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Restructuring in the Industry of Luxembourg. Major Issues, Actors and
Lessons to Learn

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Luxembourg

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UNITED NATIONS

Restructuring in the Industry of Luxembourg

Major issues, Actors and Lessons to learn

By Albert ZENNER, Director Human Resources, Arbed – Arcelor Group.

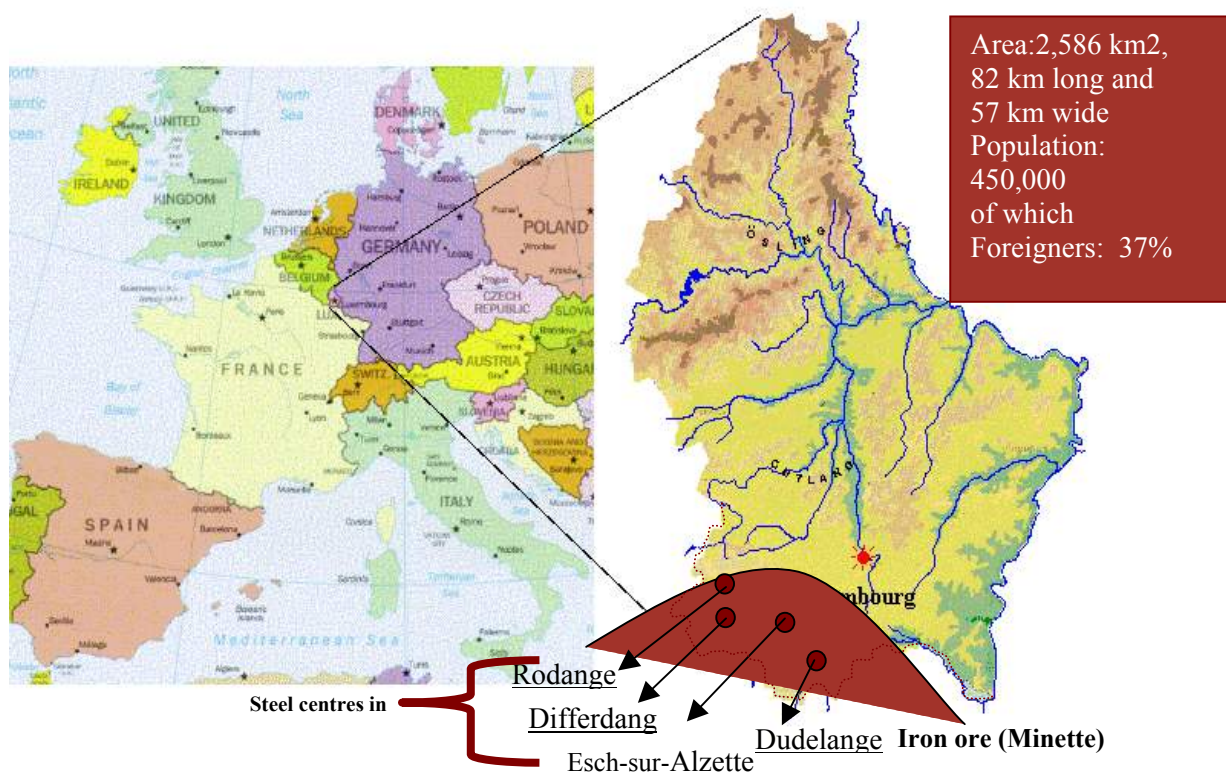
Luxembourg might be known by many of You as a banking centre or a country hosting European institutions, and some of You will even know that it is the Headquarters of ARCELOR, the world's largest steel producer, created by the merger of three companies: the French USINOR, the Spanish ACERALIA, and ARBED, the steel company of LUXEMBOURG.

All this is true, but LUXEMBOURG is also an independent country, which has undergone deep changes during the last three decades. These changes result from the restructuring of the steel industry, which for more than a century has been the pillar of the Luxembourg economy.

During my presentation I will speak about the major issues of this restructuring, the key players, and the lessons to learn from our point of view. I will also try to show how some of the lessons are applied now within the new group ARCELOR.

GEOGRAPHICAL LOCATION AND POPULATION.

For locating Luxembourg geographically we have to zoom the map of Western Europe. We find an area of 2586 km², with a maximum length of 82 km and a maximum width of 57 km, inserted between France, Germany and Belgium. Today the population amounts to 450.000 people of which foreigners represent a share of 37%. The country is also giving jobs to more than 100.000 non-resident cross-border commuters, mainly from France and Belgium.



