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OF

THE HIGH AUTHORITY OF THE EUROPEAN COAL AND STEEL COMMUNITY

S U M M A R Y

Under the Treaty of April 18, 1951, the term of office of the High Authority of the ECSC was due to expire six years from the introduction of the Common Market for coal. This date, February 10, 1959, fell some weeks after the first tariff cuts and import quota increases of the General Common Market in the new European Economic Community. In preparing its Report, which will be laid before the Ordinary Session of the European Parliament in April, the High Authority has tried to assess the contribution of the first Community to European integration, the limiting factors which have restricted its activities, and the tasks facing those who will now have to assume the responsibilities conferred by the Treaty.

A Record of Achievement

The Schuman Plan, from which the ECSC derives, had both political and economic objectives: by means of the practical links to be forged between France and Germany in a partnership open to other countries, it was to make war between these two countries materially impossible. The method adopted was, by initially confining operations to two basic sectors, to furnish the countries concerned with common bases for economic development, while at the same time trying out an experiment in general integration. Today, nine years after M. Schuman's original proposal, the record of the European Coal and Steel Community stands as follows:

Barriers to trade in coal and steel have been abolished, aids and subsidies have been progressively eliminated, rules of non-discrimination have been applied, major changes in transport rates have been made in order to align international with internal schedules, and important changes have occurred in buying and selling systems: these are the major achievements on which the Common Market for coal and steel is based.

It has succeeded in getting the High Authority's financial credit firmly established in the money markets of Europe and America, it has assisted investment by issuing forecasts and targets as to requirements and the best means of meeting them, and it has made funds available in order to promote research and assist projects for building workers' houses: these are the ECSC's contributions to expansion.

Its experience and its experts were closely connected with the preparation of the new Common Market and Euratom Treaties, and it has been internationally recognized as a new entity in relations with European countries, the United States and European and international organizations - and so opened a way for the progress of European unification.

#### Problem No. 1 - Coal Policy

The crisis through which the coalmining industry is passing today has been greatly aggravated by the mistakes made during the boom period of 1954-57. The High Authority had no power to prevent industry from having complete freedom to conclude contracts for the importation of coal from third countries for anything up to three years ahead. The people who are involved in the day-to-day details of economic activity too often tend to project the present into the future, visualizing indefinite expansion so long as business is good, and permanent limitation of sales when it is bad. (That is why the long-term forecasts worked out for the Community as a whole are so important, permitting as they do a broader view and greater impartiality than the individual enterprises are able to obtain.)

These imports, contracted earlier at high prices are now hampering both the sale of Community-mined coal and the cheaper imports which could be secured today. Instead of allowing practically unlimited freedom to import from third countries, some Governments have imposed a ban on further contracts and a swinging duty on tonnages imported in excess of specified quota. Whatever the necessity for such expedients, the High Authority is firmly convinced that a real economic policy requires greater continuity and greater forethought. Already during the boom it was seeking to arrange ways and means of financing stocks in order to regularize the market and avoid unemployment. It was, however, unable to obtain the requisite unanimous consent of the Governments. So here too the High Authority has had to resort to expedients and grant assistance, mainly from the levy, to the collieries with the largest accumulations of stocks, in order to prevent unduly sharp repercussions on employment in the industry.

These experiences should serve to persuade the Community Governments to endorse the adoption of the policy consistently advocated by the High Authority, whereby the coal market would be enabled to operate as freely as possible by means of a coordinated system covering price policy and involving a certain minimum of corrective mechanism. These latter are necessary if perpetual disturbances of the balance of the market by either production or imports are to be avoided. The High Authority considers the aim should be to bring down to a more uniform basis the cost to the importer of freight charges for odd shipments and to ensure by as automatic a process as possible that long-term import contracts are confined to permanent regular requirements. Arrangements of this kind in practice amount to a more effective coordination of trade policy among the member-States than could be obtained in discussions round a table.

To work out and lay down such a policy will be the prime task of the High Authority in the coming weeks. This task becomes all the more important in that it forms part of the formulation of proposals for a coordinated policy for the entire energy sector.

