

EUROPEAN COAL AND
STEEL COMMUNITY

HIGH AUTHORITY

GENERAL SECRETARY

LUXEMBOURG
2, PLACE DE METZ
TEL. 288-31 to 49

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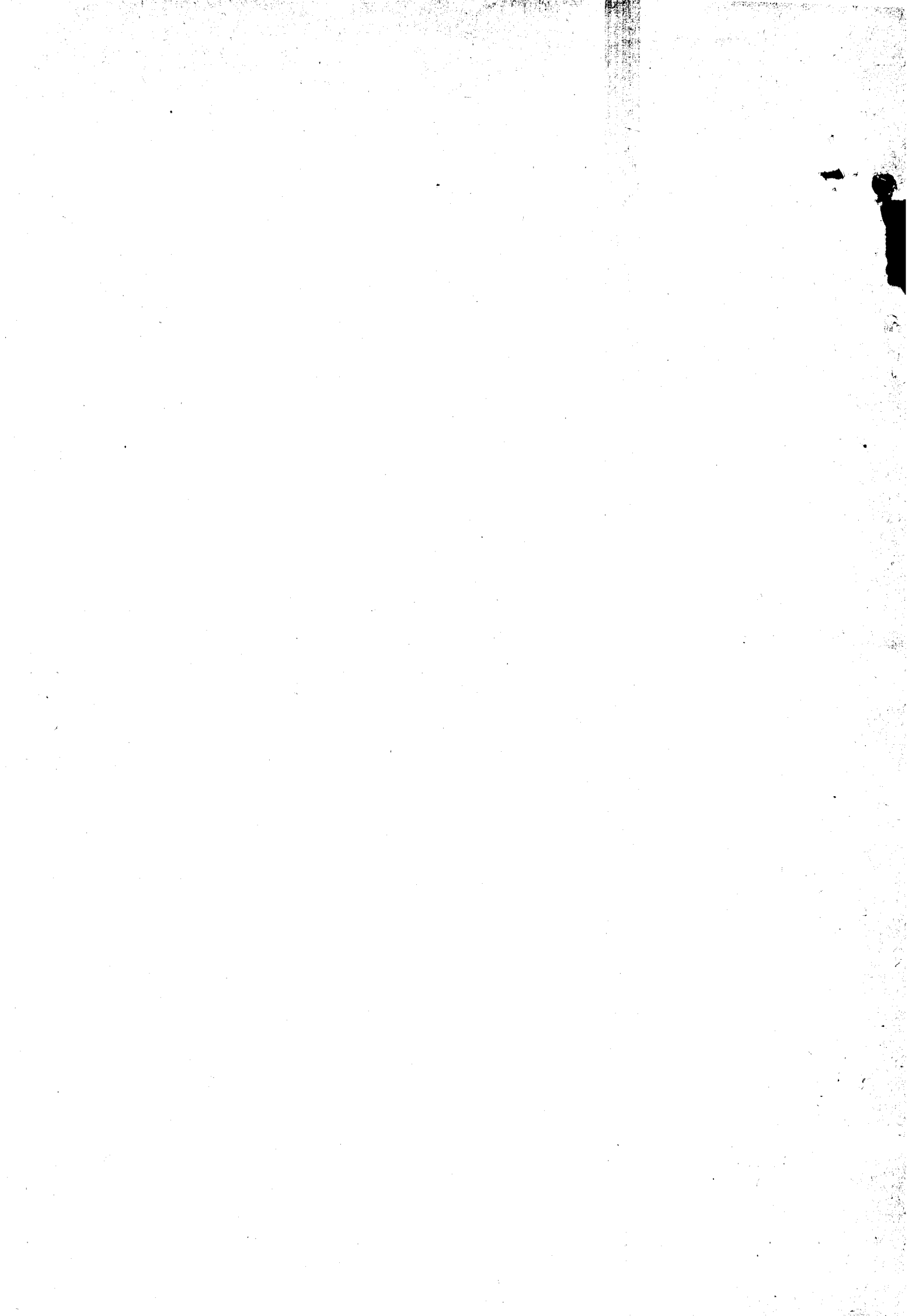
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SUMMARY
OF THE
THIRTEENTH GENERAL REPORT
ON THE
ACTIVITIES OF THE HIGH AUTHORITY