A SHORT SUMMARY OF HISTORY.

In medieval times and up to the 19th century the city of Luxembourg was a nearly impregnable fortress, often called: "Gibraltar of the North" and the counts of Luxembourg played a major role in the German Empire. The city was a permanent bone of contention between France and Germany, and the county lost a major part of its territory by the successive peace-treaties between these nations. In exchange it was progressively raised to the rank of a Grand-Duchy which is its status today.

The Treaty of London of 1867 reaffirmed Luxembourg's territorial integrity, and the political autonomy which had already been granted by the Treaty of Vienna. Furthermore, Luxembourg was declared perpetually neutral, and the powerful nations of that time, among them Russia, agreed to guarantee and to protect the neutrality of the Grand Duchy.

Its economic structure and its geographical position have necessarily led Luxembourg into a close co-operation with other countries

In 1842 Luxembourg entered the German customs union, the "Zollverein", membership which was only denounced in 1918 as a consequence of the violation of Luxembourg's neutrality by Germany during the First World War.

The country could not live in economic isolation. Considering France's refusal to enter into an economic partnership with its small neighbour, Luxembourg signed the Belgo-Luxembourg Economic Union (BLEU) Treaty with Belgium, which entered into force in March 1922.

In 1948, the country gave up its neutrality, to join the various economic, political, and military organisations of Europe.

The creation of BENELUX in 1944, an economic Union with Belgium and the Netherlands was the first step towards the present European Union, of which LUXEMBOURG is a founder member.

THE IRON ORE, ESSENTIAL FOR THE INDEPENDENCE OF THE COUNTRY.

In fact Luxembourg was created as a buffer state between two rival nations: France and Germany.

The country was poor, with a pre-industrial type economic structure.

The country had no significant navigable waterways and the road network was largely undeveloped and poorly maintained. This geographical isolation was hardly propitious to the economic development.

The iron industry, based on alluvial deposits, was insignificant. In 1841, the country produced 7300 tonnes of iron.

Luxembourg would hardly have survived on its own if there had not been the rediscovery around 1840 of a small strip of oolitic iron ore sediments (the so called Minette) in the south-western part of the country, constituting the fringes of the iron ore basin of the French Lorraine region.

The exploitation of these vast deposits with a low iron content became viable with the installation in 1858 of coke-fired blast furnaces, replacing the existing charcoal-fired blast furnaces.

LUXEMBOURG, DEPENDENT ON THE STEEL INDUSTRY.

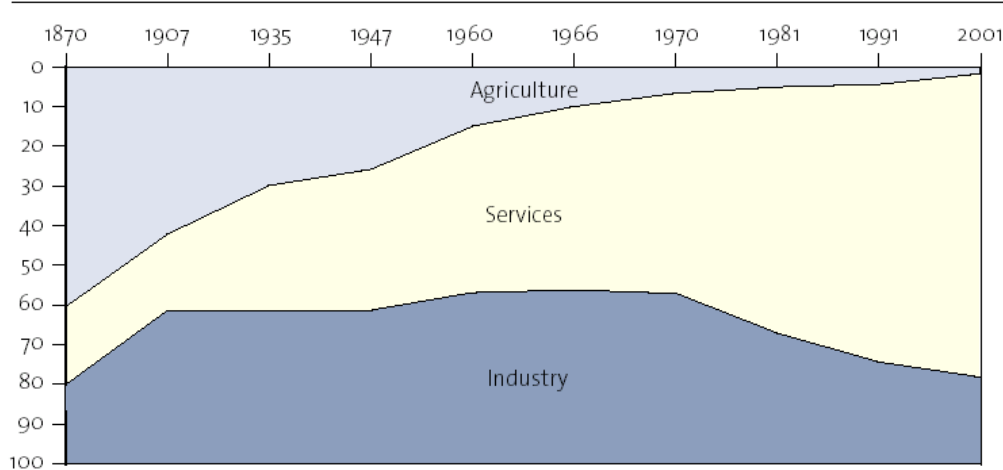
The steel industry, and namely ARBED, became the driving force in the economic and industrial revolution of LUXEMBOURG and the national economic climate was determined by business conditions in the steel industry.

In 1974 Luxembourg was so much dependent on the steel industry that one could say: "Luxembourg is ARBED", or the other way round: "ARBED is LUXEMBOURG." Things changed dramatically in 1975, when the steel crisis showed the risks of such monolithic industrial and economic structure. The restructuring of the steel industry led to the actual situation, where ARBED is a member of ARCELOR, with a downsized but competitive steel

industry in Luxembourg and with a diversified economy at national level, where the banking sector has taken the dominant role, formerly occupied by ARBED. The following slides shows these two situations, the first the change at ARBED, and the second the change in national economy, passing progressively to a services economy.