The High Authority is working in close consultation with the Executives of the other two Communities, the European Economic Community and Euratom, in drawing up proposals for submission to the Governments. There is no question of protecting one form of energy against another: its purpose is to further the expansion of the economies of the member States while at the same time safeguarding continuity of employment.

#### Price Policy and Marketing Regulations

In the coal market, the real question is whether arrangements which represent a system dating from different period, or were designed to meet a different situation, are today really in the best interests of the coalmining industry and the men employed in it. The days of the rigidly protected national market are over and so is the quasi-monopoly of coal in the field of energy.

In an industry where investments take a long time to complete and are expected to remain in service longer, it is absolutely essential to have a long-term view of developments. Marketing methods must be made more flexible, in order to render the enterprises more sensitive to the development of the energy market and to the difference in the positions of the different branches of energy productions. The application of these principles will require the abilities, the constructive imagination and the goodwill of all concerned.

In most of the Community countries vertical integration occupies an important place in the structure of the coal and steel market. This undoubtedly restricts the normal play of the market. But it is no use trying to provide against such limitations simply by imposing prohibitions. Whether integration is or is not economically advantageous will be demonstrated more clearly if the operation of the market is not distorted by artificial incentives resulting from the fiscal systems in force or the marketing system used. Fiscal distortions are a matter in which the European Executives are required to make strong representations to the Governments; with regard to marketing methods the High Authority itself has very direct responsibility. Both price policy and marketing regulations must be aimed at ensuring that the integrated enterprises have a permanent interest in putting on the market as plentiful and steady a flow of supplies as possible by producing at a rate independent of their own requirements.

Subject to the Treaty's safeguards against runaway price inflation and the collapse of the market, greater mobility in the market must be achieved through regular incentives to independent action: these are, in the High Authority's view, more likely to be effective than the repression, necessary though that is also, of cartels overt or covert.

#### Towards a Common Financial and Economic Policy

The fusion of the markets and the balance which this requires between the levels of prices charged come up against a practically insuperable barrier if Governments, finding themselves unable to take direct decisions on prices, bring to bear forms of pressure still open to them in order to prevent or delay the adjustments involved by changes in production costs or in the state of the market. Such action is incompatible with their obligations. Moreover, it fails to meet certain vital requirements of the national economies.

The contribution of the Community is that, in place of unilateral action by Governments, it has built up institutions in which the broad aspects and details of these problems can be dealt with jointly in discussions where the principles of a rational economic policy, the interests of Europe as a whole, and yet at the same time the special needs of the individual national economies, are all given due consideration.

Recent events have brought out clearly the difference in position between the sectors already incorporated in a Common Market and the sectors which are only to be brought in gradually as time goes on. The difficulties specifically attaching to partial integration may be expected to diminish as integration is progressively extended to cover the whole of the economy. They would only disappear completely with the emergence of a common economic and financial policy: that, however, is a development which can come about only through a strengthening of the political will to go on to greater unity.

The ECSC's role as a stepping-stone to general economic integration and the political unity of Europe has by no means run its course. The Common Market Treaty will continue to produce repercussions upon the Coal and Steel Treaty. Conversely, certain specific problems that have been fully recognized for coal and steel are also liable to arise in other industries, although the Treaty of Rome provides no possibilities for direct or specific action to deal with them. These problems throw light on the way in which the Coal and Steel Treaty could at a later stage affect the Common Market Treaty. It is from this kind of interaction that we may perhaps discern the final form of the European economic organization into which the Communities will merge. For the present, they have sufficient common ground, and sufficient matters of common concern, to warrant the cooperation instituted between them, which will become closer as the new Communities complete their organization. Even so, it is important that that cooperation should not be hampered by geographical dispersal, which makes it more difficult to achieve proper coordination in the work for European unification.

#### INSTITUTIONS AND EXTERNAL RELATIONS

The institutions of the European Coal and Steel Community, which had formed since 1952 the first core of a political framework for Europe, have facilitated the process of broadening the field of economic integration which was decided upon at Rome on March 25, 1957, by the signing of the Treaties establishing a European Economic Community and a European Atomic Energy Community.