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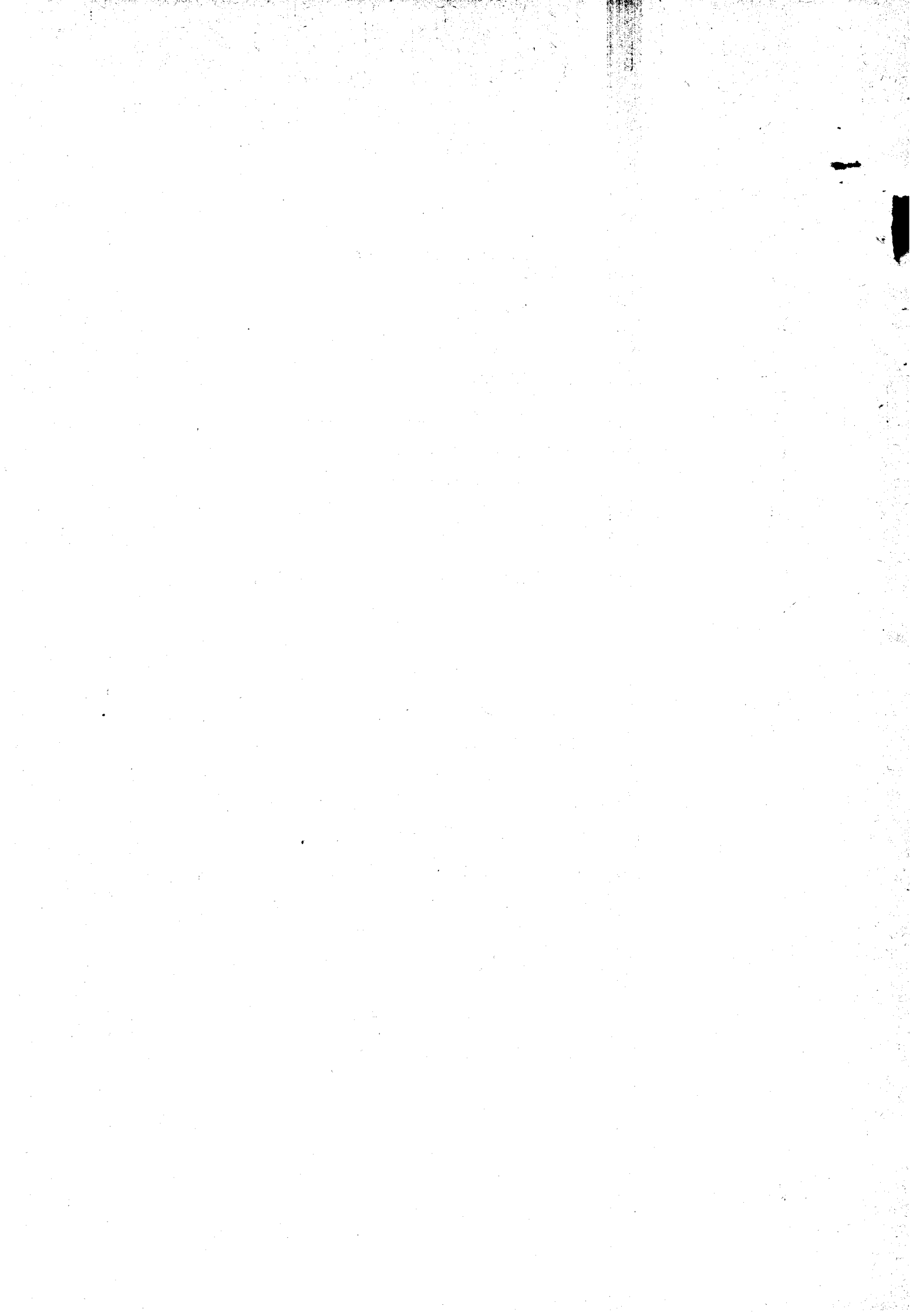
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THIRTEENTH GENERAL REPORT OF THE HIGH AUTHORITY