1974	“ ARBED is LUXEMBOURG LUXEMBOURG is ARBED”	2002	“ ARBED has become a part of ARCELOR, an INTERNATIONAL Group with headquarters in Luxembourg and a competitive steel industry in Luxembourg
Workforce	29,000 out of 155 000 (1 out of 5)	Workforce	5,000 out of 255,000 (1 out of 50)
Economical Weight	25 % of GDP 58 % of Added Value 59 % of Industrial Exports 47 % of Industrial Employment	Economical Weight	2,3% of GDP 2,5% of Added Value 30% of Industrial Exports 10 % of Industrial Employment

Working population by major economic sector (in %)



Source: STATEC population censuses until 1991, Labour Force Survey (LFS) for 2001.
N.B. Industry includes Construction

Social Environment a base for the Luxembourg model.

This radical and rapid change in the economic orientation was made possible through the prerequisite of Luxembourg's social environment. In Luxembourg there are no important social differences and the democratic tradition with a strong feeling of independence is more than centennial.

Moreover codetermination in large companies was introduced by law in 1974.

Contrary to the German model of parity it gave the workers a representation in the board of directors in the proportion 1 to 3 and a 50% representation in the joined Company Committees.

These bodies favoured concertation from the start in finding solutions to the problem.

"How to achieve this turnaround in an effective but socially responsible manner?"

In fact it was a struggle for life for both the State of Luxembourg and ARBED as a company.

The partners in this battle were the Government, the Trade Unions and the company including shareholders, management and employees.

The option taken for problem solving was common sense and no doctrinal approach.

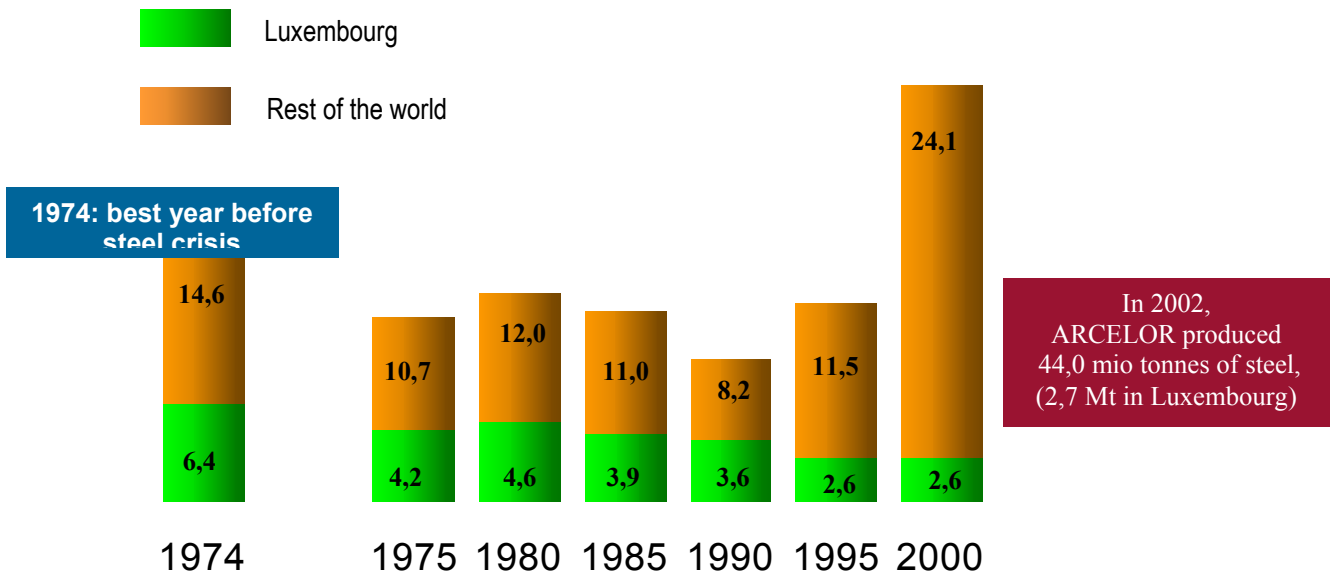
This is the basis of the so-called Luxembourg model and the first lesson to learn.

I will now focus on the restructuring of the steel industry in Luxembourg.

