

EUROPEAN COAL AND STEEL COMMUNITY
THE HIGH AUTHORITY

REPORT

on the

Situation of the Community



JANUARY 10, 1953

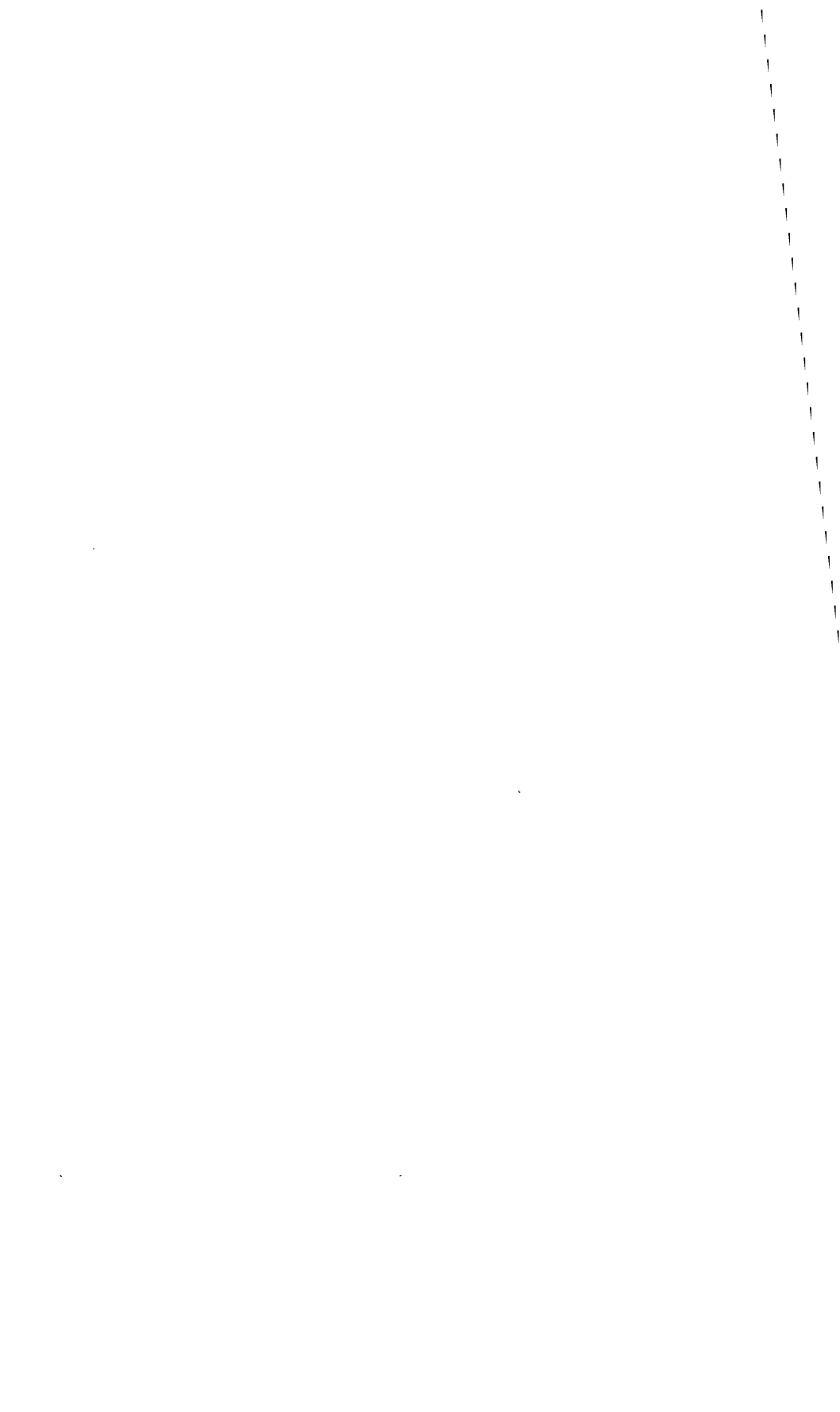
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The President
and the Members of the High Authority
to
the President of the Common Assembly

Mr. President,

We have the honor to submit herewith the report on the overall situation of the Community, as provided in section 6, paragraph 2, of the Convention on Transitional Measures.

Please accept, Mr. President, the expression of our high consideration.

Luxembourg, January 6, 1953.

Jean MONNET
President

Franz ETZEL
Vice-President

Albert COPPÉ
2nd Vice-President

Léon DAUM

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PART ONE

Establishment of the Community

CHAPTER ONE

CREATION OF THE INSTITUTIONS AND ESTABLISHMENT OF THE INTERNAL RELATIONS OF THE COMMUNITY

1. Since last August, in the West of the European continent, a territory shaped by frontiers and national sovereignties, the European Coal and Steel Community has arisen to weld, in a limited but decisive field, the destinies of Germany, Belgium, France, Italy, Luxembourg and the Netherlands.

The Community extends from Hamburg to Naples and from Brest to Venice, the entire European territory of these six countries. But on this territory it is only for two industries, coal and steel, that the establishment of the Community and the action of the High Authority is going to abolish frontiers, eliminate custom duties, quotas, discriminations, and restrictive practices, and open a common market with 155 million consumers, a market as vast as that of the United States or the Soviet Union. In these matters, the concordant parliamentary decisions have transferred to the institutions of the Community, the first supra-national institutions of Europe, a part of the sovereign powers and responsibilities of the member States.

During the past five months these institutions have erected the foundations of their organization and have begun to fill the mandate vested in them in the common interest of the six countries.

§ 1. — Creation of the Institutions

2. On August 10, 1952, the *High Authority*, the Executive of the European Coal and Steel Community, assumed its functions in Luxembourg. Its decisions under the conditions set forth in the Treaty are directly binding in the same way as those of national Governments in each of the member States.

In the following weeks Great Britain and the United States appointed missions to the High Authority to establish their relations with the Community on a new basis of close and lasting association.

In order to cover the financial obligations of the Community, the High Authority has just levied the first European tax within the limits and under the conditions fixed by the Treaty.

3. One month after the installation of the High Authority, the first session of the *Common Assembly*, representing the people of the Community, opened in Strasbourg. This is the first Parliamentary and sovereign European Assembly. Only the High Authority is responsible to it, and by a vote of censure it can oblige the members of the High Authority to resign in a body.

4. The *Court of Justice* of the Community held its first session at Luxembourg on December 10, at which occasion its members publicly took the oath of office. The jurisdiction of the Court is obligatory. Within the Community the Court is charged with enforcing respect for the rights of the interested parties and separation of powers among the institutions. Like the decisions of the High Authority, the judgments of the Court are binding throughout the territory of the member States.

5. The *Special Council of Ministers* representing the member States met at Luxembourg on September 8-9, December 1-2 and also on December 23. The Council of Ministers was created for the purpose of coordinating the action of the High Authority and that of the Governments responsible for general economic policy in each of the six countries. Relations and exchanges of information are to continue between the coal industry, the iron mines and the steel mills placed under European authority, and the national activities. The formation within the Community of the Special Council of Ministers responds to this unprecedented situation. Unlike other international organizations, the Council of Ministers will make its decisions in the cases specified in the Treaty by majority vote, without any power of veto.

6. The *Consultative Committee* will be formed in the very near future. It will be composed of equal numbers of producers, workers, consumers or dealers from the Community and must be consulted by the High Authority in the cases specified in the Treaty.

§ 2. — Organization of the Work of the High Authority

7. The most complex task in establishing the institutions of the Community was obviously that of setting up the High Authority. It was necessary to put together an institution based on entirely new concepts, operating in constant consultation with all interested parties and composed of persons from different countries, some opposed to one another by secular conflicts. The experience has shown that national differences can be overcome in the accomplishment of a single task for the common welfare of the six countries. Instead of being a cause of weakness, the differences brought the advantage of different types of contributions.

The nine members of the High Authority have organized their work and taken their decisions almost always by common agreement. The same mutual understanding and teamwork has also just as naturally been achieved within the services. This common spirit overriding national differences has contributed greatly toward accomplishment of the various tasks thus far.

8. The setting up of the administrative machinery of the High Authority has kept pace with the development of its tasks. These tasks consist not of producing — that is the work of the enterprises — but of forming a common market and of assuring adherence to common rules for coal and steel. Consequently, for the reasons which follow, the organization of its services has not been based on any distinction between coal and steel.

Production and sales techniques vary with different products. The overall picture, the principles, and the rules are the same. In addition, the enterprises in the two industries are closely dependent upon one another. Both the mission of the High Authority and the close relationship of the two industries would have been neglected if the services of the High Authority had been organized on the basis of a division between coal and steel. There would have been a danger that this might have caused differences of opinion within the High Authority depending upon the product considered, and this situation would have been harmful to the effectiveness of the High Authority's action as well as to the understanding and cooperation of the interested parties. It is for this reason that the divisions and the services which the High Authority has begun to set up include coal and steel specialists, whose work is organized under a common direction within the framework of the Community.

Certain of these divisions and services are assigned specific tasks, as follows :

a) Production Division (specific problems relating to the production of coal and steel, particularly supply conditions and, in the event of a crisis, production quotas).

b) Market Division (survey of the market and market tendencies, prices and selling conditions, and organization of distribution in case of shortages).

c) Investment Division (prospects and problems of development and modernization of coal and steel industries, examination of investment projects and, if need be, readaptation).

d) Finance Division (situation and prospects of conditions for financing investments, financial analysis of enterprises in the future in order to contribute to the study of investment projects or readaptation, borrowing, loans, and loan guarantees of the High Authority).

e) Transport Service (study of the incidence of transport in the common market, establishment of direct international rates, coordination of national rate scales, study on ways of improving and developing means of transport).

In addition, the following are assigned more general functions :

a) Economic Division (situation of the Community with respect to the overall economy, economic trends, relation between the common market and the national economies, definition of the rules of competition and the content of the measures to be taken by the member States and the Community).

b) the Division on Labor Problems (general labor conditions, labor movements, regulations as regards wages and social security, safety conditions).

c) The Division charged with assuring the maintenance of competitive conditions (cartels and concentrations).

The above groups are aided in their work by the Juridical Service, the Statistical Service, the Internal Service charged with administrative questions, the Interpreting and Translating Service, the Press Service, as well as the Secretariat of the High Authority. The Secretariat assures relations among the members of the High Authority, prepares their meetings, and maintains contact with the other institutions.

9. Under the organizational arrangements as defined above, the High Authority is currently operating with a total personnel of 280, despite its collegial form and the use of several languages. (The Interpreting and Translating Service accounts for about 20 % of the total personnel figure). The High Authority began its work and will continue it while keeping the public fully informed, and seeking consultation of and participation by all the interested parties.