The High Authority's Thirteenth General Report was prepared before, but issued after, the agreement reached in the E.E.C. and Euratom Councils of Ministers on March 2, 1965, concerning the location of the European Institutions upon the merger of the Executives of the Communities. The merger of the Executives, now scheduled for January 1, 1966, is, however, only a first stage and not an end in itself: it must be viewed in the context of the ultimate merger of the Communities, that is, as a preliminary to the framing of a single Treaty covering economic integration overall, the substance of which will be determined by practical experience to date under the three Treaties.

The High Authority's activities in 1964 were focused more particularly on a number of major problems in the energy and steel sectors.

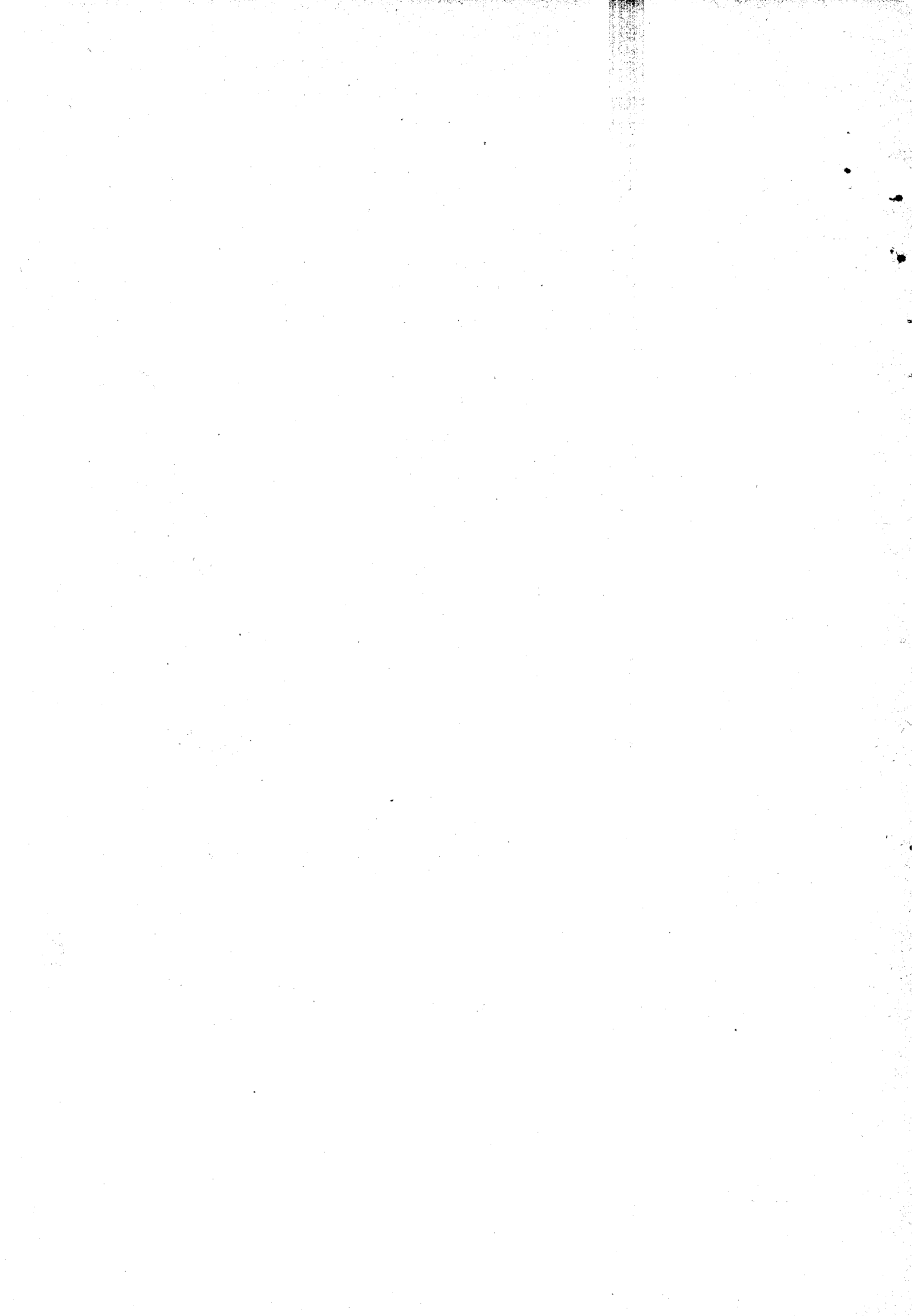
On the energy side, the Governments on April 21 adopted the Protocol on Energy Problems. This indicates the main drift of energy policy and the arrangements to be adopted in the future merged Community -- a common commercial policy including coal, a system of State subsidization, harmonized rules of competition, and Community consultation procedures with regard to projected national-level measures.

