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E U R O P E A N
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Report

drawn up on behalf of the Economic Affairs Committee

on the problems of the steel industry
in the Community

Rapporteur : Mr. Oele

*) This translation must not be treated as an official text. Readers are reminded that the official texts exist only in the Dutch, French, German and Italian languages.

On 31 January 1967, after debating a report on the High Authority's memorandum laying down the General Objectives for Steel for 1970 Parliament passed a resolution calling on its Economic Affairs Committee to submit a further report in due course on the problems of the steel industry in the Community.

On 7 April 1967, the Economic Affairs Committee appointed Mr A. P. Oele Rapporteur.

At its meetings of 8 February and 25 March 1968 the Economic Affairs Committee looked into the state of the steel industry in the Community countries; the following motion for a resolution and the explanatory statement attached were unanimously adopted at the second of these meetings

The following were present: Messrs. Bech, Acting Chairman; Artzinger (deputizing for Mr. Illerhaus), Baas (deputizing for Mr. Ferretti), Behrendt, Berkhouwer, Bersani, Berthoin (deputizing for Mr. Starke), Boersma, Boertien (deputizing for Mr. Deringer), Cohn, Corterier, Cousté (deputizing for Mr. Bousquet), Dichgans, Fanton, Kriedemann (deputizing for Mr. Apel), Kulawig (deputizing for Mrs. Elsner), Miss Lulling, Messrs Marengi, Mauk (deputizing for Mr. Thorn), Oele, Posthumus (deputizing for Mr. Breyne), Riedel.

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A

For the reasons given in the attached explanatory statement, the Economic Affairs Committee submits the following motion for a resolution to the vote of the European Parliament:

Motion for a resolution on the problems of the steel industry in the Community

The European Parliament,

having regard to the report of its Economic Affairs Committee (Doc. 12/68),

1. Notes that the difficulties still prevailing in the Community steel industry are not such as might be described as constituting a serious crisis;

2. Notes that the recent increase in steel production and in sales on the world and Community markets does not encourage the belief that the growth of the Community steel industry is liable to be jeopardized by structural factors affecting consumption;

3. Considers that current difficulties are not so much due to the creation of surplus capacities in recent years as to the utter confusion regarding prices and to the lack of concerted action at Community level in directing investments towards the creation of larger production units;

4. Considers that a general, voluntary control of output—the ‘centre-board’ of a Community steel policy—would be desirable, in contrast to individualized control, based on quarterly forecasts for each concern, which Parliament believes would not be effective;

5. Speaks for the interests of consumers in warning that any relaxation of price control would eventually have an adverse effect and considers that controls need to be made more effective by recourse to spot checks;

6. Points out that a Community steel policy based on long-term forecasts has become more necessary than ever in view of the fact that public authorities in some member States have intervened to finance new plant construction and plant redevelopment;

7. Believes that it is clearly for the Executive to achieve the following objectives by means of a Community steel policy:

- (a) ensuring continuity of employment in regions affected by redevelopment and rationalization measures and promoting the harmonization of primary and secondary working conditions;
- (b) avoiding any competition between the member States in granting inadmissible subsidies from the national treasuries;

- (c) "avoiding the creation of structural surplus capacity;
- (d) seeing to it that the rationalization and development of concerns in terms of increasing their size is effected smoothly and, for this purpose, seeing to it that recourse is had to the possibilities held out by recent technological progress;

8. Considers that the implementation of this active steel policy necessarily implies Community finance and stresses the importance of the question of the Community's own resources;

9. Asks its President to transmit this resolution and the report of its responsible Committee to the Council and to the Commission of the European Communities.

B

EXPLANATORY STATEMENT

I—Introduction

1. After studying Mr. Kriedemann's report on the High Authority memorandum laying down the General Objectives for Steel of the Community for 1970,⁽¹⁾ Parliament passed a resolution in which it called upon its Economic Affairs Committee to assess the results of Parliament's discussion of the report, to continue talks with the High Authority on points still outstanding and to submit proposals for practical decisions as soon as possible. Before the vote was taken on this resolution, Parliament debated the problems of the Community steel industry at its plenary session of 31 January 1967; it did so on the basis of the reports by Mr. Kriedemann and by Mr. Blaisse; the latter was drawn up for the Internal Market Committee. A few months later, at its June session, Parliament again discussed steel problems. This time it did so on the basis of Miss Lulling's report on the High Authority's 15th General Report.⁽²⁾

This report is based on the documents referred to. Mr. Blaisse's survey of the state of the steel market, as presented in his report, remains valid in many ways in the present situation. We shall not refer again in this report to the numerous comments and questions raised in Mr. Kriedemann's report in those instances where the High Authority has dealt with them.

2. In its resolution of 31 January 1967, Parliament called upon the High Authority and the Council to submit a programme for bringing the steel industry into line with economic and technical developments as soon as possible and to frame Community measures to deal with the current danger of a crisis.⁽³⁾

Your Committee will not refer again to the danger of a crisis, although it still feels that a Community steel policy needs to be implemented.