Free discussion governs the accomplishment of the missions assigned the High Authority and the taking of its decisions. It is then incumbent upon the High Authority to assume its responsibilities in full awareness of the situation and in the interests of the Community. This absence of secrecy as a result of the multiple consultations provided for by the Treaty as concerns the conditions and the reasons for the action of the High Authority has from the very beginning fostered the establishment of close relations within the Community.

§ 3. — Relations of the High Authority with the Other Institutions

10. The High Authority informed the Council in the course of its meetings of the successive results achieved in the setting up of the Community, and particularly in the establishment of relations of the Community with Great

Britain and the United States. It also reported on its progress to the Organizational Committee, which met at Luxembourg on November 7-9 and was instructed by the Assembly to propose the creation of Committees necessary for the accomplishment of its mission of control. The Organizational Committee decided to propose to the Assembly the creation of seven Committees (Common Market, Investments, Financial Questions and Development of Production, Social Affairs; Political Affairs and External Relations of the Community; Transport, Accounts and Administration of the Community and the Common Assembly, and Rules of the Common Assembly.)

11. In conformity with the Treaty and as is indicated below, the High Authority consulted the Council concerning the establishment of the levy. With the High Authority the Council organized the negotiations between the member States and the countries signatories of the General Agreement on Tariffs and Trade in preparation for the creation of the common market and is preparing the report on this subject to be submitted to the O. E. E. C. The Council also appointed most of the members of the Consultative Committee.

In order to prepare for the meetings of the Council, mutual exchanges of information, consultations and direct liaison between the High Authority and the national Governments of the Community have been established. Depending upon the country, the Presidency of the Council, the Ministry of Foreign Affairs, or the Ministry of Economic Affairs have been instructed to coordinate these relations. Certain countries have also formed interministerial committees for that purpose. Relations between the services of the High Authority and national services are obviously extensive and diversified, particularly since the setting up of the Commissions.

12. During the first session of the Special Council of Ministers and the Common Assembly in September, the preparation of an European Political Community was under-

taken by the Ad hoc Assembly. The European Political Community, wherein the European Coal and Steel Community and the European Defense Committee would be united under a democratic political authority, should constitute an essential step forward in the unification and development of Europe begun by the creation of the European Coal and Steel Community.

§ 4. — Consultation and Cooperation of the High Authority with Interested Parties in the Community

13. Since the second part of October the High Authority has formed a series of Commissions made up of representatives of the interested parties of the Community. The interested parties have thus participated in the establishment of the first balance sheet on the overall situation of the Community which is contained in the present report. With their information and their experience they helped the High Authority to formulate the overall views on development of the Community and to prepare for the creation of the common market.

There are about 300 persons in all on these Commissions. The work of the Commissions covers fields to which the High Authority has already extended its activities. They include a Commission on Supplies and Requirements for 1953, a Commission on Investments and Productivity, with a Sub-Commission on Workers' Housing, a Transport Commission, and three Working Groups for preparing the consultations provided for under Section 2 of the Convention. The first Working Group will study the establishment of the levy, the second will make a comparison of price scales in the coal and steel industries of the six countries, and the third will make a comparison of amortization provisions.

The results of the work of the various Commissions are described later in the present report. They have worked

and continue to work in constant cooperation with the services of the High Authority. Preparations are being made for the setting up of other Commissions.

The specialized Commissions and the services of the High Authority meet and elaborate the specific elements necessary for preparation of the decisions of the High Authority. Before taking these decisions, however, the High Authority will discuss all questions of vital interest to the Community with the Consultative Committee, wherein will be represented on an equal footing the producers, the workers, the consumers and the dealers in coal and steel. In other words, all interested parties of the Community will be represented. This intervention of the Consultative Committee means that the High Authority will have to discuss its action previously with the producers, workers, consumers and dealers. In enabling the interested parties to learn and better understand their different interests, this step will help orient their activities within the framework of the Community and its development.

Through the distribution of seats by national origin and by activity, the Special Council of Ministers has attempted to the fullest extent possible to assure that all the interested activities in the six countries will be represented, particularly the consumer industries. In order to achieve this aim, and since the Treaty limits to 51 the maximum number of members of the Consultative Committee, a seat will be given alternately every two years to an Italian coal producer and a Netherlands steel producer. A seat will be given alternately to Belgium and Luxembourg consumers of steel. A seat will also be shared alternately by representatives of Belgian and Netherlands workers.

14. The International Confederation of Free Trade Unions and the International Federation of Christian Trade Unions have both established a liaison mission with the High Authority. They were installed in Luxembourg in October.

CHAPTER TWO

ESTABLISHMENT OF EXTERNAL RELATIONS OF THE COMMUNITY

15. The European Coal and Steel Community is a non-exclusive organization, open from the day it was proposed by Mr. Robert Schuman to all who wish to join. It was conceived as the first step in the unification of Europe. For these reasons, and more particularly in view of the importance for the development of Europe of ties with Great Britain, the United States and the countries of the Council of Europe, the High Authority has ever sought to tighten the relations of the Community with foreign countries. The initiative taken by Great Britain and the United States has greatly facilitated its task.

The establishment of the Community was first recognized by Great Britain and the United States and then by Sweden. At the same time, it began to transform the relationships of Great Britain and the United States with Europe by placing them within the scope of the Community on the new basis of an association to be elaborated and developed by common agreement.

The High Authority has also entered into contact with organizations for international cooperation, particularly the Council of Europe.

Lastly, at the same time that the foundation for permanent relations between the Community and non-member States and international organizations was thus

being laid, the waivers necessary for the creation of the common market were requested of G. A. T. T. and the O. E. E. C.

**§ 1. — Commencement of the Relations of the Community
with Non-Member States**

16. The international existence of the Community alongside States has already been recognized by Great Britain, Sweden and the United States. Their Governments have accredited to the High Authority in Luxembourg special representatives of a diplomatic status.

Great Britain and the United States took that decision immediately after the High Authority assumed its functions, following conversations in Paris between the President of the High Authority and the representatives of these Governments. The Secretary of State of the United States had previously declared that in the future the United States would deal with the Community in matters relating to coal and steel.

The United Kingdom mission was received at Luxembourg by the High Authority on September 1, and the representatives of the United States Government on September 2.

That it might also establish direct relations with the Community, the Swedish Government in turn appointed a Delegation in mid-November which arrived in Luxembourg on December 10.

17. The Delegations already named have, in agreement with the High Authority, been instructed by their respective

Governments to deal with the High Authority on successive questions as they arise. They have therefore been assigned a mission similar to that traditionally fulfilled by diplomatic representatives to Governments.

The Swedish Government also authorized its Delegation to negotiate with the High Authority solutions to trade problems arising between the Community and Sweden. In general, its function is to work, in the general interest, to achieve close cooperation favoring the expansion of production and international trade.

18. The Governments of the United Kingdom and of the United States have further assigned their Delegations a new mission which distinguishes them from traditional diplomatic representatives: the establishment of a close and lasting association with the Community.

Realization of the association between the Community and Great Britain has already been undertaken in the conditions described in the next Chapter. By force of circumstances, the scope and form of the association between the Community and the United States will differ from the association with Great Britain.

§ 2. — Relations between the Community, the Council of Europe, and the O. E. E. C.

19. At the same time that the High Authority undertook to foster a close and lasting association between Great Britain and the Community, it also examined the question of the close ties which should exist between the Community and non-member countries belonging to the Council of Europe.

The High Authority sought to carry out faithfully the terms of the Treaty approved by the Parliaments of the

six member countries of the Community by strengthening the cooperation created by the Council of Europe.

As is shown in the Protocol annexed to the Treaty, by entrusting part of their sovereignty to common institutions, the six member States have in fact intended to maintain and to increase to the fullest extent possible the cooperation so far realized with their participation.

Inasmuch as the six countries have delegated to the institutions of the Community part of the tasks and responsibilities previously assumed by them, it is necessary that the Community, along with the States members of the Council of Europe, contribute toward the cooperation begun by the Council.

20. The High Authority has therefore forwarded the present report to the Council of Ministers and to the Consultative Assembly of the Council of Europe.

In the same spirit, the President of the High Authority informed the Common Assembly at its first session and the Secretary-General of the Council of Europe that the High Authority was ready to accept an invitation of the Council of Ministers or the Consultative Assembly to report on the development of the Community, learn their views, and discuss their problems with them.

21. Taking up suggestions envisaged for the most part prior to the existence of the new situation created by the establishment of the Community, the Consultative Assembly of the Council of Europe adopted during its last session a certain number of proposals for defining the form of relations between the Community and the Council of Europe.

Measures have already been taken to implement several of these proposals. Some member States of the Council of Europe which do not participate in the Com-

munity have appointed permanent Delegations to the High Authority. The Parliaments of the six countries have to a large extent elected to the Common Assembly those of their members who are already delegates to the Consultative Assembly. The High Authority has agreed in advance to participate in certain meetings of Council of Europe institutions, particularly when reports transmitted by the High Authority are to be examined. The High Authority is following with interest the Council of Europe's work in economic and social fields, and particularly its efforts to create a single multilateral convention on social security.

22. With respect to relations with the O. E. E. C., it was deemed that an effective liaison between it and the High Authority should be established without delay and that preparations should be made for the period when the creation of the common market will introduce close cooperation into the necessary relations and when the questions of the exact form of the Community's representation to the O. E. E. C. will arise. Accordingly, the High Authority, in agreement with the O. E. E. C., has taken the following measures :

— It has delegated to the Coal Committee and to the Steel Committee an observer with the right to participate in discussion. The role of these observers is to coordinate the action of the member States, even though the States continue to be individually represented on the two Committees.

— It has appointed a two-man permanent mission to the O. E. E. C. to assure any useful liaison and coordination.

§ 3. — Negotiations with Third Countries on Opening of Common Market

23. The High Authority has also undertaken the negotiations necessary for the opening of the common market in

accordance with international agreements in force with respect to the elimination of custom duties and quantitative restrictions. The purpose of these negotiations is to obtain for the creation of the common market the necessary waiver of the most-favored nation clause within the framework of the General Agreement on Tariffs and Trade and bilateral agreements and of the clause on non-discrimination in liberalization of trade promoted by the O. E. E. C. In this way, the six countries in establishing the common market can eliminate among themselves custom duties and quotas on coal and steel without being obligated to extend such benefits to States not members of the Community.

In accordance with their agreement in signing the Treaty, the Governments of the member States of the Community, at the last meeting of countries members of the General Agreement on Tariffs and Trade, requested a waiver of the most-favored nation clause. They designated a common spokesman to conduct these negotiations and the High Authority participated.