On the basis of the Protocol, the first definite advance in the direction of a common energy policy, the work of E.C.S.C. has proceeded. On February 17, 1965, the High Authority was able, with the unanimous agreement of the Governments, to establish Community-channelled State subsidization of the E.C.S.C. coalmining industry. Also in accordance with the Protocol, the French and German Governments have begun consultations on proposed action to help settle coal problems. The study on the special problem of the supply of coking coal, which the Protocol particularly urged should be made, has been completed and submitted by the High Authority to the Council of Ministers.

On the steel side, the High Authority has retained in force, or extended for a further year, the various measures adopted since 1963, namely uniform peripheral customs duties at the Italian level, internal and external arrangements to restore the balance of the steel market, restrictions on imports from countries with State-controlling trading systems, and prohibition of alignment on the prices of imports from such countries.

As a result of these measures, the past year was one of renewed confidence.

Also in 1964, the Governments agreed a common position in respect of the general tariff negotiations in GATT (the "Kennedy round"). Thus one serious deficiency in E.C.S.C., its lack of a common external tariff and a common commercial policy, has been to a great extent remedied.



CHAPTER I

THE INSTITUTIONS AND THE EXTERNAL RELATIONS OF
THE COMMUNITY

1. THE INSTITUTIONS

The membership of the High Authority remained unchanged during the year under review; of its nine Members, four originally became so by co-option and five by appointment of the member Governments. The High Authority continued to work in co-operation with the Consultative Committee, the European Parliament and the Council of Ministers, all of which played their part in the framing of the major decisions of 1964.

Of the 55 new appeals lodged before the Court of Justice in 1964, 13 were against the High Authority. The Court delivered judgment in 12 cases concerning the High Authority.

Inter-Community co-operation

In addition to the work of the Joint Services, co-operation was effected through inter-Executive working parties, the most important of these being the Working Party on Energy, which was associated with the discussions leading up to the Protocol of April 21, and the Working Party on Transport, which deals with current questions and with the implementation of the High Authority's Recommendation No. 1/61. There was also co-operation in specialized committees, such as the Market Policy Committee or the "111 Committee" (on the Kennedy round).

2. EXTERNAL RELATIONS AND COMMERCIAL POLICY

The High Authority has continued to make every effort, despite the limitations of the E.C.S.C. Treaty, to ensure a more co-ordinated approach by the Governments in commercial policy.

(a) Peripheral tariffs

Recommendation No. 1/64, temporarily raising Community import duties on steel products from non-member countries to the level of the Italian harmonized tariff (averaging approximately 9 %), and Recommendation No. 2/64, imposing a specific duty of \$ 7.00 per ton on imports of foundry pig-iron up to the end of 1965, have helped to steady the market.

Meantime, the High Authority issued a number of exemptions permitting member countries to charge the old harmonized rates on limited tonnages determined by it for one year. Following consultation with the six Governments, these quotas have been retained with only minor changes for 1965, since the High Authority considered that the circumstances in which they had been granted for 1964 had not appreciably altered.