ARBED STRATEGY.

Arbed's strategy was to become a profitable company surviving by its own efforts:

1. Reduce costs by bringing productivity up to the level of the most performing competitors.
2. Adapt the production capacities to market needs. So production in Luxembourg fell from 6.4 MT in 1974 to 2.7 MT in 2002.

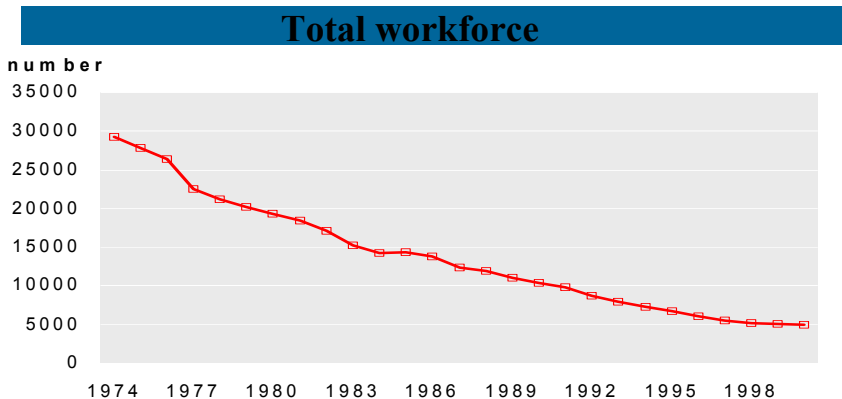


3. Concentrate on strategic products which were long products for the Luxembourg mills mainly sheetpiles and sections.
4. Look for alliances with European partners through synergies and exchange of products (Cockerill, Usinor, Thyssen, Beltrame). These took place long before the creation of Arcelor.

Productivity was increased through closures of underperforming installations and modernisation of the equipment.

There were also changes in the organisation so the traditional organisation of individual works was changed to the actual Business unit model where each Business unit is responsible for its financial results. There was also a change in the works organisation, reducing management layers, centralising specific activities, and bringing production and maintenance departments closer to each other.

These measures led to a drastic reduction of workforce shown on the following graphic.



THE LUXEMBOURG MODEL

The option taken from the start by the Government, the company and the Trade Unions was to find an issue to the crisis without collective lay-offs. This required original measures calling on the solidarity of the personnel and of the whole population of the country.

ANTICRISIS LEGISLATION.

The discussion between the 3 partners led to a series of anti-crisis laws motivated by the progressive acknowledgement of the structural aspect of the crisis. The following slide gives a summary of the most important laws taken in a 4 years interval.

SOCIAL (ANTICRISIS) LEGISLATION

- *Law on temporary unemployment (including legislation on works of general interest for the state as an alternative to unemployment) 1975*
- *Creation of a Fund For Employment for financing all anti-crisis measures 1976*
- *Law on measures to maintain employment introducing pre-retirement at 57 1978*
- *Law on professional formation and reeducation taking in charge of a part of reeducation expenses 1978*
- *Law on partial and decreasing compensation of wage reductions for workers leaving the steel industry 1979*

The first law of 1975 allowed the Government to take measures to prevent lay-offs for economical reasons and to maintain employment. This law authorised short-time work but also the possibility for the State to carry out Extraordinary works of Public Interest by redundant steel workers, thus avoiding short-time work. These works included forestry works, dredging of river beds, preparing touristic foot paths and cycle tracks and restoration of historic monuments. An obligation for the contracts signed with the public authorities was that they were concluded at market price, in order to avoid unfair competition with the small and medium sized companies of these sectors of activity. The arrangement with the unions was, that workers doing jobs outside their normal activity as steelworkers had a salary guarantee, giving them the same salary as their peers who remained in the plants.

By the end of 1976, it became apparent that the crisis was structural and that new ways had to be found.

The creation of the Employment Fund in 1976 allows for public financing of the social accompanying measures, the law on Preservation of Full Employment installs the possibility for early retirement at the age of 57 in order to reduce redundant workforce.

The law of 1978 for Professional Training and Reeducation allows for public financing of part of the cost for retraining workers for new jobs.

Finally in 1979 the law on reemployment compensation allows to partially compensate for a certain period the loss of salary resulting from a job change to a company outside the steel industry.

All these laws created by the need to restructure the steel industry apply of course to all companies in Luxembourg and some have been amended during the years.

COORDINATION BODIES – THE TRIPARTITE SYSTEM.