The parties to the General Agreement on Tariffs and Trade recognized the necessity of granting to the six countries the requested waiver, in order that they may fulfill their obligations to the Community while remaining members of G. A. T. T. This waiver was granted on November 10, 1952, by 27 votes of a total of 34. Only Czechoslovakia was opposed. The Cuban and Indonesian delegates abstained. The delegates of Burma, Lebanon, Nicaragua and Peru were not present.

By this decision G. A. T. T. officially recognized the establishment of the European Coal and Steel Community. The essential principle which will govern relations between the parties to G. A. T. T. not members of the Community and the member States is that the Community in matters of trade policy will act and will be considered as a single

contracting party, representing the entire European territory of the member States.

Henceforth, the Community in its relations with G. A. T. T. will to a certain extent be considered as a single Contracting Party having exactly the same rights and the same obligations as any other Contracting Party.

In the decision on the waiver, this general principle covers a certain number of examples of individual waivers pertaining to practically all possible legal conflicts currently foreseeable between G. A. T. T. and the Community and enabling the member States and the Community to apply in full the provisions of the Treaty and the Convention.

As requested, the High Authority stated in answer to the decision to grant a waiver that, in exercising the powers vested in it by the Treaty, it was ready in the name of the European Coal and Steel Community to abide by the obligations vis-à-vis the General Agreement on Tariffs and Trade incumbent upon a single Contracting Party representing the territory embraced by the European territories of the member States.

24. Finally, the member States of the Community must also notify the O. E. E. C. that they are creating a special custom regime within the meaning of the Code on Liberalization of Trade. This is merely a notification and not a negotiation as complex as that carried out within the framework of the General Agreement on Tariffs and Trade. The Commission of Governmental experts formed by the Council is preparing this notification in conjunction with the High Authority. As in the case of the waiver of the most-favored nation clause, the six countries have designated a representative to look after their common interests in any discussions which may follow submission of this notification to the O. E. E. C.

CHAPTER THREE

ASSOCIATION BETWEEN THE COMMUNITY AND GREAT BRITAIN

25. The communique published in London on August 23 stated that the task of the British Delegation would be to lay the foundation for a close and lasting association between the Community and the United Kingdom. The United States communique published in Paris on August 27 indicated that the final form of association between the Community and the United States to result from the work of the United States Delegation with the High Authority would be determined on the basis of experience in dealing with questions of common interest.

The term association, used for the first time with reference to Great Britain in the joint declaration made in Washington on September 14, 1951, by the Ministers of Foreign Affairs of Great Britain and France and the Secretary of State of the United States, in which the British Government expressed its intention of establishing the closest association with the Continental European Community "at every stage of its development", was incorporated intentionally in the communiqués announcing the decision to send British and United States Delegations to Luxembourg. This constitutes a new form of relationship between peoples, and the existence of the Community should, even more than in the past, make the ties binding the six member States to Great Britain and the United States closer and more concrete.

26. Even though Great Britain did not accept the delegation and fusion of sovereignty forming the foundation of the supranational Coal and Steel Community, this new enterprise nevertheless shows the determination of the British Government and the High Authority to accomplish fully what is possible at this time.

As soon as the High Authority had organized the first elements of its services in mid-October, and at the same time that it assembled in Luxembourg the Commissions representing the various elements of the Community to participate in the elaboration of the present report and in the preparation for the common market, the High Authority and the British Delegation decided to form a "Joint Committee" for association between Great Britain and the European Coal and Steel Community.

The "Joint Committee" held its first meeting on November 17, in order to achieve concrete results in the formation of this association as soon as the work of the various Commissions began to bear fruit. Wishing to create between the European Coal and Steel Community and Great Britain a close and lasting association which would unite their action in every field of Community development by exchange of information and by regulations established in common and, ultimately, in institutional form, the High Authority made at this first meeting proposals :

— "to organize a mutual exchange of information on the forecasts and objectives of each in respect of investments, production, supplies and markets ;

— "to establish permanent facilities for consultation on questions which either associated party wishes to raise with the other ;

— "to apply in specific fields rules to be defined by common agreement and by which both parties shall abide ;

— “ to create an institutional framework permanently assuring concerted action between Great Britain and the European Coal and Steel Community, which the High Authority wishes to make as comprehensive as possible.”

The “ Joint Committee ” consists of the President and several members of the High Authority, the head and the members of the British Delegation, assisted by officials and experts. To indicate the importance they attach to this enterprise, leaders of the British coal and steel industries and trade union representatives from the two industries also took part in the meetings.

The “ Joint Committee ” organized its work in the same manner as had the High Authority. It set up the following Working Groups : Supplies and Requirements, Investments, Workers’ Housing. . . .

The High Authority and the British Delegation together provide the Secretariat for the “ Joint Committee ”.

27. The concrete elaboration of the association between Great Britain and the Community therefore began little more than a month and a half ago.

The directives issued to the Working Groups of the “ Joint Committee ” have been drawn up by the High Authority and the British Delegation. They provide for a mutual and continual exchange of information, within the initial framework of the questionnaires established for the Commissions set up by the High Authority.

Production, supply, and investment forecasts, described later in the present report, will gradually be adjusted to take into account the conclusions reached following discussions within the “ Joint Committee.”

It is still too early to specify the forms of association to be gradually elaborated as progress is made from

one concrete question to another and as the High Authority advances in the accomplishment of its tasks. At the first meeting of the "Joint Committee," the head of the British Delegation recalled the British preference for the empirical method, whereby the rules and arrangements governing relations between the Community and Great Britain would be based on experience resulting from the study of practical problems rather than on general principles.

The work of the mixed Committee has thus far consisted of preliminary application of certain of the proposals made by the High Authority at the first meeting. As it stated at the time, the High Authority is determined to pursue realization of a close and lasting association between Great Britain and the European Coal and Steel Community. This will not result in a trade treaty or a division of overseas markets but in concerted action of a permanent nature, responsibilities, rights and obligations shared on a basis of equality. It is hoped that under these conditions such action will result in direct and organic association between the institutions of the Community and the institutions of the United Kingdom.

In the final analysis, the effort undertaken to promote association between Great Britain and the European Coal and Steel Community thus aims at achieving results which would not entail a delegation of sovereignty, but would be as close as possible to those which would be provided to the advantage of the associated parties by the entry of Great Britain into the Community.

If the "Joint Committee" achieves these results, it will by example and precedent make an essential contribution toward encouraging Europe to unite and to develop in concert with Great Britain.

PART TWO

**Situation of the Coal
and Steel Markets
in 1952**

§ I

Throughout the world and in Europe particularly, 1951 was a year of intense activity in all economic sectors. Though not characterized properly speaking by a regression or stagnation in economic activity, the year 1952 was marked by the following two tendencies :

1) There was a decline in the rate of increase of production. This decline was sufficient to ease the situation on the coal market, where the shortage has almost disappeared and is limited to certain specific grades: namely, coking coal and anthracite.

2) The decline was greater in the consumer goods industries, whereas the equipment industries remained very active throughout most of the year. In comparison to the total production of the member countries, the level of steel consumption was high.

The easing of the situation on the coal market made it possible to reduce imports from the United States. Exports of steel were substantially lower than in 1951. Along with the expansion of production, this reduction of exports explains the high level of apparent steel consumption, due to some extent, to the rebuilding of stocks and inventories so as to compensate for the shortage on the internal market resulting from the priority given to exports in 1951.

At the end of the year the resumption of American production, which had lost about 20 million tons because of strikes, resulted in a reduction in demand on markets of third countries; consequently, dual export prices, which had been maintained at a very high level, tended to disappear almost entirely. This reduction in demand and export earnings had immediate repercussions on demand for scrap

iron, particularly in Belgium where production is strongly oriented toward external markets. The price of scrap declined sharply on the Belgian-Luxembourg market.

Employment remained at a high level throughout industry in the Community. Since 1949 the number of workers in the steel industry has increased by about 14 %, a percentage much lower than the increase in production itself. This disproportion reflects the fact that since 1949, with more reliable supply conditions the same number of workers contributed to much higher production. In the coal industry the total number of workers remains fairly constant, an increase in employment in Germany being compensated by a progressive reduction in the number of miners in France and in the Saar. These inverse movements reflect the difference in the rate of output. Although production increased in France and in the Saar as well as in Germany, underground output per manshift increased by about 20 % in the first two countries and only by 9 percent in the Ruhr.

§ II

SITUATION AND DEVELOPMENT OF COAL MARKETS IN 1952

The first six years following the war were characterized throughout Western Europe by a widespread shortage of coal, principally due to inadequate Western European coal production. Mining installations destroyed or damaged during the war had to be reconstructed. New projects and equipment had to be undertaken at an accelerated rate. In addition, there was an appreciable shortage of labor.

COAL PRODUCTION IN COUNTRIES OF THE COAL-STEEL COMMUNITY¹⁾

(in millions of tons)

1945	95.18
1946	142.96
1947	164.35
1948	182.84
1949	210.72
1950	218.42
1951	232.87
1952	240.40

1) Including French lignite (except for Hostens Mine).

During 1952 the shortage gradually became less acute. This is due not only to the continuing increase in production in the countries of the Community and the increase in imports from Great Britain but also to the partial decline in consumer demand as a result of the general reduction in economic activity. Consumers stocks increased during 1952. By the fall of 1952 they were considered adequate to cover the requirements of a normal winter.

It was also possible to reduce imports of American coal.

At the time the High Authority assumed its functions, the situation on the coal market of the Community was marked by :

- a surplus of high volatile coal,
- a difficult supply situation in coking fines and anthracite for household consumption.

The inquiry made by the High Authority on the production and supply situation in the different countries brought out the following facts :

Coal Availabilities.

From 1951 to 1952 coal availabilities in the countries of the Community increased by 8.2 million tons. Production increased by 8.9 million tons, whereas imports decreased by 0.7 million tons.

(in thousands of tons)

	1951	1952
1. Production	232,872	240,400
2. Mines' own consumption and issues to miners	30,614	30,200
3. Saleable production	202,258	210,200
4. Exports to third countries	5,527	4,500
5. National production available for internal sale	196,731	205,700
6. Imports from third countries	23,035	22,300
7. Total availabilities	219,766	228,000

Among the third countries able to complement the Coal and Steel Community's solid fuel supply are the traditional suppliers, such as Great Britain and Poland, and also the United States, which was previously relied upon only in exceptional cases to cover shortages in quantities, sizes or types of coal.