(b) Restrictions on imports of iron and steel products from countries with State-controlled trading systems

These were originally introduced in June-July 1963, and renewed in December of the same year. In conjunction with the High Authority Decision No. 1/64 of January 15, 1964, prohibiting alignment on quotations for steel products from such countries, they have done much to bring the Community market into its present reasonably stable state.

In view of the outlook in the steel market at the end of 1964, the High Authority came to the conclusion that the Decisions on imports from countries with State-controlled trading systems would have to be renewed, and the Decision of December 2, 1963, was therefore extended, with some changes.

(c) Multilateral tariff negotiations in GATT

In accordance with the rules established by the contracting parties to GATT, the High Authority on November 13, 1964, submitted on behalf of the member States the "basic tariffs" containing the coal, steel, iron-ore and scrap duties to serve as the initial basis for the negotiations in the Kennedy round of talks. Before doing so, it a number of third countries at the request of the member States.

What made it difficult to fix negotiating tariff was more particularly that the common external tariff does not at present include coal and steel. In addition, the Community countries are rather unusually circumstanced as regards the level of tariff protection for steel. When the Community harmonized its peripheral duties in 1958, it did so at a level representing a cut of more than 50 % in the average rates for the six countries at E.C.S.C.'s inception. In a way, therefore, the reduction aimed at by the Kennedy round has already been made in advance, unilaterally, by the Community, which has now, even after Recommendation No. 1/64, a much lower schedule of duties than the other major producing and exporting countries, such as Britain, Japan and Austria.

On November 11, 1964, the member States agreed a common negotiating tariff serving to enable the Community to participate fully in the talks, and calculated to produce ultimate steel duties averaging 6-7 %. The Community is anxious that the main result of the talks should be a lessening of the differences in tariff levels as among the big producer and exporter countries, which would greatly assist the hoped-for restoration of balanced conditions in the world steel market.

For coal, duties on which had not been harmonized in 1958 along with those on steel, since they were nil in all the member countries at the time, the rates submitted to GATT were those currently charged; as with steel, no exemptions were applied for.

Relations with Great Britain were marked by the effects on the steel sector of the British Government's action on October 26, 1964, to tackle its balance-of-payments deficit, notably by imposing a temporary surcharge of 15 % on most imports. The High Authority commented on this development in a committee of the Council of Association four days later, noting to its strong regret that the British Government had disregarded a definite undertaking, laid down in Article 3 of the 1957 Agreement concerning Commercial Relations between the United Kingdom and the European Coal and Steel Community, according to which neither party should make any increase in rates of duty without first consulting the other, and that in any event such increase should not be introduced until thirty days after giving notice of intention to enter into consultations.

The High Authority has approached the British Government through its Delegation in London in an effort to secure exemption from the surcharge for tonnages delivered under contracts during the thirty days following the Government's announcement of the measure. So far this suggestion has not been accepted.

CHAPTER II

ENERGY PROBLEMS

The state of the Community energy market

Economic expansion is expected to proceed more slowly in 1965 than in 1964, and the ~~steel~~ steel sector will feel the effects of the fact that last year production rose more steeply than real demand. The forecasts for 1965 suggest a further contraction of 3 % in the consumption of hard coal, and a continuing considerable increase in that of oil and natural gas.

Total energy requirements

	Consumption in absolute figures ('000,000 metric tons h.c.e.)			Breakdown in %		
	1963	1964 (estimated)	1965 (forecast)	1963	1964 (estimated)	1965 (forecast)
Hard coal	254	243	235	45	42	39
Brown coal	37	38	39	7	7	7
Oil 1)	207	238	264	37	41	43
Natural gas	19	20	23	3	3	4
Primary electricity	44	40	45	8	7	7
Total 2)	561	580	607	100	100	100

1) Of which: motor fuels 1963 1964 1965
('000.000 metric tons) 43 48 53
('000.000 metric tons
h.c.e.) 62 69 76

2) Figures are rounded, whence any discrepancy between the totals given and the sum of the individual items.