It will endeavour, in this report, to illustrate the pertinence of suggestions made during various parliamentary debates on the steel question, with a view to solving some of the problems arising. It will also outline its views on the steel policy to be pursued at the Community level. It hopes that the European Commission will not be long now in submitting definite proposals. If the Community institutions wish to keep any kind of control over developments in the Community steel industry, they must act without delay. This is urgent because various member States have already taken, or envisage taking, action at the national level.

II—Recent developments in the steel industry

Prices

3. During the second half of 1967, steel prices in the Community have become somewhat more stable. They have, of course, settled at a fairly low level but it should not be forgotten that the low price of steel has had a favourable effect on the competitive position of the steel-using industries in the Community. Community rates are 15 to 40 per cent lower than those quoted by the other major steel-producing countries.⁽¹⁾ The prices quoted in the Community are the result of an alignment with the relatively low price schedules of some Community producers or with quotations from third countries, i.e. where what is involved is not just a straightforward infringement of Article 60 of the Treaty. The resulting situation leaves much to be desired in terms of transparency and non-discrimination, although there has been some improvement here, too. Recent improvements in output may, indeed, have been due to the setting up of four large steel-selling agencies in Germany. The high export figures are, in this respect, particularly remarkable.

⁽¹⁾ *Official Gazette* No. 28 of 17 February 1967, pages 440/67.

⁽²⁾ A certain number of significant passages from the resolutions passed by Parliament after examining these reports are given in Annex I.

⁽³⁾ *Official Gazette* No. 28 of 17 February 1967, page 441/67.

⁽¹⁾ *Report on the Fifteenth General Report of the ECSC High Authority on the activities of the Community*, paragraph 72.

Production capacity utilization

4. In 1967 the average rate of capacity utilization in Community steel industries was 80 per cent, although there were wide variations from one country to another: 76 per cent in the Federal Republic of Germany, approximately 96 per cent—very close to the maximum—in the Netherlands, about 80 per cent in France, Italy and Luxembourg and 79 per cent in Belgium.

5. There is nothing to prove that a slight surplus capacity will necessarily affect the financial position of iron and steel firms adversely. According to the Executive's quarterly programme of September 1967, a rate of utilization of 85 per cent is regarded by some as normal. A basic industry, such as the iron and steel industry, must have sufficient capacity to deal with fluctuations in demand. A rate of utilization of 100 per cent, moreover, is really no more than a theoretical possibility, the real maximum being around 96 per cent. Rapid technological change clearly leads to surplus capacity.

When comparing the surplus capacity of the Community and American steel industries the following factors have to be taken into account: surplus capacity is a term interpreted more broadly in the ECSC than in the USA and short-term increases or decreases in the labour force involve fewer difficulties there than here so that, if only for this reason, (which is, moreover, very sound) the tendency to maintain a surplus capacity is more pronounced in the Community than in the United States.

Obstacles to world trade

6. The Kennedy Round was important for the steel industry mainly because most of the world's steel producers now agree that import duties on

steel products should be harmonized. In five years' time, the average rate of import duties will be 5.7 per cent in the Community, 5 per cent in the USA and 7.5 per cent in Japan (these are average rates). Community products that are particularly sensitive to non-member country competition are at present enjoying a higher level of protection, with duties ranging from 4 to 8 per cent.

It is worth noting that the countries that have taken part in the Kennedy Round reached an agreement under which anti-dumping duties could only be introduced in future on certain conditions.

7. The results of the Kennedy Round have given a new impetus to trade in iron and steel products between the Community and third countries although it will take some time for the anticipated effects to register. It has to be borne in mind that a cut in duties might very well be negated in certain cases by non-tariff practices or provisions constituting obstacles to trade. It is to be hoped that the nationalized coal and steel industry of the United Kingdom will not feel bound to pursue a more nationalist policy for as long as Britain is not admitted into the Communities. Similarly, influential members of the US Congress have just put forward a series of protectionist proposals including import quotas for iron and steel products.⁽¹⁾ Clearly these different non-tariff obstacles could jeopardize the results of the lengthy Kennedy Round negotiations. In a resolution of 29 November 1967, on the results of the Kennedy Round, the European Parliament again drew attention to this danger.⁽²⁾

Employment trends

8. The following table drawn up by the European Commission shows employment trends in the Community iron and steel industry:

⁽¹⁾ Fortunately, the US Government has specifically disavowed these proposals following which Congress decided to take no further action on the matter for one year.

⁽²⁾ Doc 153/67.

Personnel employed in the Community Iron and Steel Industry

('000 persons employed)