The Common Assembly and the Court of Justice of the ECSC have been transformed into a single Parliament and a single Court of Justice with jurisdiction in respect of all three Communities, in accordance with the provisions of the Convention relating to Certain Institutions Common to the European Communities which is annexed to the Treaties of Rome.

The High Authority for its part has applied itself to working out the best ways and means of ensuring effective cooperation with the Commissions of the new Communities. Inter-Executive working groups now meet regularly. Common services have been or are in process of being set up (Legal Division, Statistics Division, Information Service). Organic liaison arrangements have been

instituted between the other departments, and certain tasks are now performed by one Executive on behalf of the others. By these various means duplication of administrative and technical work is avoided as far as possible.

At the same time, the High Authority has continued its endeavors to establish still closer relations with non-member countries and international organizations. More particularly, it took part in the negotiations in OEEC for the institution of a European Economic Association (free trade area). In relations with certain non-member countries problems over imports of coal into the Community loomed large: in an effort to resolve them, the High Authority urged the coordination of the trade policies of the member States.

THE SITUATION IN THE COMMON MARKET AND THE ACTION  
OF THE HIGH AUTHORITY

The Trend in the Common Market for Coal

The situation in the Common Market for coal has become grave. The year 1958 was marked by a decline in demand as against 1957, reflecting a savage fall of something like 35 million metric tons in apparent consumption, although the fall in real consumption over the same period was only about 15 million tons.

The drop is due to two main sets of factors:

- (a) changes in consumers' stocks, taking the form of a running down of stocks by some consumers following widespread stock-piling during 1957;
- (b) a slowing-down in the rate of expansion, coupled with a structural fall in consumption in certain sectors (railways, gasworks, various industries) due to competition from oil and gas and to a reduction in specific consumption.

Over and above the competition from oil and other sources of energy, there is competition from American coal, imported first of all under long-term contracts some of which were concluded as long ago as 1956, and also under charterings for single voyages at low freight rates, which have the advantage to the importer of lowering the average of the freight charges.

The combination of all these factors has resulted in an exceptional accumulation of pithead stocks, particularly in Belgium and Germany, so that it has been necessary to introduce short-time working, and heavy financial burdens have fallen upon the enterprises.

Hard-Coal production

	<u>1957</u>	<u>1958</u>	<u>Difference</u>
	('000 metric tons)		
Germany (Fed. Rep.)	133 156	132 582	-0.4%
Saar	16 455	16 423	-0.2%
Belgium	29 086	27 057	-7.0%
France	56 795	57 711	+1.6%
Italy	1 019	716	-29.7%
Netherlands	<u>11 376</u>	<u>11 881</u>	<u>+4.4%</u>
<u>Community</u>	<u>247 888</u>	<u>246 370</u>	<u>-0.6%</u>

Only a very rough comparison is at present possible between the production of the Community and that of the other major coal-producing areas of the world. Figures so far available give the following table:

	(1000,000 metric tons)		
	<u>1957</u>	<u>1958</u>	<u>Difference</u>
Community	247.9	246.4	-0.6%
U.K.	227.2	219.3	-3.5%
U.S.A.	467.6	374.0	-20.0%
U.S.S.R.	327.0	350.0	+7.0%
Poland	94.1	95.0	+1.0%
China	130.7	270.0	+106.6%

Coke production decreased by 3.6% (74.4 million metric tons in 1958 as against 77.2 million in 1957).

Both internal and external trade in hard coal and coke fell off appreciably. Hard-coal imports from third countries, in particular, fell from 44 million metric tons in 1957 to 31 million in 1958.

Stocks of hard coal rose from 7.3 million metric tons at the end of 1957 to 24.7 million at the end of 1958, and stocks of coke from 1.7 million to 6.9 million.

At the beginning of 1959 coal prices were reduced in Belgium and in the Netherlands; in France and the Saar they were increased by approximately 11% following the devaluation of the franc.

