Opera Mundi EUROPE

A WEEKLY REPORT ON THE ECONOMY OF THE COMMON MARKET

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COMMENT

FRANC DEVALUATION

Last Year's Absurdity Makes this Year's Sense

The month of August in France is normally reserved for holidays with many firms closing down completely, while the capital is abandoned by most of its inhabitants, leaving the tourists to take over. This year, because of the country's economic situation and the need for action provoked in part by the "evenements" of 1968 and in part by the long period of low governmental activity, due to the resignation of President de Gaulle in April, and then the campaign to choose his successor, the government had been making a special effort to make up lost ground. When it was learnt that a special cabinet meeting was to be held at the Elysee on Friday afternoon, the general opinion was that this would be used to decide on various measures in connection with the 1970 budget.

The immediate effect of the decision taken at the cabinet meeting, a 12.5% devaluation of the French franc against the dollar or 11.11% against gold, was no doubt welcomed by the thousands of foreign tourists in France. The secret had been well kept. Since July 16, when the decision to devalue was apparently taken, only eight people including President Pompidou, Prime Minister Chaban-Delmas and Finance Minister Giscard d'Estaing had been in the picture. Even such apparently important ministers as M. Debre, the representative of orthodox Gaullism and the Foreign Minister, M.Schumann, did not learn of the decision till shortly before or during the cabinet meeting.

It was the ninth French devaluation since the war, and the thirteenth during the last forty years. The last time was on December 26, 1958, when General de Gaulle, who had come to power in May, decided to devalue the franc by 17.5%, an operation which was masterminded by the then Minister of Finance, M.Antoine Pinay, who may have also known or strongly suspected that this latest devaluation would take place.

Although the announcement on Friday night came as a surprise, such a move had nevertheless long been expected. Some observers were already surmising about a devaluation of the franc before the 1968 "evenements" but these really made it inevitable, despite the whole series of remedial measures taken since then. In fact on Monday August 11, President Pompidou said that he had been convinced since July 1968 that devaluation would take place, - and it has been said that he tried to bring it about then - although General de Gaulle was right not to have devalued during the November crisis since this would have been bowing to speculative pressure. It would have been a fearful humiliation for the General coming only a few days after his statement that devaluation would have been "the ultimate in absurdities".

Apart from keeping the decision to devalue secret from everyone in France, no single person outside the country learnt of it till afterwards. The lack of preliminary consultations within the EEC flouted Common Market rules, and M.Rey the President of the EEC Commission, spoke in no uncertain terms about this on Monday. Furthermore the IMF was not informed, although its executive board did meet in exterordinary session on Sunday morning to approve the French move. The French Prime Minister had to some extent covered his positions by saying that new parity of the franc would be fixed""after the consultation provided for by the international monetary agreements". As matters stand at present, France has not asked the IMF for any loans or further assistance.

The amount of the devaluation is broadly in line with that fixed last November at the meeting of the Group of Ten in Bonn and this may help to explain why international organisations and other countries were not informed. Furthermore, no other major currencies are expected to fall - at least in the immediate future - even though the pound has been behaving in an uncertain manner since the markets reopened on Monday. There is also an important political aspect from President Pompidou's own standpoint. If this devaluation succeeds and the French economy can be modernised at the same time, the last three of four years of his tenure of the Elysee could provide him with an opportunity to concentrate once again on foreign policy. In the meantime however domestic matters - and this includes European questions - will be likely to take up most of the government's time.

Can devaluation succeed ?

Any change in a country's parity needs to be accompanied by a whole series of measures to ensure that it succeeds and today such steps can be fairly complicated because of the need to consider other countries - especially within the Common Market - and international trade and economic developments, as well as international rules such as those established under the GATT and IMF agreements.