	31 December 1960		31 December 1963		31 December 1966		30 June 1967	
	Workers	Total ⁽¹⁾	Workers	Total ⁽¹⁾	Workers	Total ⁽¹⁾	Workers	Total ⁽¹⁾
Germany (Fed. Rep.)								
North Germany	20,354	23,492	22,185	27,000	21,680	27,586	21,708	27,698
North Rhine-Westphalia	145,002	165,234	135,869	158,123	124,421	153,588	120,837	148,851
South Germany	18,780	21,741	14,698	17,437	13,965	16,860	13,480	16,267
Saar	30,674	34,852	27,554	31,936	26,515	31,390	25,507	30,389
Total	214,810	245,319	200,306	234,496	186,581	229,424	181,532	223,214
Belgium								
Liège	23,519	26,953	22,447	27,387	18,535	23,333	18,159	22,936
Charleroi and Centre	24,445	28,014	22,918	26,175	20,826	23,889	20,781	23,831
Other regions	6,478	7,451	6,467	7,217	8,338	9,962	8,722	10,337
Total	54,442	62,418	51,832	60,779	47,699	57,184	47,662	57,104
France								
North	24,650	29,713	25,784	32,338	24,423	31,212	23,508	30,296
Lorraine	78,065	93,256	76,742	93,767	69,811	86,823	67,613	84,960
Centre	14,821	18,140	13,665	17,239	11,820	15,191	11,694	15,101
West	7,332	8,850	6,793	8,116	6,132	7,436	6,033	7,325
South West	3,114	3,760	2,623	3,254	1,341	1,740	1,324	1,718
South East	3,708	4,477	3,806	4,735	3,542	4,430	3,493	4,375
Total	131,690	158,196	129,413	159,449	117,069	146,832	113,665	143,775
Italy								
North	42,423	48,554	43,787	51,051	38,501	45,471	38,700	45,599
Centre and South	10,474	11,987	14,774	17,687	18,592	22,870	18,099	22,605
Total	52,897	60,541	58,561	68,738	57,093	68,341	56,799	68,204
Luxembourg	19,353	21,477	19,065	21,662	19,566	22,366	19,459	22,266
Netherlands	9,261	13,671	10,149	15,907	11,941	18,407	11,718	18,158
Community	482,453	561,622	469,326	561,031	439,949	542,554	430,835	532,721

⁽¹⁾ Workers, clerical, technical and executive staff.

Over the last seven years the number of jobs in the iron and steel industry has fallen by only 6 per cent, while the number of workers fell by 10 per cent. This decrease which has, on the whole, been relatively slight, is, by and large, being taken up in the normal way, although regional difficulties cannot be ruled out.

The merger of the Executives

9. One member of the new European Commission, Mr. Colonna di Paliano, was entrusted with the special responsibility of looking into industrial policy problems. Your Committee hopes that the reorganization of the Executive will make

possible a coherent analysis of steel problems and serve as a pattern for provisions to be taken in other areas of structural policy.

III—Activities and proposals of the Executives

Voluntary output control

10. The High Authority's choice of measures to alleviate pressure on steel prices showed a preference for some form of control, albeit voluntary, over production. This preference is easy to explain. The quarterly forecasts drawn up by the Executive pursuant to Article 46 do, indeed, provide an excellent starting point. If the European Commission acts on the same lines as the High Authority set for itself, it will draw up more differentiated forecasts than has so far been the case. The High Authority intended to make forecasts not only for groups of products but also in terms of individual enterprises. The end result could thus be a sort of guide production programme for the steel industry.⁽¹⁾

11. One of the advantages of production control—as Mr. Hellwig, (who was then a member of the High Authority) pointed out in Parliament on 31 January 1967—is that a relatively slight fall-off in supply would be sufficient to bring about a considerable easing of the downward pressure on prices. The Executive's preference for direct action in regard to the level of production is partly due too to the lack of enthusiasm for the alternative, viz. greater price control.

12. The new forecasts do, however, have serious drawbacks which have not attracted sufficient attention, either in committee or in plenary session. The representative of the High Authority told Parliament of two criteria for drawing up forecasts for enterprises: the production of previous years and the current capacity.⁽²⁾

It is to be feared that if these criteria are applied, production may be adversely affected. Similarly, the choice of a period of reference could involve difficulties because those enterprises, which have so far acted on the Executive's forecasts, would find themselves recompensed by forecasts of a relatively low level.

Industrial circles, moreover, have technical objections to such provisional estimates. For technical reasons, it may be advantageous to spread a certain volume of production unevenly over a given period and it may be asked if it is

possible, in the forecasts, to make due allowance for this.

Article 46,3, item 2, leaves no room for doubt that the programmes are drawn up for guidance purposes. It cannot be ruled out, however, that enterprises working under unfavourable conditions may insist that the quarterly programmes become binding in character. Some have already asked for a restriction to be placed on interpenetration by coupling an intensification of inter-Community trade with an increase in steel consumption. It goes without saying that such a variable quota system would be the death knell of the Common Market. Even for a limited period it would be unacceptable because it would amount to freezing the market in its present state.

Yet the major objection to the Executive's plan to draw up more differentiated quarterly programmes is that in fact, even taking into account the additional data it now has in hand, the European Commission does not have a sufficient knowledge of the outlets open to the various enterprises on the different markets which have to be taken into account if valid and detailed forecasts are to be drawn up. Enterprises cannot be expected really to rely on forecasts broken down between firms; your Rapporteur was made aware that industrial circles consider that they are only of limited value.

Your Committee took note of the statement in the last quarterly programme,⁽¹⁾ to the effect that a more detailed method of calculating and publishing forecasts by products or group of products is still under consideration. It may be asked whether attention should not be focussed solely on production but also on the probable trend in consumption.

13. This is why your Committee considers that the European Commission should confine its forecasts to countries or relevant markets and to categories of products. These would be useful to steel firms in deciding their policy and would enable them to take their investment decisions with a better knowledge of the facts.

To keep production within certain limits recourse should be had to the implementation of a common policy for steel and the different national measures (joint selling agencies, industrial plans, etc.⁽²⁾) should be brought into line with, and made subject to, this policy.