The breakdown of imports by country is as follows :

COAL IMPORTS FROM GREAT BRITAIN, POLAND, OTHER EUROPEAN COUNTRIES AND THE UNITED STATES BY COUNTRIES OF THE COMMUNITY

(in millions of tons)

	1951		1952	
	Traditional suppliers	USA	Traditional suppliers	USA
Germany	0.2	5.8	0.5	7.1
Belgium				
Luxembourg	0.4	1.5	0.4	0.8
France/Saar	1.8	4.5	2.2	3.2
Italy	2.1	4.4	2.1	3.1
Netherlands	0.3	2.0	0.7	2.2
Total	4.8	18.2	5.9	16.4

Imports from traditional suppliers in 1952 exceeded 1951 by 1.1 million tons. Great Britain increased its exports to the countries of the Community by 1.8 million tons. Imports from Poland and other countries were reduced by 0.7 million tons. Coal imports from the United States were 1.8 million tons less than in 1951. Consequently, the general effort to reduce the dollar deficit in the member countries met with a certain degree of success as far as coal imports are concerned.

Exports of coal and coke to third countries.

The governments of the Western European countries working together within the O. E. E. C. agreed in 1951 to allocate the quantities of coal available for export on the principle of an equitable distribution and in a manner to complete the proposals on distribution formulated by the Economic Commission for Europe at Geneva. The basis adopted for exports is thus the result of recommendations formulated by these two organizations. Until now these recommendations had been based essentially on bilateral agreements between the participating countries.

The following table on coal exports shows not only exports to third countries but also trade between the coun-

tries of the Community, in order to give a more complete overall view.

COAL AND COKE EXPORTS IN 1952

(in millions of tons)

	Exporting Country					Total
	Germany	Belgium	France/ Saar	Italy	Neth.	
<i>I. Coal:</i>						
<i>a) to countries of the Community</i>	9.1	2.4	4.5			16.0
<i>b) to third countries</i>	3.2	0.2	1.1	—	—	4.5
<i>II. Coke:</i>						
<i>a) to countries of the Community</i>	6.6	0.5	0.1	0.1	0.7	8.0
<i>b) to third countries</i>	4.0	0.4	—	—	0.6	5.0

Exports to third countries, especially to the Scandinavian countries, Switzerland and Austria, account for about 22 % of total coal exports and nearly 40 % of total coke exports. Although the distribution of export availabilities was insufficient to cover entirely the demand of third countries, certain varieties, particularly high volatile gas coals, could not be entirely absorbed by these markets.

Utilization and Sales.

The total amount of coal marketed in 1952 increased by 3.6 million tons. A detailed examination shows, however, that this increase was due essentially to the demand of coking plants, gas plants and patent fuel plants, which used 7.7 million tons of coal more than in 1951. On the other hand, deliveries to industrial users, the transport industry and thermal power plants declined by 4.1 million tons.

BREAKDOWN OF COAL SALES WITHIN THE COMMUNITY

(in millions of tons)

	1951	1952
I. a) coking plants (mines' cokeries, steel cokeries and others)	74.7	81.7
b) gas plants	12.3	12.7
c) patent fuels plants	14.5	14.8
	101.5	109.2
II. a) railways	20.5	19.8
b) other transport services	3.0	3.1
c) thermal power plants	21.8	21.6
d) iron and steel industry	5.6	5.3
e) other industries	40.6	37.6
f) household users	25.0	25.4
g) miscellaneous	2.6	2.7
	119.1	115.0
III. Total Sales	220.6	224.2

As was mentioned in the previous section, the supply of certain kinds of coal, particularly high volatile gas coal, could not be absorbed because of price and size factors. Therefore, stocks accumulated at certain mines in France and Belgium. The High Authority will have to examine this problem.

Production and Utilization of Coke. — Coking Coal.

The coking plants prefer to rely on supply of washed bituminous fines. Inasmuch as normal production of this quality is not sufficient to cover requirements, the coking plants were obliged to crush and cokify coal of larger size and add it to other coal for coking purposes or else add other kinds of coal.

COAL USED FOR COKING WITHIN THE COMMUNITY

(January-September 1952)

	Fines 0—10 mm		Nuts		Graded		Total	
	1,000 t	%	1,000 t	%	1,000 t	%	1,000 t	%
I. European coal :								
Bituminous (gras)	42,293	61.9	4,201	6.2	845	1.2	47,339	69.3
Bituminous (1/2 or 3/4 gras)	2,369	3.5	30	0.0	11	0.0	2,410	3.5
Lean coal	193	0.3	1	0.0	—	—	194	0.3
Gas coal and high volatile coal	8,394	12.3	1,985	2.9	686	1.0	11,065	16.2
II. American coal	—	—	—	—	—	—	7,273	10.7
III. Total	53,249	78.0	6,217	9.1	1,542	2.2	68,281	100.0

Despite the measures taken, it was impossible to overcome fully the 1952 shortage, and it was necessary to import from the United States nearly 11 % of the coal used for coking purposes. One of the urgent tasks of the High Authority will be to eliminate the necessity of these dollar expenditures by the countries of the Community. A Working Group already formed will study to what extent it will be profitable to substitute for American coal grades of coal mined within the Community and up to what point it is technically possible to increase the use of grades other than bituminous coal for coking purposes.

Experience gained in certain mining areas on the technique of using these categories of coal for coking purposes could be considered.

Although it was not possible to cover the coke requirements of the Community fully by its own production, it was possible to increase the production of coke appreciably through imports of American coal.

**PRODUCTION AND UTILIZATION OF COKE WITHIN
THE COMMUNITY
(EXCLUDING GAS COKE)**

(in millions of tons)

	1951	1952
I. Production	56.9	62.9
II. Mines' own consumption and issues to personnel	2.5	2.7
III. Deliveries to users within the Community :	49.9	54.8
(1) Iron and steel industries	32.6	37.5
(2) Other industries	7.7	7.9
(3) Household and artisanal consumption	6.4	6.6
(4) Other consumers	3.2	2.8
IV. Exports to third countries	4.7	5.0

The steel industry alone absorbed nearly 5 million tons of the total increase of 6 million tons in coke production. The German steel industry absorbed 3.2 million tons and the French steel industry 1.4 million tons.

Outlook for the First Quarter of 1953.

The outlook for coal supply during the first quarter of 1953 is in general conditioned by the fact that at the beginning of last fall consumer stocks represented nearly one month's consumption. Certain consumer groups could even point to stocks amounting to over forty days' consumption. It is hardly possible that there will be any sizeable reduction in these stocks by the end of the year.

CONSUMPTION AND STOCKS OF COAL OF ALL QUALITIES*(in thousands of tons — all solid fuels ton for ton)*

	Consumption 1952	Average Daily Consumption	Number of Days (on 9/30/52)	
		(a)	Stocks 1,000 t	(c) (—) (b)
		300	(c)	(d)
	(a)	(b)	(c)	(d)
Railways	21,100	70	2,143	30
Navigation	3,300	11	222	20
Thermal power stations	22,100	74	2,922	40
Gas plants	12,700	42	1,725	41
Steel industry	43,800	146	1,450	10
Other industries	50,700	169	5,745	34
Sub-total	153,700	512	14,207	28
Household consumption	53,500	178	(¹)	—
Other users	6,700	22	(²)	—
Total	213,900	713		

1) Data incomplete.

2) Unknown.

At the same time stocks also increased at the mines ; a part of these stocks consist of coal difficult to market at the present time.

COAL STOCKS AT MINES IN COUNTRIES OF THE COMMUNITY*(in thousands of tons)*

	Stocks as of			Production during last week of September 1952
	9/30/51	12/31/51	9/30/52	
Germany	487.1	429.3	498.4	2,388
Belgium	211.8	224.8	1,642.0	597
France/Saar	1,345.0	1,374.0	3,456.0	1,447
Italy	10.0	50.0	102.0	20
Netherlands	167.9	139.8	263.0	252
Total	2,221.8	2,217.9	5,961.4	4,704

Although the level of mine and consumer stocks indicates that on the whole the supply situation is balanced, a certain shortage of certain grades nevertheless continues, mainly in coking coal and anthracite. As a result, the member countries of the Community have declared import requirements of 2,150,000 tons of American coal for the first quarter of 1953.

**IMPORT PROGRAM
FOR AMERICAN COAL FOR FIRST
QUARTER OF 1953**

Germany	1,000,000 / 1,200,000 tons
Belgium	—
France	500,000 tons
Italy	450,000 tons
Netherlands	100,000 tons
	2,050,000 / 2,250,000 tons

Taking into account the import program for American coal and the solid fuel requirements estimated by the countries of the Community, the High Authority has adopted the distribution program recommended by the O. E. E. C. and the E. C. E. for the first quarter of 1953.

§ III

SITUATION OF THE STEEL INDUSTRY DURING 1952

During the past few years there has been a regular and sizeable increase in crude steel production in the six countries of the Community.

(in millions of tons)

1948	22.9
1949	28.6
1950	31.6
1951	37.7
1952	41.6

In the years prior to 1952 total demand could not be met by the production of the member countries. A marked shortage of all finished products existed in the Community.

Early in 1952 the supply situation on all international markets gradually began to improve and toward the end of the year a balance seems to have been reached between production and consumption. The situation remained difficult only for a few products.

The dominant factor in the situation was the very pronounced increase in production of nearly 4 million tons of crude steel from one year to the next, plus an increase of 3 million tons of finished products.

Moreover, internal consumption benefited from the decline of 1.5 million tons in exports of finished products to third countries, equivalent to about 2 million tons of crude steel.

In other words, the availabilities of the Community increased by 6 million tons of crude steel, an increase of over 21 %.

Despite a certain slowdown in the development of general economic activity, the absorption of these availabilities was possible due to the fact that equipment industries maintained their level of activity throughout most of the year. In addition, users had been obliged to draw on their stocks in 1951 and sought to replenish them in 1952.

These two factors making for continued demand tended to lessen in degree toward the end of the year. There was a resumption of activity in the consumer goods industries and a certain slowdown in the equipment sector. The effects of demand for stock replenishment declined. At the same time, American production, which had lost 20 million tons as a result of strikes, resumed at a high rate and resulted in a decline in demand for European steel exports.

One characteristic of this situation is the very rapid decline in the spread between export and internal prices. Meanwhile a decline in price for certain grades of steel was noted in Germany.

PRODUCTION OF CRUDE STEEL AND PIG IRON

The production of crude steel in the countries of the Community increased from 37.7 million tons in 1951 to 41.6 million tons in 1952, an increase of over 10 % (See Table below.)

The increase in production from the first to the second half of the year was due solely to production in Germany, France (including the Saar) and the Netherlands ; production in the other countries remained unchanged or declined slightly.

