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THE ECSC AND WORLD STEEL TRADE

Recent criticisms of the European Coal and Steel Community's commercial practice for steel, in particular by employers' and trade union organisations in the American steel industry, make necessary some further explanation of this practice and some comparison with that of other steel producing countries.

1. Steel in the Kennedy Round

The European Coal and Steel Community's High Authority has stated several times that it would wish the ECSC to participate in the Kennedy Round and the Council of Ministers has accepted in principle to do so. Contrary to certain statements the Community did participate in the Dillon Round and would expect to do likewise for the Kennedy Round. It should be born in mind that in drawing up lists of actual concessions made in such negotiations the ECSC has already made very considerable unilateral tariff cuts at the time of its inception. When it adopted its harmonised tariff at the end of the transitional period in 1958, the Community accepted rates well below the 14 % average which it could have claimed in adopting the same system of the mathematical average of member states' existing tariffs as was applied under the Rome Treaty for the EEC. This was an advance gesture of confidence in world-wide free trade in steel which the High Authority hopes will now be reciprocated in the Kennedy Round. This, it considers, should arrive at a general harmonisation of the tariff levels of all the major steel producing countries through a general reduction of the obstacles to trade in steel.

2. How the ECSC tariff has changed

New move is temporary

It is not correct that a new permanent level of steel protection for the ECSC has now been established at an average of 9 %. The present 9 % level is temporary and can only be applied so long as imports of steel "inflict or threaten to inflict serious damage on production within the common market". In effect the customs duties of member

countries on steel remain exactly as they were before but a supplementary amount is added to those of them which averaged less than 9 % (all but the Italian) as a purely temporary measure in the present exceptional circumstances. As soon therefore as the High Authority of the ECSC considers that circumstances have changed and that imports are no longer causing serious damage it will call on member states to revert to their normal level of customs duties. For the companion measure of a 37 specific duty on foundry pig-iron the expiry date of 31st December 1965 has already been fixed.

Increase is low

The 9 % protection, which was applied as from 15th February 1964, is thus specifically a short-term safeguard measure. As such the High Authority, which has discretionary power only to act for the Community interest in particular circumstances but not to direct commercial policy in general, deliberately chose a figure for supplementary protection which would maintain competition by external producers on the Community market at a healthy and effective level. Thus the Italian tariff remained at its existing level (and Italian imports from non-member countries accounted for 37 % of total ECSC imports in 1962 and included by far the larger part of American exports to the Community so that the duty on them will not have changed at all) while the duties of the other member countries rose by approximately 2 points in the case of France, from an average of 7 %, and about 3 points in the cases of Benelux and Germany. The effect of the increase was further reduced by the fact that those duties consolidated within GATT, chiefly Benelux ones, were left at their former levels.

Other countries' tariffs higher

If it were not a temporary measure but an established tariff, a 9 % average would still be low by comparison with the major steel trading nations of the world. Thus British steel tariffs - with a built-in mechanism to increase protection as world prices drop - average about 14 %, Japanese tariffs are still higher at 15 %, and United States tariffs, lower than those previously mentioned, vary nonetheless between 6 % and 12.5 %. A 9 % tariff is lower than almost all these tariffs, and the ECSC harmonised tariff - the normal tariff without the temporary additional protection - is lower still. In fact when averaged over the Community's imports in 1961 and 1962 the overall effect was of 6.1 % and 6.2 % respectively.

3. Why Action was needed

Drop in receipts - Investments all-time low

The move by the High Authority to temporarily introduce supplementary protection for the Community steel market was prompted by considerations of price rather than of volume. Although imports into the Community in 1963 increased by one million tons of finished products (from 2.4 million tons in 1962 to 3.4 million tons in 1963) - thus the biggest rise ever in a single year - it was the decline in prices with its effects on the future development of Community steel production which gave greatest cause for concern. The receipts of Community steel undertakings are estimated to have dropped by some 10 - 12 % in 1963 with the result that declarations of planned investment in steel totalled only \$131 million - the lowest recorded figure in the history of the ECSC - as against \$553 million in 1962 and over \$1000 million in 1960 and 1961.

World over-production and exports

A world surplus of steel - world excess capacity has been estimated at nearly 74 million tons in 1962 - lies behind this fall in steel prices. The ECSC is the largest exporter of steel in the world with 9.4 million tons of finished steel (37.5 % share of the world market) in 1962 so that its producers would in any case feel the effects of a world steel recession more than others (steel exports of the USA in 1962 totalled 1.6 million tons or 6.3 % of the market).

Home prices cut

However the impact of low world market prices has not only hit the exports of ECSC producers but their sales on the Community market too. Under the Community's market regulations, designed to prevent discrimination while maintaining maximum competition, producers are required to publish their prices and permitted to sell below them when they can prove that a second and lower offer than their own has been made. When this can be shown they can align their offer on the lower one. The second offer can be that of another Community producer (when his published price is lower) or that of a non-Community producer. Through the process of downward alignment on the offers of importers selling at the world market price an ever larger proportion of sales on the Community market were made at these rock-bottom prices. In order then to maintain their position on the market some Community producers reduced their published prices which still further increased the

possibilities for downward alignment by other producers. In this way, and with the low protection for its market, the price level for steel on the Community market closely followed the course of prices on the world market so that both for their exports and for their home market sales, Community producers were operating at marginal prices or even at a loss.

Others less exposed

This situation contrasts strikingly with that obtaining in other steel producing countries including the USA, where home market prices are effectively considerably higher than prices on the world market. American firms can maintain home market prices at a level at least half as high again, and often still higher, than world prices by counting less on tariff protection to keep down competition from importers than on the general structure of the market and such factors as the heavy cost of transport from the coast to the interior. British and Japanese prices are of course protected in the first place by higher tariffs but, on the internal market, price discipline in the first instance, and trade agreements in the second, restrict competition among home producers and ensure that prices are not undermined by world market competition.