Increases in requirements in 1964 were principally in the road-transport sector (+ 5.5 million tons hard-coal equivalent), the power-station sector (+ 9.8 million) and the private-households sector (+ 2.9 million). The iron and steel industry shows hardly any increase (+ 0.6 million), and the railtransport a decrease (- 0.7 million).

The outlook in 1965 for the individual sectors is as follows:

- (1) steep and sustained rise in motor-fuel and power-station requirements (though breakdown as between thermal and hydro-power stations may vary considerably);
- (2) continuing increase in requirements of industries other than iron and steel;
- (3) stagnation (mainly due to market factors) in the consumption of the iron and steel industry;
- (4) given average temperatures, moderate rise in household consumption;
- (5) continuing increase in consumption of petroleum products and natural gas in most sectors, increase in coal disposals only to the power-stations.

Supply and demand situation, 1964-1965

In 1964, only 6 million tons h.c.e. of the 19-million-ton increase in energy consumption came from internal Community production. Net imports totalled 280 million tons h.c.e., 48 % of internal consumption.

Stocks of Community coal rose by 6 million tons. Wage increases (7 % in the main coalfields) were not fully offset by improvements in productivity (in Belgium underground output is actually falling off), and the higher costs were not fully offset by the increases in prices. The financial position thus further deteriorated in most coalfields. The c.i.f. prices of American coking fines give them a price advantage throughout the Community.

As regards oil, there has been an appreciable increase in procurements from Libya. Prices of light fuel oils decreased by around 25 %, first in W. Germany and later in Belgium and the Netherlands. The impact of Dutch natural gas was also noticeable, even though this is not yet being marketed on any scale to speak of.

Current forecasts for the Community in 1965 indicate

- (1) total internal consumption of 607 million tons h.c.e. and total utilization of approximately 7 0 million tons h.c.e.;
- (2) total internal energy production (all sources) of 345 million tons h.c.e., an increase of 5 million over 1964;
- (3) hard-coal production of 219 million tons h.c.e. (230 million ton for ton), a decrease of 4,5 million;
- (4) natural-gas production of just under 23 million tons h.c.e., an increase of 3 million (development of German gas and first quantities of Dutch gas);
- (5) net energy imports of approximately 305 million tons h.c.e., representing over 50 % of internal consumption (as against 48 % in 1964).

The Community's dependence on imports for its energy supplies will thus increase still further. In a few years' time this trend should be to some extent stemmed by the advent of natural gas; in 1965, however, the quantitative incidence of this factor will still be almost negligible.

The potential surplus of Community coal (hard coal and coke) is about 8 million tons; moreover, disposal of the whole of Community coal production is contingent on a number of imponderables.

The outlook elsewhere on the coal front continues unpromising. Expected productivity improvements in 1965 amount to no more than 3.5 %, while wage increases already approved or under consideration work out at 6-8 %. Foreseeable rises in costs are unlikely to be fully offset by higher revenues.

The hydrocarbons are now covering more than the increment in energy requirements. In 1965, the share of oil will exceed that of coal for the first time, and Europe will be dependent on outside suppliers for over 50 % of its needs. This is a turning-point in the history of the Community energy sector.

Energy policy

The outstanding development of 1964 with regard to energy was the member countries' agreement on the Protocol of April 21, the first real advancement towards a Common Market for energy.

Following the Council meeting on December 2, 1963, the High Authority, realizing the risks the failure to agree was involving for the coal industry and for the Community itself, embarked on active efforts to get the member States to tackle certain matters, both long-term and immediate, which are its concern. Starting in mid-February 1964, the President of the High Authority and Members of the three European Governments toured the six capitals to outline their proposals to the Governments. The High Authority then drafted a text which was finalized in the Special Committee on Energy Policy, and ultimately adopted by the Council of Ministers on April 21, 1964. By the terms of the Protocol, the Governments undertook to introduce various measures, in regard more particularly to coal, which go a long way beyond the actual declarations of intent.