PRODUCTION OF PIG IRON AND CRUDE STEEL IN COAL-STEEL COMMUNITY IN 1951 AND 1952

Products	1951	1952		Total
		1st half year	2nd half year (estimate)	
1. Pig iron, total	31,346	17,035	17,589	34,624
2. Crude steel, total (ingots, steel for casting)	37,669	20,463	21,181	41,644
3. Crude steel ingots, total, (1)	36,853	20,020	20,710	40,730
of which :				
a) Thomas steel	20,803	11,322	11,652	22,974
b) Martin steel	13,534	7,296	7,704	15,000
c) Electrical steel and other steels	2,688	1,468	1,419	2,887
4. Finished products	28,777	15,664	16,298	31,962

1) The figures for the production of crude steel ingots are broken down on the basis of process of manufacture and differ from the figures for total production of crude steel ingots, since Italy and Luxembourg have included steel for casting in their figures. In 1951 the difference amounted to 122,000 tons and in 1952 to 131,000 tons.

Supply of Community in Rolled Products.

During 1952 the supply of rolled products increased by about 5 million tons, or 22 % the increase in production was about the same for all finished rolled products.

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	Apparent consumption		Increase (percentage)
	1951	1952	
Germany	9,106,000 tons	11,698,000 tons	28
France/Saar	6,284,000	8,348,000	33
Italy	2,845,000	3,099,000	9
Belgium	2,015,000	2,025,000	0.5
Netherlands	1,371,000	1,330,000	(- 2)
Luxembourg	49,000	48,000	(- 3)
Total	21,670,000 tons	26,548,000 tons	22

Foreign Trade in Iron and Steel.

Trade in iron and steel among the countries of the Community increased during 1952.

(in thousands of tons)

	Imports (1)		Exports (1)	
	1951	1952	1951	1952
Pig iron	237.1	229.4	295.4	353.8
Crude steel	15.2	10.0	18.0	7.0
Semi-finished products	274.8	342.8	291.2	346.9
Finished products	1,788.7	2,103.4	1,854.5	1,996.6

(1) The differences between the import and export figures above are due to reasons of statistical presentation.

The pattern of trade in rolled products between the Community and third countries was quite different. Total exports of finished products declined by about 1.5 million tons.

(in thousands of tons)

	Imports of the Community		Exports to Third Countries	
	1951	1952	1951	1952
Pig iron	220.1	297.9	832.0	524.5
Crude steel	1.0	5.0	9.0	—
Semi-finished products	70.8	69.0	533.2	413.9
Finished products	282.2	410.5	7,140.4	5,598.0

Imports were limited mainly to three products : pig iron, semi-finished products and sheets of less than 3 mm thickness. The latter consist of special sheets, such as transformer sheets, which are still produced in insufficient quantities and qualities in the Community. Exports cover all products. From 1951 to 1952 total exports of the Community declined by 1.5 million tons, or by 20 %. This decline is explained principally by tendencies toward a depression on international iron markets. In addition, it should be noted that France and Germany are to a great extent responsible for this decline as concerns rolled steel. French exports alone declined by 1.1 million tons. The decline of 300,000 tons in German steel exports may be considered as due to an intentional limitation of trade with foreign countries in order to give priority to satisfaction of internal requirements. The persistence of high requirements for iron and steel enabled Belgium and Luxembourg to maintain their export shipments at the same level.

Raw Material Supply.

Iron Ore. The Community does not possess the necessary iron ore to meet its steel production requirements and must import considerable quantities from third countries, mainly rich iron ore from Sweden, North Africa, etc. The figures for production and consumption of iron ore in 1951 and 1952 are as follows :

	1951	1952
Production of the Community	15,774,000 tons Fe	18,168,000 tons Fe
Consumption of the Community	21,835,000	25,279,000
Balance to be imported	6,061,000 tons Fe	7,111,000 tons Fe

The tonnages actually imported in 1951 and 1952 were 5,551,000 tons Fe and 6,729,000 tons Fe respectively. The difference is due to fluctuations in stocks.

France is by far the largest producer of iron ore in the Community and covers French/Saar requirements as well as a large part of Belgium/Luxembourg requirements. Luxembourg production is such that ore can be exported to Belgium and Germany, but Luxembourg also imports iron ore from France where its steel industry has its own mines. Germany produces poor quality ore which is used in large quantities after being enriched. It must nevertheless import very large quantities of rich ore from Sweden and ores of all kinds from sources outside the Community. Italy produces iron ore and iron pyrite residues which cover more than half of its requirements, but it must import almost one million tons of rich ore, principally from North Africa and the Eastern Mediterranean. Belgium and Holland produce no iron ore and must rely on imports to meet their entire requirements: Belgium from France, Luxembourg and Sweden; and Holland from Sweden, North Africa and other sources outside the Community.

As is seen from the production figures given above, the production of iron ore within the Community shows a pronounced increase. Modernization in the mines, particularly in France, will step up production even more but will not eliminate the necessity of importing large quantities of rich ore from sources outside the Community.

Scrap Iron. In 1952 the Community consumed a total of 20.8 million tons of scrap iron and of this total 551,000 tons were imported from third countries. In 1951 total consumption amounted to 19.2 million tons.

The proportion of self-production of scrap by steel mills in the various stages of production, i. e., scrap resulting from steel manufacture or rolling, amounted to 44 % of total consumption in 1952. 56 % of total consumption was covered by scrap by-products in the processing industry, the recovery of old scrap, and imports.

Scrap is used principally in open hearth ovens, electrical ovens, certain founderies, and in the manufacture of ferroalloys. In addition, rolling mills use a certain quantity of scrap for the manufacture of "fers à paquet."

Since a large part of the production of ferro-alloys and steel castings does not come within the jurisdiction of the High Authority, the scrap used in such manufacture cannot be directly affected by measures which the High Authority might take. For technical reasons, it is difficult to reduce consumption of scrap in electrical furnaces by means of partial replacement by another iron product, such as pig iron.

In the case of open heart ovens, where production is high — 15 million tons in 1952 — the fusion bed consists of pig iron and scrap and the possibilities of varying the proportion between the two are considerable. This proportion varied between 36 and 90 % in 1951 depending upon the country.

The use of scrap is not limited to the above cases where its use is technically necessary. It is also a supplementary product used in the manufacture of pig iron in blast furnaces where it provides for peak production and at the same time a reduction in coke consumption. About 5 million tons of scrap were used in blast furnaces in 1952. In 1951 the use of scrap in blast furnaces in particular helped reduce to 971 kilograms on the average the consumption of coke per ton of pig iron, which is a relatively low figure. In 1952 the consumption of coke will probably be greater due to a relatively lower consumption of scrap and higher consumption of iron ore.

The use of scrap in the steel industry may therefore vary considerably depending upon the proportion of pig iron used in the manufacture of steel by the open hearth

method. As regards its use in blast furnaces, it may vary on the basis of price considerations, iron ore supply, and coke supply.

Although scrap supply made possible a record production of steel in 1952, the situation between supply and demand remains difficult. Any easing of the situation on the steel market will cause a much more pronounced easing on the scrap market, accompanied by a substantial decline in scrap prices in those countries where the price is not controlled.

PART THREE

Preparation for the Common Market

PREPARATION FOR THE COMMON MARKET

In 1929 the six countries of the Community together produced 35 million tons of steel. In the same year the United States produced 57 million tons and the Soviet Union 5 million tons.

In 1952 the six countries produced 42 million tons of steel, the United States (in 1951) 95 million tons and the Soviet Union 35 million tons ⁽¹⁾. Over a period of more than twenty years steel production thus increased by only one fifth in Western Europe, whereas it increased by two-thirds in the United States and seven times in the Soviet Union.

Since the war the production of coal, the sole raw material that Europe possesses in abundance, has consistently been insufficient to cover requirements. Traditional imports roughly corresponding to exports to third countries have constantly had to be supplemented by abnormal imports constituting a drain on European dollar reserves.

This rapid comparison gives an indication of the lag in European production and the scope of the improvement necessary. By trying to gain a precious advantage at the expense of one another, the individual countries have succeeded only in weakening their common position vis-à-vis their competitors. Although each country believed that it was financing a lowering of prices for its own consumers with the receipts resulting from the application of dual prices for coal and for iron ore and high transport rates routes crossing its borders, it is easy to see that for the Community as a whole the price increases applied reciprocally by these

(1) Not including satellite nations.

countries result finally in an artificial increase in steel costs. Actually this region of the world disposes of important and adjacent sources of supply, has easy access to ocean shipping, and possesses a skilful labor force, which is an important natural advantage in the fight for markets.

A divided Europe is weak. Unity is the key to recovery.

In creating the European Coal and Steel Community, the six countries have simultaneously pooled resources amounting to five or six billion dollars per year and representing 6 % of their total production and 15 % of their industrial production ; industries employing 1,750,000 persons and providing work for one tenth of their working population ; products amounting to 300 million tons and constituting over 40 % of the total tonnage transported in the Community ; a steel industry with exports normally representing one sixth of production in Germany, one third in France, two thirds in Belgium and Luxembourg and which alone accounts for two thirds of world steel trade. Such is the scope of this first step toward the economic unification of Europe.

It has concentrated on coal and steel because these two products are the key to all modern production. It reunites the most powerful industrial basin in the world, which history had divided. More than 90 % of all the coal, more than 75 % of the iron ore and more than 74 % of the steel of the entire Community is produced in this region, which covers a radius of only 150 kilometers ranging from southern Netherlands to Lorraine, from the Pas-de-Calais to the Ruhr, and where the Belgian coal fields prolong those of northern France, the Belgian Campine meets the Dutch Campine, the Aix basin continues the Liege basin, Saar coal complements Lorraine coal, Luxembourg ores those of the Briey basin, and where Cologne lignite increases the sources of energy in the Ruhr.

Europe must restore what it has lost as a result of its divided state: unrestricted movement the two products essential to any modern economy over an area of 1,300,000 square kilometers for 155 million consumers.

This common market is adapted by its dimensions to the conditions of modern production and must be adapted by its nature to the characteristics of the modern economy. Its purpose is to obtain the most rational distribution of activity, so as to achieve the most economic conditions of production and contribute to the utmost to an increase in the standard of living. The unrestricted movement of goods is not enough to assure that result within the framework of the modern economy. It is not enough to eliminate quotas and customs duties if markets can be divided by agreements among producers, competition be impaired among producers by excessive concentration of economic power and among consumers by discrimination on the part of producers, governmental intervention favors or disfavors at will certain enterprises or regions, and the effect of tax legislation be to introduce on the market of each country unequal conditions for local and imported products.

It is for this reason that the establishment of the common market is more than a renewal of attempts made to liberalize trade on the international or the European scale. It is not merely a question of eliminating quotas and replacing them by custom duties ; high custom duties can be a more impenetrable barrier than fairly large quotas. Above all, the competition to be created must conform to the conditions specified for achieving the greatest possible increase in productivity. The common market must be a market free of cartels, excessive concentration, subsidies, discrimination and distortions. It is impossible to establish and maintain such a market unless the States agree to surrender the sovereignty which they wielded for the purpose of assuring temporary advantages for their producers, often to the detriment of their consumers as a whole. This pooling

of previously separate production can be accomplished without difficulty only if the necessary transitions are made and the safeguards administered in the interests of all.