#### The High Authority's Work in the Coal Sector

In face of the difficulties in the coal market, the High Authority has, since early in 1958, been making every effort

- (a) to interpret the rules of the market with the maximum of flexibility compatible with the Treaty (alignment of prices, rebates on list prices);
- (b) to regularize imports (census of import contracts and charter parties, "mutual aid" in favor of Germany and Belgium when they introduced restrictions on imports from third countries);
- (c) to stabilize sales (long-term contracts for the sale of coal by the Ruhr agencies, regularization of coal purchases by public utilities and services);
- (d) to stabilize production and employment by a system of financing stocks (the financial arrangements proposed by the High Authority to assist the stockpiling of saleable grades were rejected by the Council of Ministers in June and October 1958; a scheme for assistance out of the High Authority's own funds was approved in November).

In addition, the High Authority last October put forward a number of proposals for action in connection with production, conditions of sale, consumption and imports. On imports, the High

Authority asked the member States to do everything in their power to see that the proportion of Community coal in purchasers' overall procurements of solid fuels during the coal year 1958-59 remained at least equal to the amounts bought during the preceding boom period. The aim was thus to increase deliveries of Community coal in replacement of coal imported from third countries.

The High Authority further proposed a permanent harmonization of import policies. Up to now, the Council has agreed only to the setting-up of a permanent Committee to collate information on imports.

The High Authority has watched over the implementation of those of its proposed measures which have been adopted by the Governments. It has been in bilateral contact with some of the Governments. Following discussions with the Government of the Federal Republic of Germany, it conveyed to the latter on January 28, 1959, a recommendation to the effect that a temporary duty, of not more than DM 20 per ton, should be imposed on all imports of coal from third countries in excess of a fixed duty-free quota.

#### Reorganization of the Belgian Coalmining Industry

Since the end of the transition period on February 9, 1958, compensation payments by the High Authority to the Belgian coalmining industry have ceased. The High Authority pointed out at that time that it was essential that a thoroughgoing reorganization program be drawn up without loss of time. The Belgian Government has assigned this task to a group of experts set up within the Conseil National des Charbonnages.

The High Authority during 1958 repeatedly reminded the Belgian Government that under Section 26,4 of the Convention subsidies and the tonnages subsidized required its (the High Authority's) approval. It particularly emphasized that any subsidies granted by the Belgian Government were to be progressively scaled down and finally abolished. In a statement on January 13, 1959, the Belgian Government announced its decision to frame a program of regularly-decreasing subsidies for the coming years. Economic assistance paid during 1958 totalled approximately Bfr. 900 million: under the Belgian Government's decisions the amount is to go down to Bfr. 800 million in 1959, Bfr. 600 million in 1960, Bfr. 400 million in 1961, Bfr. 200 million in 1962, and nil from 1963 onwards. In accordance with the law of January 24, 1958, the subsidies will be paid through the Conseil National des Charbonnages, which is expected to supervise their utilization. To introduce this scheme, the Belgian Government must, under the terms of the Treaty, obtain the authorization of the High Authority, which in its turn must consult the Council of Ministers.

The High Authority has already had occasion to stress that it regards as most unfortunate the failure to take advantage of the boom period to introduce the necessary measures of reorganization in the Belgian coalmining industry. It notes with satisfaction, however, that the Belgian Government and coalowners have finally come to grips with the problem, now at a crucial stage with detailed reorganization program for each coalfield being worked out in the Conseil National des Charbonnages.

After it has had the opportunity to study these programs, the High Authority will finally decide whether it agrees to the payment of subsidies and what assistance it is prepared to give for the re-employment and resettlement (readaption) of miners who lose their jobs.

Steel Production and Raw Materials

The result to date of the slowing-down in the rate of economic expansion has been a slight falling-off in iron and steel production and a marked easing of the previous tightness in the supply of raw materials, which has made it possible, inter alia, to do away with the compensation scheme for imported scrap.