It might be useful to set up a European consultative committee under the European Commission for this purpose.

⁽¹⁾ Communication on the provisional programmes for the steel industry (Article 46 of the Treaty), *Official Gazette* No. 219 of 29 November 1966; see also the statements by Mr. Hellwig to the European Parliament; debate of 31 January 1967, page 63 and Mr. Coppé's speech in the European Parliament on 14 March 1967.

⁽²⁾ Debate of 31 January 1967, page 61.

⁽¹⁾ *Official Gazette* No. 319/67.

⁽²⁾ See paragraphs 22 ff

Market transparency and price control

(a) Causes of the drop in prices

14. The reasons for the fall in prices are well known; they are the low prices on the world market and above all the keen competition on the common market. The way steel firms in the six countries act on the market is the reason why this competition is so keen, each striving to achieve a high rate of output utilization. It frequently occurs in the Community for the selling departments to take the initiative without making sufficient allowance for the structure of production costs. There can be no doubt that it would be extremely desirable to dovetail sales and production.

Action on the market follows the pattern of the market structure whose characteristic is that there are a great number of firms none of which is in a position to be a pace-maker in regard to prices. It is not true that low price quotations on the part of small Community firms or third country enterprises oblige the large firms to fall into line with these prices. What happens in fact is rather that the large firms use the low price selling by the small ones of small quantities of steel as a pretext for introducing price reductions to large quantities of the products concerned.⁽¹⁾

To put steel price trends in any perspective, it should not be forgotten that some costs, such as transport charges and iron ore prices have fallen in recent years. At the beginning of this year, moreover, there was a further reduction in the price of Swedish iron ore. An increase in the wage bill, on the other hand, is probable.

(b) Supervision of the implementation of Article 60 of the Treaty

15. Supervising the implementation of Article 60 is rendered difficult by one or two gaps in the Treaty. Community control over prices, for example, does not go beyond the production stage, which means that its effects are necessarily limited. To widen this control and cover the marketing and utilization stages would bring one face to face with legal difficulties. Indeed, this control would have to be carried out by the national authorities, which do not, themselves, have the necessary powers.

The control at present exercised has further shortcomings: it is not frequent enough, the

controllers do not make sure that the products supplied are actually of the same quality as that quoted in the books of account and, lastly, the differences in the rate structure make this control very complicated. Your Committee does not think that any real progress is possible with regard to the first two points unless the present control machinery is strengthened. With regard to the third point—the structural differences in the price lists—it may be asked what the Executive has so far done to make these price lists of a standard type and, hence, to increase market transparency.

16. In reply to a written question from your rapporteur⁽¹⁾ the European Commission recently stated that it made 43 price checks between July 1966 and June 1967. From this, it emerges that the number of checks decreased appreciably during the first half of 1967. If this decrease means that the Executive prefers to make fewer but more thorough checks, your Committee has no objection to make. Although it must be recognized that infringements of Article 60 are very frequent and that the fines and warnings to which the Executive may have recourse are not enough, of themselves, to ensure compliance with the provisions of Article 60, price control must remain an important feature of the European Commission's steel policy. The Executive must have the means, if eventually this should prove necessary, to check any undue increase in prices in the interests of the consumer. Progress as regards concentration could culminate in a situation comparable to that which obliged President Kennedy, little more than five years ago, to intervene in connexion with the setting of prices in the American steel industry.

Readaptation

17. The High Authority has, to its credit, a great many achievements in the sphere of readaptation. It is of capital importance for the Executive to be endowed with the necessary means to pursue and, if necessary, to intensify the action taken by the High Authority in such an important sector as this. There is no need for us to elaborate at this stage; this point was dealt with in detail in the 15th General Report of the High Authority.⁽²⁾

The Executive is not obliged to refer to social considerations in refusing its approval for a concentration plan which is economically well-advised. Yet in every case, it analyses the anticipated consequences in terms of employment and in terms of working conditions. On the whole, as Miss Lulling points out in the report referred to, the social partners gave their approval to the Executive's application of the social provisions of the Treaty of Paris.

⁽¹⁾ Obviously with such a relatively homogeneous product as steel, a firm's competitive position is to a great extent dependent on the prices it quotes; but there are other significant factors as (a) direct contact with the user (which is of value both commercially and technically), (b) the quality of the products, (c) meeting delivery dates, (d) availability of stocks, (e) technical service, (f) a selective sales policy which may, for example, mean not selling to buyers who are merely looking for differences in price, and not attempting to corner a whole area of the market.

⁽¹⁾ *Official Gazette* No. 256 of 23 October 1967, page 11.

⁽²⁾ Doc. 66/67.

Scientific and technical research

18. Article 55 of the Treaty makes it legally possible for the Executive to intervene in the field of scientific and technical research. The financial independence of its executive bodies enables the ECSC to see to the implementation of these Treaty provisions itself. Your rapporteur has already emphasized in a session of the European Parliament that these opportunities have not been taken full advantage of. The High Authority has spread the financial means at its disposal over too large a number of projects, so that it has not achieved enough in terms of the transition from the research to the industrial stage.