Community market open - competition strong

The Community producers have neither the protection of tariffs nor that of internal transport advantages or price agreements. The Community market is geographically one of the most open in the world with large ports situated very close to all the major industrial regions and cheap and efficient transport facilities linking the two. At the same time all forms of price agreements or cartels are strictly forbidden and rigorously controlled by the High Authority.

4. Double prices for whom ?

It is clear that present world market prices bear little relationship to costs. The USSR in 1962 contributed 14 % of world trade in steel and as a state-trading nation does not respect the same norms as other countries in establishing its prices. Most other steel trading countries, Britain with 10 % of world trade in 1962, Japan with 11.8 % and many of the new small producers can sell at a lower price on the world market because prices on their home markets are protected and thus higher. This is the origin of double prices.

Lowest price applied

Community producers also have their basic price, which is their published list price representing their costs and the margin they can hope to obtain on a competitive home market. As the world's largest exporters of steel they cannot however, through a refusal to cut their prices for exports, be expected to lose their traditional business, often to competitors who are not planning to enter world markets permanently but simply to unload surplus production which cannot be absorbed immediately at home. Like their competitors they therefore reduce their prices on exports so as to hold on to markets and maintain production levels. But unlike their competitors Community producers find that on their own home market their published prices are increasingly rarely applied because of the need to align down on foreign offers made on the Community market itself. Nothing could be better evidence of the intensely effective competition to which Community producers are exposed. They are almost alone in the world in having to meet competition of this order on their own market and they are thus almost alone in the world in not being able in practice to benefit from double prices because their own list prices are so little representative of the real price level on the market when alignment spreads.

Disadvantage less - stimulus remains

The 9 % level of protection is intended to reduce the extent of this disadvantage for Community producers while the world steel market remains as unstable as it is at present, without taking away the stimulus for the Community steel industry to maintain itself as one of the most modern and competitive in the world. The Community market thus remains very largely open to steel importers - and by most standards of comparison exceptionally so.

5. A worldwide problem

Eastern bloc a special case

The problems of the world steel trade are general and widespread. It is not just a problem of Eastern bloc competition, nor even chiefly. Special measures were applied to this trade because it was a special problem. Thus Eastern bloc trade is now controlled by an annual quota system: price alignments on Eastern offers have also been stopped. This exceptional treatment is justified because the countries concerned do not respect accepted rules of commercial practice.

Traditional suppliers

Special measures are also provided for certain traditional suppliers who may in special circumstances be given tariff quotas: this is chiefly for the benefit of those countries which offer products of particular quality and which are particularly dependent on steel exports to the Community. Apart however from these two exceptions it would be wrong to apply quantitative or bilateral solutions to what is a general problem.

Multilateral means for common problems

It is for this reason that the High Authority has proposed an International Conference on Steel. This would discuss conditions of trade and try to encourage common action. It would also try to undertake joint study of the likely development of supply and demand in the future. This is the long-term solution to overproduction - the fundamental cause of the present situation.

The ECSC has thus taken short-term temporary measures to preserve its own steel production in very difficult circumstances, and it has also taken the initiative to prepare with other steel producer and consumer nations a long-term arrangement for maintaining stability on the world steel market. Neither step represents some form of manoeuvring in advance of the Kennedy Round. The temporary additional protection has not altered the basic tariffs of the Community. The international conference represents a complementary move towards the same objective as the tariff negotiations - the extension of trade in fair and equal conditions.

6. Anti-dumping dangers

It has been suggested that it is difficult to verify whether or not ECSC producers are practising dumping since they do not publish f.o.b. prices at the steel mill. These prices are in fact published by the steel producers and are thus readily available. If there do not exist independent agencies in each producing country which also publish these prices there does however exist the High Authority of the ECSC which can supply relevant information in such cases. On the only occasions in which Community producers have been accused of dumping in the USA they have been acquitted without reserve. At the same time no anti-dumping proceedings have yet been opened by any country in the ECSC, despite the major growth in imports, mostly at very low prices. This would seem to indicate a more generous interpretation of what dumping

involves and an appreciation of the danger to trade if anti-dumping procedures became a current practice.

7. Non-tariff barriers

c.i.f. or f.o.b.

The practice of calculating customs-duties on the basis of c.i.f. instead of f.o.b. prices, as in the USA, is in no way exceptional. This is accepted practice amongst the majority of the world's trading nations, adopted by all the signatories to the Brussels Convention on Customs Values. If however duty calculated on a f.o.b. basis is in theory lower, this is not always so in the case of the USA where customs authorities are given a much wider margin of appreciation when fixing the dutiable value of goods than in countries which have signed the Brussels Convention.

States' sales taxes - Buy American

The European Community is not alone either in having non-tariff barriers such as stamp duties and sales taxes. Although these do not exist in the federal tax system in the USA they do exist in the individual States where they form a very large part of the state budgets. In an overall assessment indirect taxes in the USA can be estimated as at about the same level as in the Luxembourg or Netherlands budgets. Since these taxes are only levied when sales are made in the States themselves, the system is analogous to the European practice of tax remissions on exported goods. This cannot therefore be considered as an advantage enjoyed exclusively by Community exporters. On the other hand advantages such as those given by the "Buy American Act" do not exist in the European Community.

Conclusion

Fair Free Trade for all

The ECSC is the world's biggest steel exporter and the second largest importer. It has therefore every interest in seeing the widest measure of free trade adopted by all steel trading countries. The High Authority hopes that this can be achieved on fair and equal terms and in full appreciation of all the elements which affect trading conditions.