One of the essential responsibilities of the institutions of the Community is to ensure that rules of competition are observed and the necessary transitions are made. Under the conditions existing in our twentieth century economy, there can be no common market without common institutions.

§ I

PHASES OF THE COMMON MARKET

With respect to the establishment of these transitions, the High Authority believes it necessary to refer to the provisions of the Convention as regards the schedule for realization of all the elements constituting the common market.

Custom duties, quantitative restrictions on imports and exports, discrimination in transport rates, and dual pricing in sales among the countries of the Community are scheduled to disappear as soon as the common market opens.

Sections 10, 11 and 12 of the Convention provide that the High Authority will fix the dates and the conditions for elimination of agreements, common sales organizations among producers, and special transport rates, in those cases when it is deemed that their continued existence cannot be authorized.

The elimination of distortions resulting from the legislative or regulatory measures referred to in paragraph 4 of Section 2 of the Convention, the establishment of direct transport rates for international traffic, and the harmonization of transport rates are operations that will require

time. While discrimination consisting in the refusal to grant transport to or from another country the same conditions granted to comparable internal transport over the same route is to disappear before the common market opens, it may be necessary to extend the completion of other necessary modifications in rates over an additional period of two years.

In making its decisions on the duration and amount of certain subsidies or compensations to be maintained, the High Authority intends not only to ensure in this manner that the necessary transformations are progressive but also to establish a certain parallel relationship between the progressive disappearance of such assistance and the progressive realization of elimination¹ of distortions and harmonization of transport rates.

§ II

AGREEMENTS AND CONCENTRATIONS

Under the terms of Section 12 of the Convention, agreements among producers and common sales organizations shall be examined in order to determine if their existence may be authorized by virtue of paragraph 2 of Article 65. If such is not the case, the High Authority fixes the appropriate dates for their elimination and ensures that the useful functions that are fulfilled by such organizations, though otherwise incompatible with the provisions of the Treaty, continue to be assured by other means.

Although the Treaty does not fix specific dates for the taking of these measures, it nevertheless does stipulate that two sets of regulations in application of the provisions on concentrations shall be established by the High Authority within the first four months of its existence. These regulations define the elements constituting control of enterprises and determine the information which the High Authority will be entitled to ask of persons or companies accomplishing

certain operations affecting the enterprises of the Community. Upon examination it appeared less essential to respect these formal deadlines than to avoid any misunderstanding in the meaning and scope of the texts which the High Authority must establish. In addition, it is natural to obtain from the enterprises of the Community the appropriate information on these matters before requiring the submission of declarations by third parties who are not, so to speak, "subjects of the Community." Analysis of the provisions of the Treaty further reveals that a moderate delay entails no risks for the Community or the interested parties. The High Authority has discussed these problems quite frankly with the Council and it was fully agreed to proceed a little more slowly and, in view of the delicate and novel nature of the question, to prepare carefully and in detail the measures required for distinguishing between economically desirable groups and prohibitive concentrations.

§ III

PRICE PROBLEMS

It will be all the easier to establish the common market when price differentials, once corrected as required by the Treaty, are more in line with the differentials in transport charges to the furthest points of the areas in which the effective production of the different enterprises is marketed. Coal and steel prices have risen appreciably since the time the Treaty was negotiated, but the extreme differences have tended to decline inasmuch as prices had risen the most in regions where prices had previously been the lowest.

In the case of coal, for example, French and Belgian prices increased the least, whereas the price of German coal increased on several occasions.

At present, the average pithead price for coal is about \$10 in the Netherlands, \$12 in Germany, \$13 in France and \$14 in Belgium. It should be noted that Dutch production, substantially less costly than the others, covers only about two thirds of the consumption of the Netherlands.

Comparison is more difficult as concerns steel. The earnings of the producers are greatly influenced by selling prices on third markets, which can vary considerably from those of the internal market. In particular, Belgian and Luxembourg prices are currently the lowest and have been maintained only as a result of the high earnings received by the producers from export sales. Since the negotiation of the Treaty, the internal price of German steel has increased much more than the French price and is today higher. The Dutch price is about the same as the German price. The Italian price is much greater than in the other countries of the Community, but the Italian mechanical industry normally requires sizeable imports, whereas Italy of all the regions of the Community is the one most effectively protected by distance.

Two series of elements must be carefully distinguished in the price analysis undertaken by the High Authority :

— Certain elements of costs of production which are related to the general operational conditions of the enterprises : the level of wages, delivery prices of raw materials, technical factors determining the consumption of materials and energy and the number of work hours necessary for the manufacture of products on the basis of the organization and the state of the equipment of enterprises ;

— The price elements influenced by Governmental intervention or monopolistic practices. The High Authority will limit its study essentially to this second category of elements, along the lines set forth in the Treaty.

The High Authority has resorted to different methods in studying this problem, including direct talks with representatives of Governments or of different industries, meetings of working groups, and, in the case of transport, the appointment of a Commission of experts designated by the Governments of the member States in conformity with Section 10 of the Convention.

The conversations and the preliminary work centered on the following topics :

- 1) legal price system
- 2) dual pricing
- 3) sales practices
- 4) amortization
- 5) price scales

1) *Legal Price System.*

Internal coal prices are fixed by the Governments in all the countries. In France, however, the Government fixes only the average prices, with Charbonnages de France in cooperation with the coal basins fixing the different prices by origin and quality.

As concerns steel, prices are no longer controlled in Germany and are fixed by agreement between producers' and consumers' organizations. Steel prices are not controlled in Holland but are watched closely by the Government. Ceiling prices are fixed by the Government in France, Belgium, Luxembourg and Italy.

The price of scrap iron is actually fixed only in the Netherlands. The controlled price is not applied in France where, as in Germany, the price is really maintained by the application of certain rules governing consumption and by the centralizing of purchases. The price is entirely uncon-

trolled in Belgium and Luxembourg and fluctuates widely. In Italy purchases of scrap iron are also centralized but in addition a compensation fund exists for equalizing the prices of scrap of Italian origin and the highest prices of imported scrap essential for supply.

Controls were recently lifted on the internal price for French iron ore, previously fixed by the Government. In the case of internal sales, however, essentially in the form of deliveries made to themselves by the steel enterprises owning the mines, the order price has remained at the level previously fixed by the Government.

2) *Dual Pricing*

The practice of dual pricing is now general for sales outside the national market of the different countries and is incompatible with the common market among the countries of the Community. For all exporting countries dual pricing has an important effect as concerns steel. However, the most recent tendency of markets is toward a narrowing of the difference between external and internal prices. As concerns coal, export prices have thus far been higher than internal prices in each country ; this practice does not have an important effect on the earnings of producers, except in the case of the single large exporting country of the Community, i. e., Germany, whose sales outside the German market represent about 20 % of coal production. This increase in price currently averages 5 DM for coal and 10 DM for lignite.

3) *Sales Practices*

On the whole, coal prices are established on a pit-head basis in France, Germany and Belgium. For the Saar and Lorraine, however, the price scale is established on a basing point principle with prices being degressive with dis-

tance. The Aix-la-Chapelle basin invoices on the basis of Ruhr prices for sales to Western destinations so as to obtain the benefit of the difference in transport charges.

The most important exception to the principle of the pithead price is Holland, where coal is sold at a uniform Fob price regardless of the place of delivery.

Wholesale trade introduces one other important aspect in sales methods. Depending upon the country or even, in the case of Germany, the region, the tonnages differ below which direct sale ceases and the wholesalers intervene.

A harmonization of the methods of quoting prices as well as the rules governing the intervention of intermediaries will apparently have to be effected as soon as the division of markets ceases, the different basins are in competition, and the wholesalers are able to turn to several sources of supply.

4) *Amortization.*

In conformity with the provisions of paragraph 5 of Section 2 of the Convention on transitional measures, the High Authority has attempted to find ways of making comparable the different methods of calculating amortization in the various countries of the Community. The purpose is not to dictate an accounting procedure or arbitrarily set up regulations which must be adhered to by all the enterprises, but merely to succeed in clearly analyzing the nature of the various amortization allowances set up by enterprises in the various regions of the Community and to establish valid comparisons and a kind of conversion table. A working group has been appointed for that purpose. This group had the advantage of certain previous studies on coal made upuo

the initiative of producers' organizations of the Community. Preliminary examination of the situation revealed two major differences :

1) First, the demarcation between projects considered as Capital Expenditure and subsequently amortized and projects considered as Current Expenditure differs greatly from one country to another. This factor means that more detailed study must be devoted to present widespread thought on the difference between amortization provisions included in prices and also on the low level of certain selling prices with respect to production costs.

2) Second, the provisions applicable to amortization of projects considered as Capital Expenditure vary with required accounting procedures as well as the effects of fiscal legislation.

These studies will be continued once the necessary information is obtained through questionnaires drawn up by the working group. It should be possible in this way to appreciate the degree of inflexibility of prices, in which the fraction devoted to amortization varies with market possibilities, and at the same time to contribute to the analysis of the means of financing available for investment purposes in the Community. These studies will also simplify formulation of a view on the desirable price level as defined in Article 3, paragraph c, of the Treaty.

5) *Price Scales.*

The problem of the comparison of prices cannot be reduced solely to that of the average price level.

In the case of both coal and steel, competition is based on the type, quality or grade of the product. The differences in price corresponding to the various categories

may vary greatly from the average prices, and sometimes an increase in certain enterprises corresponds to a reduction in another.

To complete these analyses, it was necessary, as prescribed in paragraph 5 of Section 2 of the Convention, to find ways of making different price scales comparable. The High Authority appointed a working group for that purpose and a questionnaire has been established for obtaining satisfactory elements of comparison in the near future. Two steps must be taken to reach that stage :

1) The nomenclature used in different countries or by different enterprises must be sufficiently well-defined so that it can be transposed into a standard nomenclature. The Economic Commission for Europe has already made considerable progress in drawing up a reference nomenclature for coal.

2) The different elements which enter into a price scale — products and qualities, place of delivery, methods of rebating transport, the including or excluding of taxes, payment or delivery delays, etc. — must be specifically enumerated. A list of such elements has been established to permit analysis of the framework of existing price scales and review of various trade practices currently observed in different regions of the Community, especially pertaining to methods of quoting prices or making rebates.

The preliminary work thus undertaken will be pursued in cooperation with all interested parties and will augment the information available on the price situation in the Community. In addition, it will pave the way for the decisions to be taken by High Authority under the terms of Article 60 of the Treaty, with reference to the manner and the extent to which prices and selling conditions of enterprises shall be made public.

§ IV

ROLE OF TRANSPORT IN THE COMMON MARKET

What the consumer buys is always merchandise transported to his door. In other words, the merchandise is "delivered" to him.