Now that the steel industry is engaged in a rationalization and concentration phase, it is vitally important for this sector that research and especially work on technical development should receive solid backing. This is a major challenge for the Executive which should make a very careful selection and concentrate its efforts on a limited number of projects.

The results of research should be of benefit to small and medium-sized firms which wish to specialize.

Structural policy

19. The main criticism of the High Authority about its policy has been that it has not really achieved a position from which to influence the long-term development of the steel industry. Although the Treaty gives the Executive certain means of intervention, it hardly enables it to take any action in depth in regard to the structures of the steel industry and this is partly the cause. Yet the Executive can also be criticized for its diffidence in making use of the Treaty provisions to which it could have had recourse to launch a structural policy.

The loans granted by the Executive totalling 450m accounting units are barely 5 per cent of the investments made in the steel industry since the Community's inception; the High Authority, on the other hand, has sufficient data at its disposal to assess the regional implications of redevelopment in the steel industry. It is to be regretted that the High Authority has not been able to make its intervention in support of creating new capacity subject to the closing down of marginal capacities.

What has been lacking has been a sector policy dovetailed with a sound regional policy.

It is true that in its General Objectives for Steel, the High Authority has been concerned with medium-term trends but its objectives are put forward as little more than forecasts. They do not

have the stature of a policy. It will be for the new Executive—and it will be a major challenge—to give its action in the steel industry this new stature.

20. It is neither necessary, nor even desirable to wait, before doing this, until agreement is reached on widening the scope—pursuant to Article 95—of the Treaty provisions on the powers of the Executive; for if one does, one is liable to be carried along with events. An effort should be made, by making the most of the Treaty in its present form, to conduct a Community structural policy in the steel industry. Your Committee considers that this is not only possible but also that it is a matter of urgency.

The following paragraphs will deal with the need for a structural policy, outlining what should be its guiding principles.

IV—An industrial policy in the steel sector

The need for a structural policy

21. To resolve the problems facing the ECSC steel industry some control must be exercised i.e. a structural policy must be pursued in this sector. This is necessary if only because a great many steel firms are concentrated in regions that are already affected by the regression prevailing in other sectors, so that the regional and social consequences of the difficulties facing the steel industry call for special attention.

It is also desirable for the public authorities to make it easier to close down those plants which are not profitable enough. In some cases State assistance over a limited period will be needed to enable the steel industry to readjust its structure in relation to changes in location and in relation to changes in techniques and trends in capacity in non-member States. Failing any intervention by the public authorities, the competitive position of a good many steel firms is liable to be adversely affected.

Various member States have already taken measures at the national level; if these are not co-ordinated at Community level, they will disrupt the common market and this makes the implementation of a Community policy imperative.

The aim of a structural policy

22. The European steel policy must be designed to prevent any collapse of prices and, in the longer term, to give a balance between supply and demand; it should also frame a satisfactory solution to the regional and social problems arising, bearing in mind the need for an optimal utilization of production factors. The European steel policy

should lead to a continuous and smooth adjustment to technological progress and to an increase in productivity.

National measures

23. If one wishes to outline the primary components of a European policy, one has to take into account the measures taken nationally. The assistance given by France to its steel industry has stemmed from a serious concern to rationalize and has been organized on the basis of an agreement between the industry and the public authorities. A summary of this agreement, which undoubtedly has its positive aspects, is given in Annex II. This agreement was concluded in July 1966 and, in essence, provides that the steel industry will put through a rationalization plan bearing in mind the social and regional policy needs; it will attract interest rebates and low cost energy and transport facilities. This agreement is a reality which cannot be ignored; it lays down the broad outlines of a planned policy which has the agreement of those involved. The scope of the French measures and of those envisaged by Belgium is such as to go beyond the limited framework of the interests of the employers and workers concerned. According to the press, the French Prime Minister made the following statement:

'Other key sectors will later be the subject of a similar policy (to the policy applied in the steel sector); this is a policy which the development of the Common Market makes essential...'(1)

The result of this is that the plan applied to the steel industry is regarded in France as being the model for the policy to be implemented in other sectors.

24. The danger of national measures from the political point of view is that they could trigger off counter-measures and culminate in the disintegration of the Common Market. From the moment when a national plan is laid down, there will be no hesitation, if its success should be threatened, in proposing to block investments or freeze intra-Community trade or even in proposing the two types of measures at the same time.

In the long term the implementation of a national steel policy in the various member States will be an obstacle to an optimal geographical spread of the steel industry in the Common Market and, indeed, to an optimal use of production factors in the ECSC.

The national measures will handicap the creation of a steel industry on a European scale which is able to face up to the competition of the large production units of the United States and Japan. It was with some justice that Mr. Coppé,

then Vice-President of the High Authority, stated in the European Parliament in January 1967 that the return to non-Community solutions would have unforeseeable consequences.(1)

Starting points for a European policy under the Treaty

25. Your Committee considers that the Treaty of Paris contains enough provisions to which recourse may be had in order to frame a policy for the European steel industry. As regards subsidies, the main Articles to serve as a basis for this policy are 4,c and 67,3. Article 46,3 (items 4 and 5) and Article 56 make it possible for the Executive to co-operate with the Governments in implementing a structural policy that is satisfactory from the social standpoint. As regards long-term policy, the main Articles are 46,3 (items 1,2 and 3) and Article 54. Lastly, the general co-ordination of national measures could be based on Article 26. Obviously nothing can be done if the Council does not evince the necessary political resolve. Yet the European Commission too must first of all put forward a coherent co-ordination plan. This plan should leave room for action at the national level, although this should be carefully controlled until the stage of Economic Union is reached. The aim should be to see that the industrial policies of the member States do not clash but rather fit into a Community framework.