Beside the legislation concerning financing and organising the restructuring, the discussions and the consultation between the 3 partners ended up in the creation of several co-ordinating bodies.

1975 The Interministerial Committee for the co-ordination of extraordinary works of public interest.

1975 The "Comité de conjoncture" for supervising the labour market and advising requests for short time working. It comprises members of the Ministry of Finance, Economy and Labour as well as employers and employees' organisations.

1976 The Steel Tripartite Conference, composed of members of the government, steel employers and the union representatives is meeting when important decisions have to be made.

1977 The Tripartite Coordination Committee an extension to representatives of the national economy of the system installed with the Steel Tripartite Conference.

The Tripartite Committees have worked-out all important decisions concerning technical social and financial restructuring prior to the formal approval by the Parliament. They do not have the power of decision themselves.

Concertation between social partners and Government was essential as unpopular measures had to be taken.

THE UNIONS COOPERATION.

The unions on their side were ready to accept the shutdown of plants and the reorganisation of the Company.

They also accepted that steelworkers could be occupied outside steel activities and be moved between the different sites. At the climax of the crisis during the years 1981 to 1985 they even accepted salary cuts ranging from 5 to 25% according to wage levels. In exchange they got guarantees for employment and wages.

As communication is a central tool in all crisis management the decisions and the problems concerning restructuring were discussed in a very constructive approach between social partners at monthly meetings.

THE ANTICRISIS DIVISION AS A BUSINESS UNIT.

Another very useful tool in managing the crisis and redundant personnel was the creation in the middle of 1977 of the so-called Anticrisis DIVISION (DAC). The aim was to clearly identify redundancies and to transfer these people into a specific unit. This measure allowed the business units.

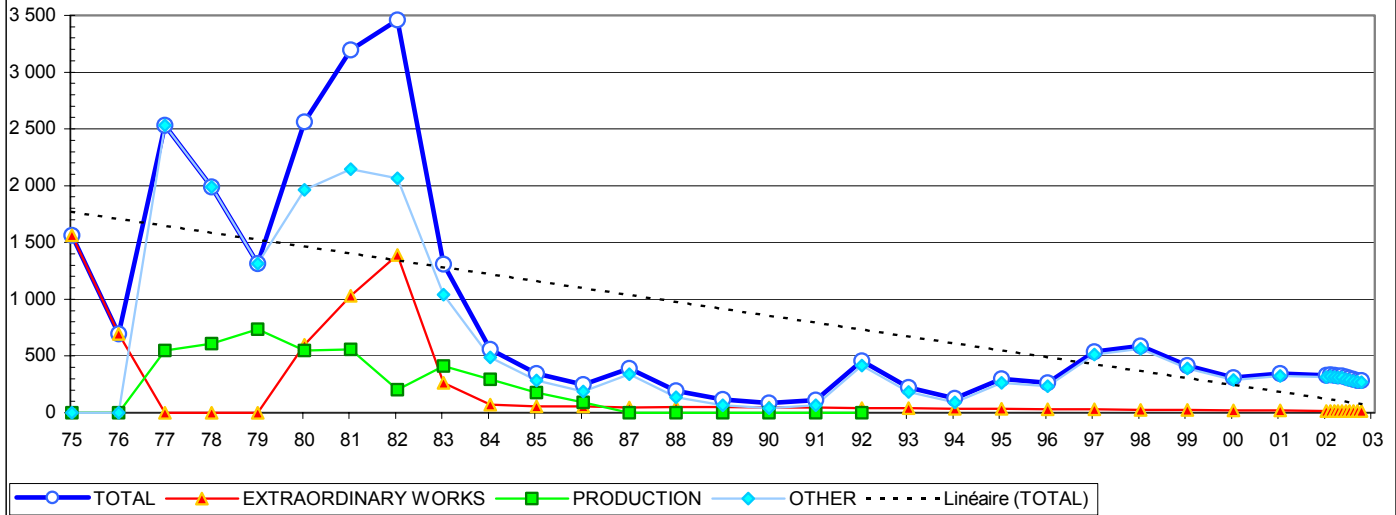
- to measure the increase of productivity resulting from the various initiatives that had been taken.
- to exactly know the cost of excess labour, what leads to a rigorous management for cost minimisation.

Retraining of personnel for new jobs within the company was another task of the anticrisis division.

So the anticrisis division worked with a loss and profit account, paying salaries and other operative costs but being credited with the product of the services delivered by redundant staff, as well as the financial contribution of the State.

