: Very High.
⁵ Belgium and Luxembourg.
⁶ [Exports (into EC and into Third Countries), Including Trade Exports] ÷ Production] × 100.
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</thead>
<tbody>
<tr>
<td>Germany</td>
<td>Yes</td>
<td>High</td>
<td>Very High</td>
<td>Very High</td>
<td>Low</td>
<td>High</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>France</td>
<td>No</td>
<td>High</td>
<td>Low</td>
<td>Very High</td>
<td>High</td>
<td>High</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Italy</td>
<td>No</td>
<td>Low(^3)</td>
<td>Small Increase</td>
<td>Very High</td>
<td>Falling</td>
<td>Low</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>UK</td>
<td>Yes</td>
<td>Very High</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Belgium</td>
<td>Yes</td>
<td>High</td>
<td>Small Increase</td>
<td>Very High</td>
<td>Falling(^1)</td>
<td>Very High(^1)</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Yes</td>
<td>High</td>
<td>Small Increase</td>
<td>Very High</td>
<td>Falling(^1)</td>
<td>Very High(^1)</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>No</td>
<td>High</td>
<td>Low</td>
<td>Very High</td>
<td>Falling(^1)</td>
<td>Very High(^1)</td>
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<tr>
<td>Spain</td>
<td>No</td>
<td>Very Low</td>
<td>Very High</td>
<td>Very High</td>
<td>Low</td>
<td>Low</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 8: Interest Determinants of the Member States in the Steel Sector at the Beginning of the 1990s Steel Crisis. Source: Conrad (1997:140); Translated by C.G.

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\(^1\) Belgium and Luxembourg.

\(^2\) As Increase of Import Quota: [Imports (From EC and Third Countries) + Market Supplies] x 100.

\(^3\) Ilva: Very Low; Brescia: High.

\(^4\) Based on Productivity and Labour Costs, Expert estimates, and Interview with Commission.

\(^5\) [Exports (into EC and into Third Countries, including Trade Exports) + Production] x 100.
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<tr>
<td>Investigations Initiated</td>
<td>2</td>
<td>45</td>
<td>4</td>
<td>1</td>
<td>15</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>8</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>9</td>
<td>6</td>
<td>3</td>
<td>0</td>
<td>7</td>
<td>2</td>
<td>9</td>
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<td>Preliminary Duties</td>
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<td>19</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>6</td>
<td>0</td>
<td>0</td>
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<td>1</td>
<td>5</td>
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<td>0</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>0</td>
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<tr>
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<td>7</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>0</td>
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<td>Definitive Duties</td>
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<td>2</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>7</td>
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<td>2</td>
<td>0</td>
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<td>VRAs</td>
<td>15</td>
<td>17</td>
<td>13</td>
<td>14</td>
<td>14</td>
<td>15</td>
<td>14</td>
<td>14</td>
<td>12</td>
<td>8</td>
<td>8</td>
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