Since the strikes and riots last year, France has had to undergo several feverish bouts of speculation plus an all-out attempt by the government to re-establish the economy by trying to increase expansion and output at a faster rate than inflation. Granted exports have grown at a considerable rate, but imports have increased even more rapidly, even though the latest trade figures out for July indicate that a slight recovery was on the way. Furthermore the reserves have been gradually depleting and since devaluation it has been revealed that the true rate of losses during the past year was $4,700 million compared with the official figure of $1,960 million. If this trend had been maintained until the end of the year, the country would have had empty coffers as well as being very heavily in debt making any recovery even more difficult. Devaluation is no doubt better than imposing trade restrictions, which would create even more problems within the European Community, and President Pompidou has said that otherwise a policy of brutal deflation would have had to be imposed with "unbearable sacrifices and massive unemployment ... and which besides would endanger our investments and hence our future." However, deflation of consumer demand will be necessary to cut expensive imports, and given that a recent study by the INSEE shows that there is a feeling of "spend now, just in case" in France, as there was last year in Britain, this will no doubt pose some problems. The country has its industry working at capacity, while unemployment is low - so to switch production to exports, without taking measures that may distort trading patterns in the Common Market may not be easy.

Prices of goods will rise, and although this could limit some imports, they will take some time to bite, so the trade balance is likely to worsen in the immediate future. The cost of living in France, which before devaluation was expected to rise by 6% over the whole year, is now expected according to official statements to rise by another 3%. Most observers feel that this is somewhat optimistic, but the unions are already threatening to press for further wage increases - this was expected in any case - and devaluation has been under fire by both the C.G.T. - the Communist union and the C.F.D.T. as an attack on the interests of the working class, even though the government has already said that it will take measures to prvent hardship for the less-favoured members of the population. However, the signs are that the workers will lose most if not all of what they gained last summer, creating a situation fraught with problems. As we will see later the rise in agricultural prices under the Common Agricultural Policy will be spread over two years, and the government has in any case announced a general price and distribution margins freeze until September 15 so that full details of the programme to make the best use of devaluation can be prepared. One can only hope that the French government acts with more effect that did the Labour government in November 1967, although the trend in British exports seems to be improving considerably.

One aspect which M.Chaban-Delmas, and other members of the government have stressed is the need to restructure French industry and make it more competitive. Devaluation could well give a welcome a fillip in this direction, if its effects are carefully controlled, but it also means that further economies in government expenditure will be required. Yet such expenditure is needed to provide the basis of future expansion, so the coming weeks - and probably months - will see what the French call "des revisions dechirantes". Prestige projects such as the Concorde may be affected, or at least there will be no quickening in production should its supersonic testing flights during the coming autumn prove successful. The "force de frappe" and the new series of nuclear tests announced for next summer are perhaps more likely to be cut, and at the same time this increases the attractiveness of some form of nuclear co-operation with Britain. Other forms of technological co-operation such as the Airbus and European space projects will be threatened, the latter when already in a parlous state. It has been suggested that the French government will now come round to the British view of assessing projects more on commercial grounds instead of the Gaullist prestige criterion.

Fourteen African countries in the Franc Zone have already followed the decision taken in Paris and a decision by Tunisia is expected within a few days. Both Algeria and Morocco have however stated that they do not intend to change the parity rate of their currencies.

The 12.5% devaluation of the franc against the dollar is not a large amount, and since Friday it has become apparent that Paris is still awaiting an upwards move in the parity of the West German Deutschemark, as this would strengthen the effect of the French move, as well as helping other major deficit countries including Britain.

Bonn: Revaluation Row Starts Again

In West Germany with the elections for the Bundestag less than two months away, and the SPD - supporters of revaluation - ahead of the CDU in the opinion polls, the news of the French decision came as a surprise, especially as Chancellor Kiesinger was in Washington on an official visit to President Nixon.