26. Your Committee considers that granting interest rebates, in whatever form, is inconsistent with Article 4,c. It cannot accept the frankly disappointing replies given recently by the High Authority to the questions asked on this subject by Messrs. Berkhouwer, Oele and Kriedemann.(2)

The French Government, of course, justifies making loans to the French steel industry at favourable rates with the argument that towards the end of the fifties, it kept steel prices artificially low so that the steel industry was unable to take advantage of the shortage then prevailing. Favourable credit facilities have thus to be set off against a loss of earnings in the past.

In new enterprises, interest rebates may cut production costs considerably. A difference in the interest rate of 3 per cent means a difference of one quarter in the capital charges so that the production costs of newly-integrated firms may be reduced by from 8 to 10 per cent. There is undoubtedly a danger of escalation when it comes to interest rebates. This means that Community regulations on assistance measures and subsidies are essential.

Then again, special importance should be attached to steel firms which come under strong

(1) Debate of 31 January 1967, page 32.

(2) *Official Gazette* No. 82 of 27 April 1967; No. 123 of 23 June 1967 and No. C22 of 18 March 1968.

(1) *Combat* of 28 July 1966.

State pressure. In these cases, subsidies are often very indirect. The report by Mr. Blaisse⁽¹⁾ gives a detailed analysis of the possibilities open under the Treaty in this regard.

The bases for a European policy

(a) Note on the policy to be followed

27. As stated in paragraph 19, it would be desirable for the Executive to make its general objectives clear so that these might constitute a statement of structural policy. This means that it is no longer enough to draw up forecasts; the 'objectives' must indicate in broad outline the way in which the situation ought to develop. In other words, the forecasts made available to date need to acquire a third, viz. a political dimension. The Executive has for many years been gathering a good deal of data about the steel industry and thus has a detailed insight into its problems, its structure and what it can do; it should therefore be able, within a reasonable period, to co-operate with interested parties in drawing up a statement on the policy to be followed.

(b) Concentrations

(aa) Need for concentration

28. An important aspect of the new Executive's work will consist in imparting the right emphasis to the process of concentration in the steel industry.

As stated in paragraph 5, there has to be some production capacity slack. Yet the over-investment of recent years, both in the Community and outside it, has been prejudicial both to the firms concerned and to the economy as a whole. There is the heavy financial burden of these investments and the fact that over-investment helps to accentuate the fall in prices. The firms themselves have been responsible for the building up of surplus capacities. At a time when they were in a position to finance their investments from their own resources, they did not always act with due care. The necessity of making a choice, which normal borrowing conditions makes necessary, was often not an operative factor.

It is unfortunately probable that the surplus capacities will increase further in the years ahead. Plant modernization is often accompanied by an increase in capacity. As to the decision of many developing countries to build their own steel industries, this has not played a great part in the increase in world capacities. Crude steel production potential was 200m tons for the whole world in 1950, 500m tons in 1966 and an estimated 680m tons is the forecast for 1970.

29. The Executive must give some support to investments and the Treaty of Paris gives it certain opportunities to do this. Yet the effec-

tiveness of such action will depend not only on the goodwill of the steel firms which must remain free to invest as they think fit, but also on that of the governments, which must be ready to co-ordinate their policies. This co-ordination should be effected by reference to a European Commission plan.

30. In the longer term, the balance between output and production potential may be struck mainly by recourse to greater concentration. The structure of the Community market is very different from that of the United States or Japan.⁽¹⁾ Concentration has not yet reached the stage where there is any fear of some firms dominating the market. A further reduction in the number of decision-taking centres appears to be the current trend. There is no reason to believe that the pattern of structural developments in the steel industry will be very different in the Community from that of the United States. Thus, although this concentration process will probably continue, even if nothing is done to smooth its way, your Committee thinks that the Executive must submit proposals to direct this process, bearing in mind that it may later be necessary to oppose any undue measure of concentration.

31. The success of the Kennedy Round negotiations makes it more necessary than ever to rationalize the structure of the European steel industry. External duties applicable to steel products will average 5.7 per cent. Third country firms using cheaper labour or cheaper raw materials or both will certainly be able to overcome this tariff obstacle. Subject to what was said in Section 7, therefore, competition between Community firms and the steel industry of third countries will become keener. This means that, more than ever before, the relevant market for many Community steel producers will assume the dimensions of the world market itself. This is a further reason for pursuing a flexible policy with regard to projected concentrations.

(bb) Forms of concentration

32. Concentration may assume different forms. Initially concentration may involve setting up joint selling agencies or concluding co-operation agreements to organize specialization; these would appear to be the most practical forms of concentration. There are considerable advantages to be gained from setting up joint selling agencies:

- (a) firstly they allow of a measure of production rationalization; selling costs are cut, stocks can be reduced and, by combining orders, rational production programmes can be drawn up;

(1) In the United States the market is dominated by one giant enterprise, whose annual output is 26m tons of steel, one very large firm producing 16m tons and several medium-sized firms which each produce between 7 and 8m tons of steel. The three largest firms in Japan together control more than half of the market.