What counts for the consumer is the "delivery" price of merchandise, represented by the price of the merchandise at the source plus transport charges. The consumer makes his choice on the basis of the "delivery" price, and the choice of the consumer is what makes the market.

It matters little that American coal which costs only \$ 6 per ton at the mine is technically the least expensive in the world. It is a very costly fuel for the European industrialist who also has to pay shipping charges amounting to over \$ 20.

Correction of selling prices at the mine or at the mill will not be enough if the common market is to have its full desired effect ; transport rates must also be established rationally.

Transport rates assume capital importance for an industrialist located in Tours or Munich, far from mining basins. For a ton of coal selling at 7,770 frs ¹⁾ at the mine in one case and 81.50 DM ²⁾ in the other, transport charges amount to 2,770 frs and 28.50 DM respectively, or over 35 % of the price of the coal. Transport rate scales can differ much more than price scales, depending upon the principles on which they are based, and hence their influence can be preponderant in the orientation of the market.

* * *

1) "Braisettes lavées" (10—15) from Merlebach (excluding taxes).

2) "Nuss IV" (10—18) from Gelsenkirchen.

In the case of steel, the influence of transport has a dual aspect: the transport charges for finished products play the same role as described above for coal, but, in addition, the selling price "at the mill" itself consists in large part of transport charges.

Several ingredients are required to manufacture a ton of pig iron, and the two principal ingredients, coke and iron ore, are not always found close to one another in Europe. Every steel mill is thus faced with a problem of transporting its raw materials, and the total of the corresponding transport charges represents a sizeable fraction — 10 to 20 % — of the cost of production for crude pig iron.

Just as the technician seeks ways of reducing output costs, the steelman seeks above all a good location for his mill, where total transport charges for raw materials will be as low as possible per ton of pig iron produced.

It is significant that in the United States, where sources of coke and iron ore are much less far apart than in Europe and consumption areas are much larger, the total transport charges incorporated in each ton of pig iron produced at Chicago, Pittsburgh or Youngstown are the same or do not vary by more than 10—15 %¹⁾: the law of the market has come into play.

In the Community the situation is far from the same. The spread in transport charges from one basin to another varies in the ratio of 1 to 2 1/2.

To be sure, the differences due to natural causes cannot be corrected, in view of the impossibility of eliminating certain geographical factors. Geography, however, is not the only reason for this situation: the differences in transport charges are largely the result of adjustments made in transport rates.

1) Cf. Table No 40 of the report on "Evolution and Prospects of the European Steel Industry", E. C. E. Geneva, 1949, extracted from the Pittsburgh Business Review, Jan. 31, 1938.

To place the steel industry in a more advantageous position for purposes of international competition, each country, independently of considerations relating to competition between the various means of transport greatly influencing the structure of its rates, has continued at the same time to modify its transport rate structure in order to make its rates more advantageous for national industry. This creates a serious situation, since competition may thus favor only the producer who is the most protected and not determine the best producer under natural competitive conditions.

Transport charges currently represent 20-25% of the selling price of each ton of rolled steel delivered to the consumer. It is readily understandable that a distortion of 20 % in these transport charges is enough to upset competitive conditions entirely.

It is therefore essential to eliminate such distortions.

Distortions Resulting from Transport Rates.

There is no reason to be surprised that the analysis of transport rates reveals a considerable number of more or less flagrant distortions. The least flagrant are not always the least harmful.

There could be no distortion if transport were entirely competitive; whoever sells at an artificial price without having a monopoly in the field is eliminated in competition. Such a situation exists, and then only imperfectly, for shipments over international river routes. The situation is entirely different with the railways, which handle 75-80 % of the transport in the Community.

The railways, on the contrary, have considerable leeway in fixing their rates and are in no way compelled to base these rates on their costs. Moreover, such a policy would

be hampered by the difficulty in calculating or even defining the costs entering into a given transport, due to the difficulty in breaking down general expenditures on the basis of different traffic.

Rail freight rates consist of a very complex system of "general" and "special" rates, differentiated on the basis of considerations reflecting the interests of the transporters or the users, or the desires of the public authorities.

Of course, everything cannot be criticized in this system. The first task is to distinguish essentially what is in contradiction with proper operation of the common market.

* * *

To illustrate the effects of the differentiation of rates, we may take the example of Lorraine iron ore shipped to the steel industry in northern France and Lorraine ore shipped to Belgium. Shipments over these two routes are made in privately owned freight cars forming daily complete trains of equivalent tonnage traveling over routes having approximately similar characteristics. Nevertheless, transport charges are as follows :

	<i>(per ton)</i>	
	Belg. frs	Fr. frs
1. Sancy-Azincourt (284 km)	—	631
2. Sancy-Ecouvieux (47 km)	—	328
Ecouvieux-Ougrée-Marihaye (164 km)	73	522
Sancy-Ougrée-Marihaye (211 km)	—	850

To take another example, the transport of coke from the coal basin to the steel mill breaks down as follows in three typical cases :

	<i>(per ton)</i>	
	DM	Fr. frs
1. Lens-Homécourt (340 km)	—	776 ¹⁾
2. Gelsenkirchen-Nennig Fre (302 km)	20.30	1,727 ¹⁾
Nennig Fre-Homécourt (61 km)	—	735 ¹⁾
Gelsenkirchen-Homécourt (363 km)	—	2,462 ¹⁾
3. Gelsenkirchen-Sulzbach Rosenberghütte (562 km)	21.30	1,818 ¹⁾

¹⁾ In freight cars provided by user.

Examination of these prices clearly shows that international traffic is penalized in comparison to internal traffic in the countries in question.

The application of higher rate scales is far from being the only reason for these differences. In addition, there are the phenomena called "interruption of charges": at each border, the rate scales are reapplied from the beginning where they are highest because of terminal charges and degressive rates.

In addition, however, internal transport often benefits from lower than average rates whereas transport between member countries rarely receives such benefit.

Each steel basin actually gains in some ways and loses in others as a result of this system, whereby the railways favor national mills and disfavor mills in neighboring countries. The final effect of this situation is negative for the Community. The choice of the consumer made on the basis of ingeniously falsified "delivery" prices no longer coincides with rational economic choice based on real costs of production. Irrational transport thus burdens overall consumption with useless charges. The orientation of production and the expansion of consumption are nipped at the root.

Yet the situation is such that no participant can take corrective action alone; his industry would pay a high price for such unilateral honesty. Only a general and simultaneous decision on the part of all interested parties can put an end to the situation.

Only a supranational authority is capable of satisfactorily solving this kind of problem.

Means of Eliminating Distortions.

The elimination of distortions is a direct and simple consequence of the establishment of the common market, but the complexity of the rate measures to be amended

requires extremely detailed procedures and a rational scheduling of studies and decisions.

First, the Treaty distinguishes discrimination as such, that is, non-application to traffic between member countries of rates applied to internal traffic in these countries. Such discrimination is in flagrant contradiction with the principles of the common market and its pure and simple elimination is essential. The Convention has fixed a limited period of three months for that purpose.

The Treaty next provides that protective rates must be eliminated within the framework of the common market. However, the High Authority may authorize the temporary or permanent maintenance of such rates if deemed compatible with the principles of the common market. Rates of this kind are extremely numerous and examination should not be limited to the field of transport but also cover the general economic situation of the enterprises benefiting from such rates.

The Convention further provides for the creation of direct international rates, designed to eliminate the phenomenon of interruption of charges. This raises delicate problems to be studied within a two year period fixed by the Convention.

Finally, internal rate structures of the various countries differ in their conception, a factor introducing disturbances that must be remedied.

This last stage of the work is also the most delicate, for it is not possible to suddenly align rate structures on an arbitrary standard without taking into account the relations between these rates and those for other merchandise. On the contrary, an attempt must be made to arrive at a solution retaining the advantages of each system, and particularly to maintain those measures likely to contribute to the development of large-scale traffic at low costs (complete trains, specialized freight cars).

* * *

The Convention has provided for the creation of a Commission of transports experts, charged by the High Authority with studying the measures necessitated in the field of transport by the establishment of the common market. The Commission held its first meeting on October 24, 1952, and the two Sub-Commissions created at that time have already held several meetings devoted to the problem of discrimination.

At the present time, all examples of discrimination reported by users (producers and consumers) have been examined by these Sub-Commissions, and the transporters have agreed to eliminate the greater part of such discrimination except in certain limited cases requiring particularly detailed study for rational solution. It is therefore probable that when the common market opens the Governments will have been able to take the necessary steps to eliminate all flagrant and important discrimination, particularly: Coal from the Saar, Lorraine and from the member countries in general will benefit in Germany from the general rate applied to German coal (AT 6 B 1); Lorraine iron ore for Belgium and Luxembourg and for export in general will benefit in France from the same rate applied to shipments to destinations in France; French steel products exported via Antwerp will in Belgium benefit from the same rates as products of Belgian-Luxembourg origin.

The successive steps provided by the Convention for the creation of international direct rates and the harmonization of internal rate structures cover a very broad field. Operations of such a scope are exceptional in the history of transport and have never been attempted except within individual countries.

It is still difficult to specify what studies these operations will require, but the task nevertheless seems to be one which can be followed through to completion by persistent and determined effort.

§ V

SUBSIDIES AND COMPENSATIONS

In conformity with the provisions of the Convention, the High Authority requested by letter on September 5, 1952, that the Governments submit information on the following :

1) Subsidies or special charges benefiting the operation of the coal and steel industries in the different countries ;

2) Clauses pertaining to coal and steel in proposed trade agreements, and trade agreements remaining in effect for more than one year after the entry into force of the Treaty, i. e., beyond July 24, 1953.

At the same time, in conformity with paragraph 3 of Section 2 of the Convention, the High Authority fixed November 10, 1952, as the date as of which consultations would be undertaken with the Governments on the measures to be temporarily administered by them in those fields where the High Authority has not yet assumed powers endowed it by the Treaty. Although the Governments have submitted fairly rapidly the required information on existing trade agreements, there has been a considerable delay in the submission of the declarations on subsidies.

On the basis of the information furnished by the Governments and the talks held with their representatives, it is possible to form a general picture of the situation as concerns subsidies, whether financed from public budgets or financed for certain products or certain enterprises by means of a system of compensation affecting other products or other enterprises.

It is useful to distinguish between assistance to coal enterprises, assistance to steel enterprises, subsidies on

imported products and subsidies for lowering prices for certain categories of consumers, although in certain cases their effects do tend to overlap.

Assistance to Coal Industry.

In all the countries, the State provides limited assistance through a contribution to the financing of certain social charges of the coal industry, particularly miners' pensions.

The most important direct subsidy is that covering the difference between the cost of production and the selling price of coal produced in Italy.