The news was welcomed and was described by the government spokesman Herr Ahlers as "an important step towards the readjustment of distorted parities". It was thought by circles close to Herr Strauss the Finance Minister on holiday in France, that the move would lessen speculation against the Dm. Anything which would do this is obviously certain of a warm welcome in this tense pre-electoral period, as speculation against the Dm is expected to start. This will probably take place anyway, even though the West German government will take further counter measures. It is also felt that Herr Strauss was hinting that the parity of sterling should be altered once again, while Chancellor Kiesinger said over the weekend that Germany was ready to support the pound. At the same time Dr. Kiesinger made it clear that the Dm would not be revalued even though this would be welcomed in a number of quarters outside West Germany. Inside the country there is however a strong current of opposition to such a move because possible excessive competition, in addition to the growing fear of Japanese rivalry. If the yen were also to be altered in value, the situation would be different.

Although there is more opposition to revaluation, it could still come as part of a general realignment of parities, or even as a unilateral decision to try and control the present boom with which the German economy is faced, if this looks like continuing well into next year. And on Tuesday the SPD said that international parities remained out of line, as the size of the French devaluation left scope for a reasonable German revaluation.

Rome: Additional Problems for New Government

In Rome it was not felt that the lira would be in danger, and further that there was no question of it being revalued. Nor were overall exports considered to be in any immediate danger, although exports to France of cars, clothing, industrial goods and agricultural products would probably suffer. Signor Rumor, the Prime Minister in the new Christian Democrat government, maintained that it showed that the need to reach agreement over international monetary matters was now more urgent than ever. The biggest problem in Italy's case is the continuing lack of confidence due to the political uncertainty prevailing in the country, which has resulted in considerable exports of capital this year at a monthly rate of around £60 million sterling.

Brussels: Exports to France Hit

In Belgium, denials were quickly issued to deny rumours that the Belgian franc would be devalued, as it is felt that any French devaluation would have to be nearer 15% for the Belgian franc to follow. However the economy is growing at a rapid rate, with a worsening balance of payments situation. Since Belgium, like the other Benelux countries, exports on a large scale to other states in the Community, its trade will be affected by the French move. During the past year exports from the Belgium-Luxembourg Economic Union to France have risen by 43%, amounting to 22% of French imports from Community countries. Sectors likely to suffer are furniture, transport equipment, foodstuffs, plastics and chemical products. Even though official circles feel that the country can withstand any immediate pressure, monetary developments in the coming months, especially a decision to revalue the mark could change the outlook.

The Hague: Waiting for Bonn

The French devaluation came as a surprise for the Dutch government and banking circles. The Finance Minister, Mr. Wittveen said that M. Chaban-Delmas' government had preferred develuation as a means of restoring the balance of payments situation rather than a continuation of existing deflationary policies. For the time being he did not expect that the move would have much effect on other foreign currencies. Banking circles consider that West Germany will now be hard put to avoid revaluing the mark, but even so this is unlikely before the elections. The florin's future is uncertain, and depends on decisions taken in both Bonn and London.

THE COMMON MARKET

Monetary Committee Approves Devaluation

The devaluation of the franc was as much as a surprise for Community officials in Brussels - and on holiday - as for anyone else, but immediately steps were taken to call a special meeting of the EEC's monetary committee, comprising top civil servants and central bankers to discuss what had happened. No official statement was issued but its members are known to have examined all implications of the French decision, and in particular the size in the change of the franc's parity.

Under EEC regulations concerned with develuation or revaluation, the Council of Ministers has to meet within three days to decide whether or not to alter the value of the unit of account, equivalent to the US dollar. Since the whole common agricultural price structure is based on the unit of account, and French farmers already produce massive surpluses it was clear that some action would be needed to ensure that French agriculture did not get a sudden boost in its fixed prices, which would also have the effect of stimulating increased French exports of agricultural produce. The Commission is responsible for proposing any change in the value of the unit of account, but although it had not yet formulated any proposals at the time of the monetary committee's meeting, it was already strongly hinted that no change would be advocated. The monetary committee did however agree that the French government should take steps to protect the French market from a 12.5% rise in the price of agricultural products. This was of course an essential factor, for if the French consumer had to pay the full value of the new prices, the benefits flowing from devaluation, bearing in mind the other consequences, would have probably disappeared by the end of the current year, and the threat of serious trouble from the unions would be certain. Furthermore the meeting on Sunday agreed that the French decision was an isolated one and that there was no reason why any other member country should have to follow.