The following graph shows the evolution of excess labour from 1975 to today. We can see that extra ordinary public works have only be performed during the years of manifest crisis 1976 and from 1979 to 1985.

**Excess labour in the steel industry in Luxembourg
1975 to the end of september 2003**



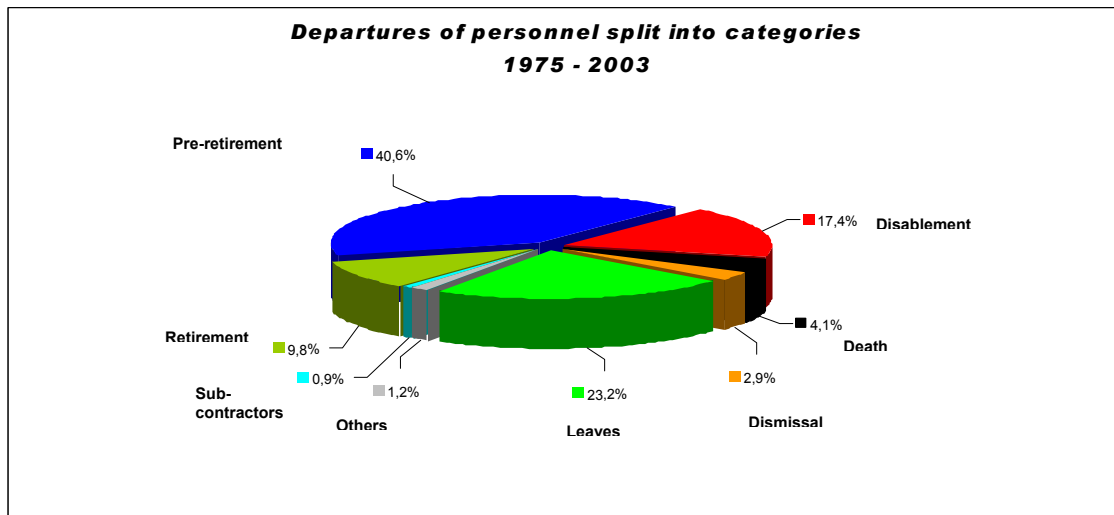
WAYS TO REDUCE THE WORKFORCE: EARLY RETIREMENT.

If the anticrisis division was giving activity to excess labour, it could not have dealt with the massive reduction of workforce linked to the restructuring.

This had to be done by different measures.

1. Early retirement at the age of 57. This age limit has never been changed unlike the practice in other countries. During the years different types of early retirement have been added to the original legislation based only on reduction of workforce for structural reason for people leaving the steel sector.
2. Leave bonuses ranging from 2 to 12 months of wages.
3. Reemployment compensation for paying partially and digressively wage losses when leaving the steel sector.
4. A nearly complete stop in hiring people. This of course has led to a distortion of the age distribution structure and in certain limits of technical knowledge.

The following graphs show that the major effect on workforce reduction comes from early retirement and that voluntary leaves only account for about 23% of the total.



FINANCING THE RESTRUCTURING MODEL.

Financing all sources of workforce reduction was crucial for the viability of the model.

In order to raise the money for the state participation a certain number of unpopular measures had to be taken by the Government.

- increase of VAT from 10 to 12%
- change in the automatic adaptation of wages to the cost of living index
- increase of excise taxes on (fuel, alcohol), making non-residents also participants in the system.
- and the invention of a solidarity tax raised from 2,5% to a maximum of 10 % and decreased again to a value of 2,5% today.

This tax is today a financing instrument of all social measures, not limited to the steel industry.

THE ROLE OF THE EUROPEAN COMMUNITY.

In this chapter we must emphasise also that the framework of the European Community played an important role.

The Treaty of Paris (1951) establishing the European Coal and Steel Community (ECSC) in its article 56 and the Treaty of Rome (1957) establishing the European Economic Community (EEC) in its article 130 set the base for financing of the instruments to be used in managing the social crisis.

Art. 56 says in particular that non reimbursable aid from the EC is granted provided that each recipient country is paying at least 50% of the assistance to the workers. Bilateral agreements between the commission of the EEC and the Ministry of Labour of the different member states define the measures to be applied.

The following chart gives a summary of expenses of the Luxembourg State during the years 1975 – 1987 which have been the real crisis years.