To enable the Protocol to be implemented without delay, the High Authority forthwith arranged for the necessary technical, economic and legal studies to be carried out.

Far and away the most immediate task was to prepare the proposals for the procedure to be adopted in connection with the Community system of State subsidization. After much discussion and consultation, a draft Decision was submitted to the Council at the beginning of December 1964, and, the Council having endorsed it, the High Authority was able on February 17, 1965, to issue its Decision concerning State subsidization of collieries.

The Decision is based on the recognition that the radical changes which have been taking place in the structure of the energy market are compelling the coal industry to engage in the most drastic rationalization and in addition to shoulder abnormally heavy charges (particularly as regards social-security benefits) as compared with other industries. For the present, then, pending the introduction of a common energy policy upon the merger of the Communities, E.C.S.C.'s main job will be, firstly, to remedy the unfair competitive handicap under which the coal industry is labouring in the matter of social-security benefits, and secondly, to institute a Community system of subsidies to enable it to adjust itself to the current position regarding sales outlets for coal in the energy market.

CHAPTER THREE

THE COMMON MARKET FOR COAL AND STEEL

1. THE COMMON MARKET FOR COAL

The abnormally severe winter of 1963 caused coal to sell exceptionally well. In 1964 this was not the case, and, as was seen in Chapter II, the structural factors came once more to the fore, with specific consumption rates falling steadily and petroleum products continuing to gain ground — the latter no doubt due in part to considerations of consumer convenience, but in the main, to severe price pressure. The only sector in which coal requirements are still basically growing is now that of the power-stations. The High Authority has kept a constant eye on these developments, and has repeatedly drawn attention to their effects on the coal market.

The movement of the market during 1964 led to the accumulation of a substantial surplus of coal. Production totalled just under 235 million tons, an increase of 5 million over the previous year (when the figures had been affected by the miners' strike in France), consumption, however, dropped by 8 million tons, to 254 million. Imports, mainly of coking coal and anthracite, were very little lower than in 1963. Consequently, pithead stocks of hard coal rose by about 6 million tons, as against a rundown of 9 million tons the year before.

Trend in hard-coal consumption

(1.000.000 tons, ton for ton)

Country	1956	1959	1962	1963	1964
Germany (Fed. Rep.)	155.4	147.1	147.1	148.2	148.1
of which: Ruhr	128.9	119.4	120.7	122.2	121.0
Belgium	29.1	22.8	21.2	21.4	21.3
France	55.1	57.6	52.4	47.8	53.4
Italy	1.1	0.7	0.7	0.6	0.5
Netherlands	12.1	12.4	11.8	11.8	11.4
Community	255.4 (peak)	240.6	233.2	229.8	235.1

Trade in coal between member countries fell off appreciably in 1964, principally because fuel requirements had settled down again after their abnormal leap in 1963, and also partly because price alignment on quotations from third-country competitors was less widespread. Intra-Community trade in hard coal and briquettes amounted to 18.7 million tons, one million less than in 1963.

Imports of hard coal from third countries remained very substantial, about 32 million tons; this is very nearly as high as the 1963 figure, which was the highest since the Suez crisis. American coal accounted for 21.2 million of the total.

Reconstruction and rationalization

Community underground output per man-shift rose from 2,229 kg. in 1962 to 2,331 kg. in 1963, an increase of 4.6 %, the movement varying considerably from coalfield to coalfield. In 1964 it also varied widely: France and the Netherlands did better than in 1963, with 4.6 % and 3.2 % increases respectively, Germany showed a rise of approximately 3.5 %, while in Belgium productivity fell by about 3 %.

The overall Community average of production costs, ~~including depreciation and loan service charges, showed an increase of 3.4 %~~ in 1963 over 1962; figures at present available suggest a further rise of about 1.5 % in 1964. The 1963 increase was mainly the result of higher labour costs per ton produced, these averaging around 3.1 % for the Community overall. The higher incidence of labour costs is produced by the ratio of wage to productivity increases.