The lack of prior consultation between France and her Common Market partners does not seem to have raised too many problems, as it felt that the principle of a devaluation had been agreed last year at the emergency meeting of the Group of Ten in Bonn. Nevertheless last week's decision by Paris proves once again that although the Six have long discussions as to how to improve the monetary and economic operation, there is still some way to go before the suggestions which have been made are put into practice. However if the devaluation of the franc helps to restore the balance between the economies of the EEC countries and especially between France and West Germany, it could make the establishment of increased cooperation easier, by removing a potential threat to stability. For the time being, the situation is still uncertain because of the pressure in some quarters to revalue the DM.

Cold Storage for the CAP

When the Council of Ministers joined in special session at 11 a.m. on Monday morning, the Commission had already met at 8 o'clock to discuss the situation. The main topic to be dealt with by the ministers was how to tackle the problems raised for the agricultural policy. After a long-drawn out debate, which ended at 5 a.m. on Tuesday morning, it was agreed to adopt a series of measures isolating the French agricultural market from the rest of the Common Market, in order to cushion the effect for the French consumer. If this was not done, French farmers would have had a sudden increase in income, while the farmers in other EEC countries would have their income cut, a move which would hardly be popular, especially in West Germany with the parliamentary elections rapidly approaching. The Dutch opposed the Commission's proposals for isolating the French market on the grounds of that such a move was contrary to the principles of the Community, and instead suggested that French farm prices should be increased by the full rise in value occurring as a result of devaluation, while farmers should be taxed and subsidies introduced for consumers, but only to the end of this year. The Belgians also had doubts about the Commission's proposals, and favoured the idea of adjusting the French TVA system to deal with the situation. Eventually however agreement was reached on the understanding that the Commission would report to the Council of Ministers by November 30 as to how the measures adopted were working and also offer any supplementary proposals. These involve a reduction in the intervention price level under the CAP of 11.11% for French farmers during the remainder of the 1969-1970 season, while for the following season this would be fixed at 5.6% lower than the CAP intervention price elsewhere in the Community. To ensure that there is no overall distortion of the CAP - even though one of its main principles, common prices throughout the EEC have now been suspended for at least a year - French exports of agricultural produce will be taxed, while imports into France from other Common Market countries will be subsidised. As a result of Dutch insistence, all of these arrangements will be reviewed product by product next summer, but if no changes are made, it will not be until the summer of 1971 that the CAP will be fully established.

During the meeting, the President of the Commission, M.Jean Rey criticised the fact that France had not consulted her partners on Friday and then develued on Saturday or Sunday. Calling the decision a "thunderbolt" he said that if member countries did not observe the 1964 ruling of the Council on such an important matter, it did not bode well for other forms of cooperation within the Six. However he also called on member countries to give France the maximum support during the period ahead. M. Giscard d'Estaing defended the decision not to consult on the grounds that exchange markets would have had to have been closed, leading to speculation against the franc and other currencies.

Although France has been the strongest defender of the immutability of the CAP, the Minister of Agriculture, M.Duhamel claimed afterwards that he was satisfied with the outcome. He also said that Britain's entry could result in the CAP undergoing an adjustment which could include a marrying of the two different concepts for helping agriculture.