**Budgetary expenditure made by the State under the "steel plan" between 1975 and 1987
(cumulative expenditure)**

Unit: million euros	1975-1982	1983-1987	1975-1987
A. Investment aid (Ordinary capital subsidies, extraordinary capital subsidies, special interest rate reductions and other subsidies)	70.6	63.4	134.0
B. Financial restructuring Convertible bond and share subscriptions, acquisition of SIDMAR company shares, special and temporary aid	-	393.0	393.0
C. Social aid Extraordinary Works of General Interest (EWGI), professional re-training, re-employment benefits, early retirement, Anti-Crisis Division (ACD), special disability scheme	147.1	307.6	454.7
D. Tariff aid	9.6	1.7	11.3
Total	227.3	765.7	993.0

STATEC - STATEC Economic Reports, No. 73, Luxembourg, 1987, page 191

It should not be forgotten also that ARBED has paid its share, despite the deep financial crisis: in the same period about 150 M€.

THE RESULT.

Lets look at the balance sheet.

On the assets side.

- The technical, social and financial restructuring was successfully achieved with the support of the unions.
- Productivity rose from 10 h/t in 1975 to less than 2 h/t in 2002.
- Social peace was preserved: No lay-offs and no detrimental psychological effect of unemployment.
- The purchasing power was preserved which was beneficial for the national economy.
- The flexibility of the system showed to be very effective.

- the bill for the state was lower than that for short time working and lay-offs

On the liabilities side.

- We must insist on the high costs both for the national community and the company
- We must also point out that guaranteed employment and wages had a paralysing effect on the mobility of steelworkers.
- Another negative factor is the stop in hiring people which has led to an overaged age structure and the absence of young and highly qualified personnel

but on the whole the balance is on the positive side.

We have seen

• the major issue:

Restructuring the steel industry which was vital to the economy of the whole country in a way to maintain a viable and modernised tool and to avoid major social problems.

• The key players:

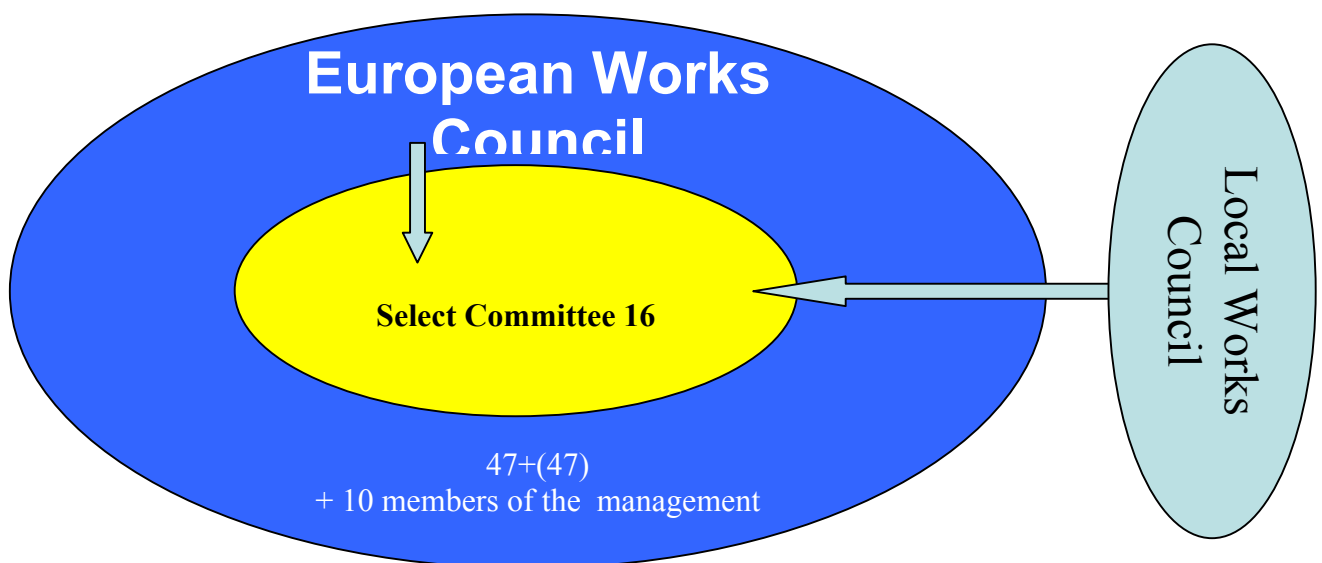
- The Government
- The Trade Unions
- The Company comprising share holders, management and employees
- The whole population of Luxembourg showing solidarity in accepting the financial puncture for paying the state participation in the restructuring
- And the European Commission.

• What are the lessons to learn?