(1) Doc. 173/66, paragraphs 24 to 30.

- (b) joint selling agencies check the trend towards over-investment because each firm can only supply the quota allocated to it; under these conditions an extension of capacities is of little interest and a firm can concentrate its efforts on internal rationalization;
- (c) joint selling agencies can be conducive to a stabilization of price levels because the market becomes more transparent and because risks of discrimination are reduced (provided, of course, that one is dealing with a buyer's market);
- (d) lastly, joint selling agencies can be the first step towards a larger-scale concentration; the Federal German Minister for Economic Affairs has, moreover, described the Community selling agencies as 'breeding grounds' for mergers.

We are reminded that a firm coming under the 'West' selling agency, namely August-Thyssen-Hütte, asked to be able to merge with a firm in the 'North' selling agency, Hüttenwerk Oberhausen AG. It is seen therefore that, as regards concentrations, partners are not always sought within the same selling agency.

Your Committee and Parliament have already returned a distinctly favourable Opinion on the German selling agencies. Setting up these straightforward selling agencies itself involves many difficulties, precisely because they do, in practice, imply a form of specialization. To begin with, they may be regarded as a satisfactory form of concentration. They cannot, however take the place of larger-scale production centres which are constituted through mergers or amalgamations. It will not be possible to make any final assessment of the usefulness of these agencies until it can be seen how well they are able to pursue a co-ordinated and effective investment policy. At present their main value lies in co-operation in the field of sales.

33. Large concerns usually have greater access to finance than small ones. Yet the main advantage of merging several small or medium-size units is that certain capacities can be taken out of service.

In this connexion, it is very important that there should be international concentrations not only national ones, the former type being extremely rare. International mergers should therefore be made easier to achieve. Priority should be given to drawing up articles of association for a European-type company. Unless some progress is made soon here, national steel cartels will probably come into being and this would be the end of the Common Market.

Lastly, it should be stressed that—at least as regards some phases in production—quantity production is now a must for rational production. The following table bears this out with reference to pig-iron:

	Daily output in tons of pig-iron	Capital cost of plant in million DM	Operation costs in DM per ton
I. 4 blast furnaces of 5 m diameter	3,00	104	28.—
II. 1 blast furnace of 10 m diameter	3,000	77	21.10
III. 2 x 4 blast furnaces of 5 m diameter	6,000	208	28.—
IV. 2 blast furnaces of 10 m diameter	6,000	102	20.20

Source: Survey by the Technische Hochschule Aachen (Institute of Advanced Technology of Aachen) quoted in *Industriebeobachter* of November 1966.

The future of small and medium-sized firms is, however, secure in certain cases, particularly as regards special steels. Firms having a small number of production lines and which constitute a well-balanced whole will, more often than not, survive but if they wish to continue to hold their own, they will have systematically to specialize and to integrate their activities in terms of increased processing operations and they will have to organize their commercial co-operation.

(c) *Subsidies*

34. With reference to the note on the policy to be followed—discussed in Section 27—the Executive will have to see which forms of State aid are consistent with the policy outlined therein.

The following principles can already be outlined:

- (a) investment subsidies should not be granted when the creation of new capacities is not coupled with the closing down of obsolete plant;
- (b) there must be continuity of employment in regions affected by rationalization and redevelopment measures;
- (c) where assistance towards investments is granted, this must be done in compliance with Community criteria; it must increase the competitive capacity and raise the technological level of the Community's steel industry;
- (d) investment subsidies must be co-ordinated in such a way as to prevent any sort of 'overbidding' on the part of national exchequers. The guiding principle of the Executive's policy on subsidies should be the need truly to rationalize the structure of the steel industry. The harmonization of national subsidies at the highest level cannot be regarded as the answer for such an expanding sector as steel. The High Authority's Decision

No. 3/65 on coal subsidies would not be inapplicable to the steel sector. As for the provisions on coking coal enacted early in 1967, these should be renewed even if technical developments will eventually restrict their effect. They are, in fact, the only ones which would allow the Community to standardize cost factors. It should be pointed out here that the differences in prices of petroleum products also constitute a source of distortions because

of the increasing use made of these products in blast furnaces;

- (e) as far as possible, care should be taken to avoid any artificial reduction in variable costs by supplying cheap coking-coal or special transport conditions; a European policy for energy and transport could, in this respect, ensure the equalization of competitive conditions.

**Extracts from recent resolutions passed by the European Parliament on the
problems of the Community's steel industry⁽¹⁾**

Resolution

on the Memorandum of the High Authority of the European Coal and Steel Community on the General Objectives for Steel of the Community for 1970

.....

3. Stresses that the social effects that the present difficulties may have are deeply disturbing those sections of the population which are directly affected and may permanently jeopardize confidence in the Community and in its ability to act unless effective measures are taken soon to overcome these difficulties.

4. Looks to the High Authority and to the Council to submit as soon as possible a programme for adjusting the steel industry to economic and technical developments and to provide for Community measures to deal with the present threat of a crisis.