MAIN FRENCH IMPORT SOURCES IN 1968

Country	franc millions	%	Country	franc millions	%
West Germany	14,750	21.3	Denmark	352	0.5
BLEU	7,171	10.4	Zambia	334	0.5
Italy	6,557	9.5	South Africa	332	0.5
U.S.A.	6,511	9.4	Argentina	318	0.5
Netherlands	4,219	6.1	Qatar	302	0.4
Britain	3,252	4.7	Gabon	296	0.4
Algeria	2,786	4.0	Congo	287	0.4
Switzerland	1,728	2.5	Norway	271	0.4
Sweden	1,363	2.0	China	262	0.4
Iraq	1,358	2.0	Austria	253	0.4
Morocco	933	1.3	Martinique	227	0.3
U.S.S.R.	899	1.3	Malaysia	223	0.3
Libya	879	1.3	Rumania	219	0.3
Ivory Coast	869	1.3	Poland	216	0.3
Spain	864	1.2	Chile	216	0.3
Australia	627	0.9	New Zealand	213	0.3
Kuwait	623	0.9	Venezuela	211	0.3
Japan	604	0.9	Madagascar	208	0.3
Canada	578	0.8	Greece	201	0.3
Muscat	570	0.8	Tunisia	201	0.3
Brazil	473	0.7	Reunion	198	0.3
Senegal	451	0.7	New Caledonia	197	0.3
Finland	384	0.6	Portugal	185	0.3
Saudia Arabia	382	0.6	East Germany	179	0.3
Iran	364	0.5	Other countries	3,655	5.2
Cameroun	358	0.5			
TOTAL IMPORTS:	F 69,163 million				

The possibility of delaying the full introduction of the CAP for another two years obviously could be important if Britain starts negotiations for membership. Although it is uncertain whether France will oppose negotiations, before agreement on the future financing of the CAP - due by the end of the year - M. Duhamel's remarks are indicative of the increasing attraction of the British system for the French. It certainly sets a precedent for measures to overcome agricultural difficulties, thus strengthening the case for these if new countries join the Community.

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THE WEEK IN THE COMMUNITY

August 4 - August 10, 1969

EURATOM

Yet Another Non-Starter

There seems to be something almost pathological about the inability of the Six to achieve any sort of progress in the nuclear field. With the June 30 meeting of the Euratom Council, we were led to believe that the atomic community of the EEC was at last about to climb out of the rut, and that a few month's steady spadework by the "backroom boys" in Brussels would at last see a workable modus vivendi formulated, in the guise of a pluri-annual research programme that would boost the Community, not just keep it on its feet. After that meeting, which it is true only came up with the voting of the second half of this year's budget (see No 520), the Commission was at least delegated to pursue its work on research formats, and it did look as though, through legalistic and diplomatic juggling, some type of "concertation" regime might be fashioned.

The fact is, however, despite the Council's directive and the softer line we were led to expect after the French presidential elections, that the Atomic Questions working group in Brussels - the forum of national experts put to this task - has got absolutely nowhere in its supposed preparation of the first draft version of the pluri-annual research budget, based on the ministers' appraisal of the Commission's formula, and designed to ensure optimal utilisation of the Joint Research Centre facilities at Ispra. At the end of July the Permanent Representatives' Committee examined an interim report submitted to it by the Atomic Questions group, whence it became painfully obvious that the group had achieved absolutely nothing, and that not a single delegate had budged from the position adopted twelve months and more ago - stalemate, as ever. At this stage, then, we can hope for nothing better than the devising of a joint programme out of those research projects that are inscribed in this year's scaled-down budget (only half its content at that, the remainder being "complementary programmes" as inveigled out of the rest by France) and which the Commission has already slammed, as totally inadequate for the purpose of keeping Ispra alive.

As things stood just before the summer recess, it looked as though the Six would reach concensus on enough research projects to keep some 600 personnel - a mere fifth of the total workforce - gainfully occupied at Ispra. The experts have failed even in this, and so the Atomic Questions group has had to place the matter in the hands of the ambassadors to the Communities, to whom it now falls either to formulate their own solution, or to give their experts fresh terms of reference, allowing them at last to find a way of getting work resumed at the Research Centre.