- The industrial restructuring asked for deep cuts in the production tools and for adaptation of volumes to market needs. A clear vision of the necessary closures and new investments is vital. Considering the agreements made by Arbed with competitors in the 80's and 90's in order to reorganise their business such analyses should be made by the different players in the Russian market. Considering the role of legislation in these field appropriate laws facilitating restructuring should be voted.
- Necessary measures have been taken quickly. Speed is essential in a crisis situation
- People must continue to develop skills during their entire career. It's the best way to be employable at any age. For our future workforce, we will have to find more efficient ways of working, to promote new work organisations, more agile and flexible through empowerment and delegation
- The help of the European Community authorising the reorganisation of the production through the agreements with competitors and in financing a part of the social costs was another important factor. It shows that the different

European countries and Luxembourg in particular were not left alone. The system leaving initiative to local bodies but supporting them is a good example of subsidiarity with solidarity.

- Luxembourg as a country can be compared to a medium to large Russian City. Restructuring of one of your sites is similar to that of our country. Applied to your country The ECSC model would mean those central authorities should back local or regional initiatives.
- Redeployment of new activities is crucial for economic survival of sinistrated regions. This is a task requiring the assistance of local and central authorities. Finding new activities is of course a difficult task and Luxembourg was in this respect favorised by the development of the services sector.
- The Luxembourg model is largely built on dialogue between Government, Industry and Trade Unions and the Tripartite Committees proved their value in finding acceptable solutions for all partners. But constructive dialogue is only possible with complete and unbiased Information and mutual trust of the partners in each other is essential.
- Social dialogue, based on openness, honesty and vision is a key element for success In respect with this:
 1. Arcelor decided to have 3 employee representatives on the Board of Directors.
 2. The creation of the European works council ranked among the top priorities of the Group. The EWC is a mixed body, comprising 10 members of Top Management and 47 members as representatives of the employees and a member of the European Metallurgy Federation as a special advisor. The councils main responsibilities are to deal with strategic and international economic, financial issues affecting the whole Arcelor Group. As Arcelor is restructuring its activities following the merger, the role of the EWC is essential in the success. In this respect the timely information of personnel, local and national authorities on restructuring programs is the sign of responsible citizen ship. Such is also the development of retraining programs and industrial redevelopment of sites following plant closures.



A **select group** of 16 employee representatives was created to prepare the plenary sessions of the EWC and to be the permanent intermediate between management and EWC for urgent matters.

We are well aware of the fact that a total consensus on technical issues will not always be possible but we try.

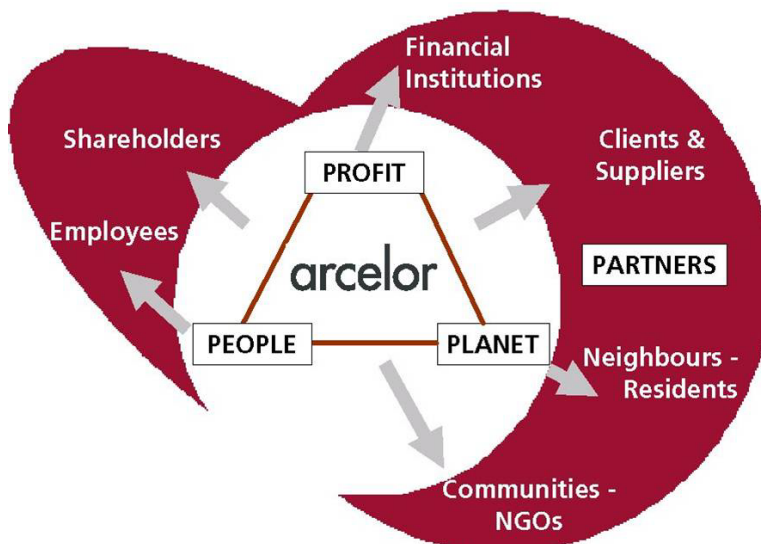
Let me mention the statement of the European Commission before the European Parliament on 13 February 2003: **“that the Arcelor EWC agreement is widely recognised as being very advanced and effective”**

3. Open dialogue with all stake-holders is one among 8 priorities guiding the Group's commitment to **sustainable development**.



The Arcelor logo shows this commitment to establishing genuine partnerships with all stake-holders around 8 main areas of focus and the 4 P strategy

People – Planet – Profit – Partners



My presentation tried to show that the essential mechanism for success in restructuring is

- Openness
- Transparency
- Good will of all partners involved

but about all

common sense

May this be our all guidelines for the future.

Thank you for your attention.