.....

Resolution

on the situation in the steel market and on certain coal questions in the Community

.....

1. Considers that the common market for steel in the Community is—bearing in mind, too, the state of the world market—in a disquieting situation and that it would be desirable to remedy this by taking short and long-term measures at Community level, coupled with trade policy measures, all of which should fit in with the general economies of the member States;

.....

4. Considers that, in regard to the production policy to be pursued, it would be desirable to see whether and, if so, by reference to what criteria, it might be possible to close down obsolete plant partly or completely.

.....

6. Considers that to restore the market to normal by improving productivity and modernizing plant, there should be an amalgamation of enterprises, so as to bring greater production units into being and promote specialization to achieve Treaty objectives, while still respecting the rules of competition laid down in the Treaty and bearing in mind the economic situation in the regions;

7. Believes that, under present conditions, the right production policy would be one based on indirect action under the Treaty in the first instance and, should this prove inadequate, on an immediate implementation of Article 95,1 rather than Article 58, bearing in mind paragraphs 4, 5 and 6 of this resolution; implementation of Article 95 should comprise both short and long-term measures;

.....

9. Looks to the High Authority, the Council and the member States to pay particular attention to prices and to ensure a better implementation of Article 60;

.....

11. Urges that preventive action be taken to avoid possible social difficulties and, in this connexion, draws attention to paragraph 26 of its resolution on the 14th General Report on the Activities of the ECSC⁽¹⁾; structural changes must not be prejudicial to workers for whom jobs must be found and whose standard of living must be kept at its present level;

.....

14. Calls upon the High Authority and the Council to see to what extent the Treaty provisions should be amended, to take into account a coal and steel situation which is different from that prevailing at the time when the Treaty was drawn up.

Resolution

on the 15th General Report of the High Authority of the ECSC on the activities of the Community

.....

14. Hopes that the measures taken by the Community in the steel sector, particularly in the matter of investment and the regrouping and concentration of undertakings, will partake of the nature of a genuine industrial policy calculated to facilitate the necessary structural adaptations and fitting naturally into medium-term economic policy;

.....

18. Expresses satisfaction at the amount of work the High Authority is doing in the field of social policy;

19. Calls upon the High Authority to continue and even step up these activities and hopes:

.....

(ii) that an effective Community-wide labour policy will be worked out, based in the main on occupational training, with a view to ensuring stable employment;

(iii) that readaptation and industrial redevelopment measures will be stepped up and form part both of an overall programme and of programmes covering specific areas so as to ensure that workers are not dismissed before new jobs have been created for them;

.....

(v) that general criteria will be laid down for forecasting the social consequences of the concentrations of undertakings planned.

.....

⁽¹⁾ *Official Gazette* No. 28 of 17 February 1967, pages 440 und 441, and No. 156 of 15 July 1967, page 13.

⁽¹⁾ *Official Gazette* No. 130 of 19 July 1966, page 2455/66.

Summary of the provisions of the agreement concluded between the French State and the steel industry in that country

The agreement concluded in July 1966 between the French State and the steel industry in that country gave official status to the plan drawn up by the steel industry itself and made possible its execution.

This plan was drawn up because the French steel industry needs, in the years ahead, to make substantial investments both to meet the needs of the domestic market and to withstand foreign competition.

The steel industry was unable to raise the necessary capital without accumulating excessive debts and so it turned to the State.

The agreement laid down a form of planning and consultations between the steel industry, which undertook to adjust its structure to meet the new circumstances, and the State which, in exchange, granted certain facilities including an important contribution in the form of long-term credits at reduced interest rates. One might describe this as planned policy worked out by common consent.

The plan developed and filled out those parts of the Fifth French plan which relate to the steel industry. Unlike the national plan, however, the 1966 agreement was binding.

The agreement had a threefold aim:

- (a) optimal use of production capacities through highly rationalized manufacturing programmes;
- (b) the construction of production units of optimal size whether for the account of several enterprises or not;

- (c) amalgamations at the technical, commercial and financial levels, bearing in mind the needs of the social and regional policies.

It is estimated that the total investments of the French steel industry for the period 1966-1970 will be at least FF7,000m. This includes FF4,500m for the construction of entirely new plants. The assistance of the State, which will only go to the latter, will amount to FF2,700m. The loans will be for 25 years at an interest rate of 3 per cent in the first 5 years and 4 per cent in subsequent years. The breakdown of State aid between the different enterprises will be the subject of special agreements.

The agreement also provided that the steel enterprises might obtain their fuel under the same conditions as their direct foreign competitors.

To justify this State aid, the main argument brought forward was that at the end of the fifties the Government obliged the French steel industry to peg its prices at a very low level and this resulted in a loss of earnings. The agreement also provided for the enactment of social measures which would justify intervention by the State.

It is estimated that the number of workers in the French steel industry will fall by 15,000 (out of a total of 210,000) by 1970. Retirement, workers leaving of their own free will and a restriction on the number of workers taken on will make it possible to abolish from between 7,000 to 10,000 jobs. The 5,000 to 8,000 workers remaining will get the benefit of special measures such as the creation of new jobs, redevelopment, priority for vacant jobs in the steel industry, redundancy allowances, unemployment benefits, discharge allowances etc.