The Permanent Representatives have in fact managed no better than anyone else to galvanise the experts into action, and one delegate was quite clear in his own mind that there was nothing political involved - this was a straight technical problem. As far as he was concerned, the job of the Commission has been to put forward suggested research projects; should any of these prove of insufficient interest technically, then it should be dropped, for the main thing is not to keep the research centres in business, but to ensure continuing technological progress in the nuclear field, success in which can be measured directly in terms of "spin-off", the commercially exploitable fruits of research, be this national (private or public) or Community work. Suffice it to say that the delegate in question was very much in a minority, and that the vast majority of the Permanent Representatives were only too well aware of the political charge that this issue carries, at a time when the Community is on the point of launching a major programme of scientific and technological cooperation in the seven sectors cited in the Aigrain Committee report. Although Ispra is but one cell in the complex organism of Community research, it would be the utmost folly for the Ministers to deny it its pluri-annual research budget: not only would this be a fatal deprivation for Euratom, it would also spell the end of an establishment that, while in need of a facelift, can be of the utmost utility for research both within and beyond the nuclear field. M. Spierenburg, chairman of the Committee of Representatives, has already expressed his earnest wish that the next few weeks will see fresh directives from their governments reflected in his colleagues' attitudes, but if such progress is not forthcoming, he plans to "take it to the top", and demand satisfaction of the Foreign Ministers' Council, which convenes on September 15.

In short, not one of the general problems cited in the resolution passed by the Council on June 30 has yet been solved sufficiently for the drafting of the five-year programme to get under way. Especially ticklish is the question of the legal framework within which Euratom would be able to carry out research and projects chosen by, and attracting the backing of less than all six member states. Neither the Commission nor most member states have much time for the "complementary programmes" device first tried, and they will have to cast about for an alternative formula, to cover projects not voted unanimously. According to jurists in Brussels, there is scope written into the Treaty for this kind of thing, covering the whole range of activities, from:

a) contract work, i.e. special tasks requisitioned by companies, using only existing Research Centre capacity and paid for by the companies placing the work, to:

b) special programmes occasioned by proper intergovernmental decisions, and which could well lead to substantial increases in the actual capability of the Research Centre, and to fresh investment therein.

With contracted work, the problem is to establish a tariff of charges for services rendered by the Centre. Quite simply, the experts have failed completely to advance any suggested rates that could possibly make the Centre a more attractive proposition to EEC companies tendering for work than any commercial rival - as yet, there has been no sign of competitive rates being offered. Apparently, what suggestions have been tabled to date have been based on the cost price of research, and it has quickly become apparent that this is no criterion to work on, not if full exploitation of the Centre is to be achieved. The only logical way of getting round this in fact is for capital investment and amortisation at the Centre to be written into the common budget, thus bringing the debit side of the costing process down sufficiently to make the Centre a viable concern when exposed to normal commercial conditions. Indeed, still more edge may be obtained by pruning out also much of the personnel cost of contracted work, salaries and so on being included in their turn in the common budget, rather than in the price of work done for industry.

Non-nuclear activities, while as difficult a problem as any that arises in connection with the Joint Research Centre, are in fact the key to the whole exercise of bringing Ispra back to life. The picture is clouded here by the fact that the legal departments of the Commission have gone through this aspect with a fine-tooth-comb, and unfortunately have come up with the decision that the Euratom Treaty does not allow of the Centre taking on non-nuclear research unless this is allied to, or the outcome of nuclear activities as such. Thus there is nothing for it but to modify the text of the Treaty, or to append a protocol thereto, which alas in either case would involve the protracted and tedious process of ratification by the national legislatures of the Six.