However, in the long term or in the event of a quick upturn in industrial expansion, certain problems of scrap supply may arise again, though with diminishing acuteness insofar as the expected increase in the ratio of pig-iron to scrap is achieved from 1959 onwards. In the longer term, it also remains true, as has been observed on various occasions in the past, that from the mid-1960s the Community will need to make sure of obtaining, on as advantageous terms as possible, considerably increased supplies of iron ore from external sources.

Steel production in 1958 was 3% below the record level reached in 1957. Real consumption of steel, on the other hand, appears to have increased by about 3%, to judge from the increase in industrial production, with which it is always very closely linked.

	<u>Steel production</u>		
	<u>1957</u>	<u>1958</u>	<u>Difference</u>
	('000 metric tons)		
Germany (Fed. Rep.)	24 508	22 785	-7.0%
Saar	3 452	3 485	+0.6%
Belgium	6 267	6 005	-4.2%
France	14 106	14 590	+3.5%
Italy	6 766	6 270	-7.7%
Luxembourg	3 493	3 380	-3.3%
Netherlands	<u>1 183</u>	<u>1 435</u>	<u>+21.1%</u>
<u>Community</u>	<u>59 775</u>	<u>57 950</u>	<u>-3.1%</u>

This contrast in trends is not due to any decline in steel exports, which indeed reached a new record level in 1958. It is due to the rundown of stocks which has been in progress in the Community since the second quarter of 1958, with producers, dealers and consumers all working off their accumulated stocks at the same time, though not at the same rate.

Producers' stocks in the Community as a whole, which were about normal until mid-1957, thereafter increased up to the end of the first quarter of 1958. They remained more or less unchanged for the following three months, until the middle of the year, since when they have been slowly decreasing. Dealers' stocks have followed much the same trend, rising from the middle of 1957 to the end of the first quarter of 1958, remaining stable during the second quarter, and since then going down.

The biggest changes, however, have been in consumers' stocks, which incidentally represent the largest proportion of the total. As far as it is possible to estimate these, they reached their highest level at the end of the first quarter of 1958.



Since the second quarter they have been falling fairly steeply; towards the end of the year this trend became still more marked, and it seems likely to continue during the first quarter of 1959. It would appear to represent an adjustment of the level of stocks to an easier supply situation, after two decades in which, with two short intervals, the demand for steel always exceeded the supply.

If production has had to be cut back somewhat to allow for the rundown of stocks, the market, as reflected by the flow of new orders to the iron and steel industry, has been very much harder hit, owing to the shrinkage of order-books and consequent shortening of delivery dates. Following the transition from a seller's to a buyer's market, and more particularly the appreciable shortening of delivery dates, consumers, who had previously sought to make sure of their supplies by placing orders well in advance, and even ordering larger tonnages than they really needed, sharply reduced the volume of their new orders and began instead to draw upon their own stocks of steel and their older orders which had been piling up on the books at the works. Orders in hand thus dropped from the record total of 15.2 million metric tons at the end of 1956 to 12.8 million at the end of 1957 and 8.7 million at the end of 1958. Except in France and the Saar, where they still represent three months' deliveries, they are now down in all the countries of the Community to two or two and a half months, slightly lower than the level during the minor recession of 1953-54.

This state of affairs is due primarily to the trend in orders from within the Community: these were 5 million metric tons lower in 1958 than in 1957, whereas orders from third countries were actually 2 million tons higher, almost up to the peak figure of 1956.

This deterioration in the internal steel market following the running-down of stocks, and the resulting repercussions on the coal situation, impelled the High Authority to make representations to the Governments, in accordance with Article 57 of the Treaty, urging them to keep up, and if possible step up, the flow of orders to the iron and steel industry from those steel-consuming sectors which they were in a position to influence either directly or indirectly.

Exports to third countries were still higher than new orders from them, so that the order-book for these countries continued to shrink. The need to meet internal Community requirements was no longer so pressing as to interfere with exports, and these accordingly achieved a new record in 1958 by tonnages delivered, though not by value, since prices were considerably lower than in 1956.

Within the Community the fall in prices was less marked, though substantial enough in the Benelux countries and Italy. The reductions in list prices are, moreover, accentuated by the fact that more and more firms are aligning their quotations on those of their cheapest competitors.