Yet another spanner has been tossed into the works by a number of the delegates, who have refused to discuss sections of the Commission's pluri-annual programme suggestions on the grounds that these (European Reference Office, nuisances and data processing) are already covered by the Council's agreed provisions for non-nuclear scientific and technical cooperation under the Aigrain scheme. The quibble is that it would be illegal to use the machinery devised for the adoption of nuclear research programmes for the purpose of setting in motion non-nuclear research projects. This, despite the fact that as long ago as December 8, 1967, the Council foresaw the possibility of including such work in the research activities of Euratom, and regardless of the general agreement of member states with the Commission that the vagaries of seeking a legal format for such activities should in no way hamper the optimising of facility exploitation at the Centre by whatever means come to hand.

Problems and yet more problems, then, have still to be faced, and nobody can argue their way out of the fact that it is the political will, as ever, that must be found for progress to be secured. More than one member state is to be found wanting in this respect, and indeed it is hard to see how even the emotional willingness could be mustered by certain of them, when they are passing through a phase where even their national nuclear budgets are being pruned left, right and centre.

* * *

E.C.S.C.

Energy Policy: Ministerial Blitz in the Autumn

In October, the Council of Ministers is to devote one meeting solely to energy problems, and the discussion will of course centre on the two outstanding issues of the moment:

a) the common energy policy, in the context of the "Commission's initial guidelines for a Community energy policy".
b) the matter of coke and coking coal supplies to the E.C.S.C. steelmaking sector.

A group of national experts from the Six has been working all-out on preparing matter for this critical debate, the first major attack on energy problems at top level since the ratification of the former High Authority's Decision 1/67, whereby there was instituted a system of aid for steelmaking coking coal and fines. Expert discussions to date seem to show that there are a great many points on which we may expect to find consensus between the Six, certainly as far as the Commission's initial guidelines are concerned. Nevertheless, nobody is very willing to go on record at this stage, and the experts tend to preface any remark with the proviso that the scope of the Commission's plans cannot be assessed until it comes out with the concrete proposals foreshadowed in the guidelines: things then might not be quite as rosy in the garden.

There is at least no danger of any member state sabotaging the principle of a common energy policy, that much is certain, as is the fact that such a policy will hinge upon the principle of the consumer's interest, and ensuring him constant supplies at minimal cost to the Community at large.

It is not the ends, however, but in the means of achieving them that we may find the energy debate less plain sailing: the Six could very well come to blows over the implementation of the C.E.P., especially when the interventional devices in question appear to be running contrary to the principles whereby any member or members direct their own national economies. Anticipating this, the Commission has remained firmly "middle of the road" in its suggestions, staying always somewhere between the liberal philosophy of allowing the free play of the market to dictate policy and a more dirigiste tendency to practice intervention and forward planning in ensuring Community energy supplies. In other words, the Commission's idea is to allow the play of competition in the first instance to set the pace and direction, as the Community will be getting more and more dependent upon supplies from third countries. At the same time, it appreciates that certain modes of intervention are going to be needed in order to have some sort of rein on the pattern of supply and demand, firstly to keep it under surveillance, and in case of necessity to bring it back into line with the aims of the common policy. Surveillance is by far the most important of these two functions, however, as outright meddling in the pattern of trade is regarded with the sort of chariness that we attribute to the "failsafe" button in the realm of defence.

Much stress is laid by the Commission in its scheme on the question of formulating medium-term projections and directives for all the various energy forms, and it hopes to get going within the Community an increasing degree of alignment of approach, method and policy between the energy-producing sectors.

We have outlined what the experts feel should be the basic agenda of the Council when it meets in October, although they feel that there should be appended to this a catalogue of problems peculiar to the various energy products, headed of course in the mining sector by the continuing difficulties of tailoring coal extraction to the scale of the market, of subsidies for coal-mining, and again of coke and coking coal supplies to the E.C.S.C. steel sector.

On this score, the Commission reckons that world supplies of coking coal should be adequate, in quantitative terms, up to 1980, an opinion endorsed by the experts from the Six. The same goes for its assertion that the United States will continue to be by far the most important supplier of this commodity to the Community, and that there is really no question of any diversification of supply on any appreciable scale.

Against this, the Commission does throw into the scales its expectation that the competitive standing of Ruhr coking coal will improve in the coming years, such that production costs will probably remain steady over the next decade, while American coking fines will probably suffer a c.i.f. price increase during this period of the order of 1 - 3 dollars, which would represent a considerable chunk out of the cost advantage of American coke over Community supplies. There was in fact some contention on this score: some experts disputed hotly the assumption that American coke would get dearer, no less than the expectation that things were about to look up in the Ruhr. After all, to do this would mean that Ruhr mines would have to boost production by some 8% per annum throughout the Seventies, which is something they have never yet even looked like achieving.

In this first paper, the Commission makes no attempt whatever to draw conclusions as to the likely future pattern of supply in coke to E.C.S.C. steelworks. In particular, it remains completely mute on the critical question of the future of the 1967 coking coal and furnace coke aid mechanism, due to terminate at the end of this year. Nevertheless, it is pretty clear from recent preparatory work done by the Commission's teams that nothing could be further from its mind than simply looking on while a system that has done so much for the stability of the E.C.S.C. in recent years just gets written out of the rule book. Not only has this aid effectively eliminated discrimination between Communtiy steelworks according to whether their supplies were culled from Community or third countries, but also it has made it possible to retain a strong nucleus of extractive activity, where otherwise we might have seen the complete collapse of coal-mining in the Community. Whatever formula the Commission comes up with as the continuation of this form of aid, albeit in different guise perhaps, this is bound to be written into the broad lines of the C.E.P.: one can be sure also that safeguards against discrimination based on choice of supply source will also be included.

Bear in mind here that in recent months the Community has been suffering a shortage not of coking coal, but of furnace coke. The German coking plants recently announced that the shortage for the whole of the current year would come to something like two million tons, reflecting the fact that fairly widespread coking plant closures have coincided with the present boom in steel production. Not only this: we have had also a marked increase in the number of gas-producing plants closing down in the Community, especially in West Germany, where the pattern tended to be for gas suppliers to produce as their by-product coke for use in the home. Domestic users have therefore become an added drain on coking plant operators, at least up to the time when they convert to such alternative fuels as oil or natural gas.

There is, however, the history and investment side of the coking plant situation to be taken into consideration. In its recent report on investment in E.C.S.C. Industries, the Commission states that the coking plant operators of the Six expect their combined capacity to fall by about one million tons before 1972, the three million ton reduction anticipated by pithead plants being in large part offset by a two million ton increase in the capacity of coking plants sited adjacent to coastal steel plants. Once we take account of the age distribution of the various coking plants currently operating in the Community we are in fact faced with an impending need to boost investment in this particular type of capital installation. However, the investment capacity of the coking sector is low indeed, and for a whole host of reasons, the most important of which is undoubtedly prevailing uncertainty as to the future economic and technological development of both steelmaking and coke production, coupled with the running losses now being suffered by E.C.S.C. coking plants that are having to contend with declining prices for their other by-products, such as benzole, coalgas, tar and so on, which are produced more cheaply now from crude oil by the petroleum industry. This being so, specific investment expecditure by the coking sector has, as a Community average, fallen from $ 0.63 per ton of coke produced in 1960 to only $ 0.39 in 1967, since when little if any improvement has been registered.

Quite apart from supply problems as such, therefore, we have the tricky question of coking capacity availability. It is all very well for the Six to be able to acquire supplies of coking coal outside the Community: such is the price of the coking process that they have little choice but to use coke processed on Community soil. Unfortunately, the structure of this sector is such that the larger part of capacity is commanded by the pithead coking plants, which in fact have their own supplies of coking fines on the spot, and are anyway "an expensive distance" from imported supplies of coal. So, if a valid solution to ensuring steelmaking coke supplies in the E.C.S.C. is to be found, it will have to incorporate provisions for maintaining the extraction of Community coking coal, until such time as phasing-out becomes possible.

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