Special subsidies for certain mines exist in the Netherlands, where two mines having costs of production in excess of earnings receive assistance. In Belgium, the Government is currently helping to cover the operating losses of five mines. In France, Charbonnages de France is charged with administering inter-basin compensation, whereby basins enjoying more favorable operating conditions pay a fixed sum per ton, which has constantly been declining, however, in order to facilitate the balancing of operations in less favored basins. In addition, the patent fuel plants located on the seacoast receive assistance from the solid fuel compensation fund enabling them to sell "boulets" to household users at a price comparable to that of the patent fuel plants located near the mines, despite the high price of imported fines and the heavy transport charges for materials obtained from French mines affecting both the supply and the marketing of their products. Lastly, sales of Saar and Lorraine coal in Germany benefit from a contribution enabling the prices to be brought into line with the prices of Ruhr coal at the place of consumption.

The High Authority deems it wise to point out that certain inter-mine compensations are provided for by

the Treaty for preventing the price of coal from rising to the level of the costs of production of the most costly mines which must nevertheless be kept in operation to supply the Community. Under the terms of Section 24 of the Convention, national compensation arrangements may be maintained on a temporary basis. In sales from one country to another within the Community, it may be necessary temporarily to maintain certain financial arrangements to compensate for abnormal transport charges resulting from the necessary delays in carrying out all the modifications in rates stipulated by the Treaty.

Assistance to the Steel Industry.

In no country of the Community does the steel industry receive direct subsidies.

Subsidies and Compensations for Imported Products.

The Netherlands and France have perequation systems enabling imported coal to be sold at the same price as coal of national origin. The difference between the two systems, however, is that in Holland the perequation is carried out on the basis of an average selling price, with the price of Dutch coal being increased by a levy which serves to finance the lowering of the price of imported coal to the level of the internal price thus increased. In France, on the other hand, the Government covers the deficit of the compensation fund. The fund receives payments when coal is imported at a price lower than the French price and pays out a subsidy when the import price is higher than the French price.

It is clear that with the establishment of the common market, a difference will have to be made between supply from other countries of the Community and imports from third countries. The lowering of the prices of products imported from third countries is not prohibited by the

Treaty. Moreover, it is consistent with the measures tending to avoid an increase in the price of the entire production to the level of the most costly source of supply. Nevertheless, the measures applied must be examined from the point of view of their repercussions on production and trade in the Community. The financial measures applicable to supply from other countries of the Community are directly governed by the provisions of the Treaty and the Convention.

Subsidies to Consumers.

Certain of the arrangements already described, for example, the subsidy to patent fuel producers in France, also serve to lower selling prices to certain consumers, namely, household users. In the case of Germany, household users, maritime fisheries and the non-Federal railways were exempted from the most recent increase in coal prices. These advantageous prices are maintained without any explicit subsidy. Nevertheless, in reducing the earnings of the mines, they result either in losses for the mines or in the establishment in Germany and in the Community of prices higher for other consumers than would be the case if the differentiation in price in favor of certain consumers had not been decided.

It is obvious that any differentiation in favor of consumer activities competitive within the Community constitutes the equivalent of dual pricing incompatible with the provisions of the Treaty. A separate place must be assigned to the question of household consumption, however. First, household users in the different countries are not mutually competitive. Consequently, the advantageous prices granted to them for political reasons or for purposes of a general stability of prices and wages would not impair the conditions of economic activity. Second, the source of supply for household consumers is the retail trade, which is not within the jurisdiction of the Community. If the Governments envisage measures in favor of household consumers, it is

essential that they make no discrimination against the origin of supply, that the effect of these measures not be to favor coal of national origin over coal from other countries of the Community, and that they not force the producers themselves to discriminate between buyers, which is incompatible with the Treaty. In other words, if household consumption must be subsidized, the subsidy can be applied only at the distribution level.

§ VI

ELIMINATION OF DISTORTIONS

Apart from discrimination in the prices of products or the conditions of transport and subsidies granted to industries, competitive conditions may be impaired by the effect of legislative or regulatory measures in effect in the different member States. This is the problem referred to in paragraph 4 of Section 2 of the Convention. In accordance with the instructions set forth in that paragraph, preliminary talks have been had with the representatives of the Governments of the member States. It has been possible to define the scope of the problem and to reach certain significant conclusions.

This is a subject in which false interpretation must be carefully avoided. The equality of tax burdens or social charges is not a prior condition for the establishment of competition resulting in the best economic effects. Quite the contrary, trade is based on differences, and the distribution of activities resulting from that situation takes account of basic data such as the cost of labor and the burden of public expenditures.

Study of the problem of taxes gives a better idea of the measure of the conditions to be met. The level of taxation in a given country depends on both public expenditures and the redistribution of income occurring as a

result of governmental action. In order to meet these expenditures or to make these transfers, taxes cause a reduction in possible spending by individuals and enterprises either through a reduction in income or an increase in prices.

It is obviously normal, however, that this reduction in possible spending apply equally to products of national origin and imported products. It is therefore by no means necessary that the tax burden borne by different productions be equivalent. For the purposes of normal competition, however, it is desirable that on the market of each country the taxes included in the prices of products of national origin and the prices of imported products be of the same rate. The simplest way is to exempt products upon export and tax products upon import at rates equivalent to those applied to national products. It is readily apparent that in this way no distortion could be introduced by taxes since products would be taxed by the same amount at the selling stage whether it be a question of the market of the country considered or the market of other countries.

In practice, this situation exists only to a very limited extent. The purpose of the talks with the Governments was to determine to what extent a difference was introduced on the market of the different countries between the charges affecting products on the basis of origin, as a result of the effect of tax measures, social security regulations, and the fixing of prices of supplies and by-products.

Taxes.

The following information on taxes must be known :

- 1) Whether the sum of the taxes from which exports are not exempted in the country of origin and the duties in compensation thereof imposed by the country of destination differs from the sum of the taxes paid on products having their origin in the country of destination ;

2) Whether the sum of the taxes from which exports are not exempted in a country differs from the sum of the taxes which continue to affect exports of another country.

In the examination referred to above, a distinction was made between the following :

- 1) taxes entering into costs of production ;
- 2) taxes added to selling prices ;
- 3) taxes on profits which may affect the yield of investments but have no direct effect on prices.

The first category includes old taxes such as the land tax and a large number of local taxes, taxes on the capital of enterprises, and finally the incidence of turnover taxes on purchases incorporated in products.

Briefly, the situation seems to be as follows : the land taxes, mining fees, and licences, which enter into the costs of production without being compensated for upon import or rebated upon export, are based on old values, and nowhere have other than a very small, negligible incidence of about 1 % on the value of products.

Mention should be made of the taxes levied on the capital of enterprises, having an incidence of about 1 % on prices in Italy and an undoubtedly larger incidence in Germany.

The most complex problem is that of the incidence of turnover taxes. Here it is advisable to distinguish the cumulative taxes applied in all countries of the Community, and the system of the production tax applied in France alongside the cumulative transactions tax.

Cumulative taxes have an over-all incidence greater than the nominal rate of the tax for the reason that they suc-

cessively apply to the full value of all the products entering into the manufacture. When the compensatory import duty is equal to the rate of the tax, the product of national origin is at a disadvantage with respect to the product of external origin to the full extent that the taxes of the country of origin to which exports remain subject are not added thereto. The cumulative effect is negligible for coal but appreciable for steel, principally in the case of non-integrated enterprises. It should also be pointed out that in this respect the distortion of competition is as great between integrated and non-integrated enterprises of a same country as between enterprises situated in different countries.

The French production tax is in principle levied on sales less previous purchases and consequently has a specific incidence that can be exactly compensated for at the import stage. Nevertheless, this principle has not been applied to any great extent, inasmuch as the deduction for purchases applies only to raw materials and semi-finished products incorporated directly in products. In addition, the cumulation of taxes at an extremely high rate amounting to almost 16 % of the value of the product including taxes has its full effect on overhead expenses, investments and that portion of services, particularly transport, entering into costs of production.

The degree of exemption of exports from turnover taxes varies from country to country and even from product to product. Not only do Belgium and the Netherlands abstain from collecting the transaction tax on exports, but they try to rebate arbitrarily the taxes paid on purchases incorporated in the products to be sold abroad. France exempts exports from the production tax, which results in exempting the purchases as well as the final sale to the extent that the tax is not cumulative. In addition, a system of export rebates has been created for compensating the taxes to which exports remain subject and also certain

social charges. These systems, however, are applied selectively by product and by destination and do not apply to any of the products within the jurisdiction of the Community.

Social charges.

A disparity in the percentage represented by social charges with respect to wages does not in itself constitute a distortion of competition. In total labor costs, the percentage of social charges reflects only the distribution between direct and indirect wages, which conforms to the customs and desires of each country. The higher the share of family allowances, retirement pensions, and health insurance, the greater the percentage of social charges increases as a result of the effects of two phenomena: not only is the corresponding expenditure higher, but the direct wage base to which it refers is itself reduced.

Measurement of possible distortions resulting from the financing of social security is much more limited and, in addition, more difficult to grasp. If the social charges paid by a specific industry and the social benefits received by its workers were equal, social charges would merely be another form of wages, and the wage level is one fundamental economic factor upon which competition must be aligned. Actually, there is possibly something of the element of a tax or a subsidy in the operation of social security if an industry pays more or less than the workers receive, that is, if it assumes for other industries a charge which is not compensated upon import or if it benefits from a subsidy on the part of other industries which favors it with respect to imports. This remark is not meant to call into question the principle of the association of all industries in a common social security system, but it would be useful to be able to measure statistically these transfers from industry to industry in order to envisage the compensation to be applied to imports or exports, as the case may be, if such transfers prove to be substantial.

With the problem thus being placed in its proper perspective, it can be said that the Governments participate in the financing of social security for miners in all the countries and to different degrees. In addition, there is a special regime for social charges and social benefits for the mining industry in all the countries except Italy, and to different degrees the contributions and the benefit payments are at a higher level than in other industries. The steel industry comes under the general social security system. Only in the Saar and in Luxembourg is there a supplementary system entailing higher contributions and benefit payments. Lastly, it might be noted that in view of the fact that health insurance for children is carried by the father in families where both the father and mother work, a branch of activity such as the coal industry, where almost all employees are males, consequently supports a charge which benefits the other industries when it possesses a separate health insurance system. This same effect, however, is produced in several industries of the Community.

Price Fixing.

With reference to prices fixed by the Governments on products which interest the industries of the Community without coming under the jurisdiction of the Community, the situation of the coal and steel industries could be facilitated if the fixing of prices resulted in a lowering of the price of their supply, or could be made more difficult if such decisions limited the price of their by-products to a greater extent than is the case in other countries. Upon examination, it appears that this aspect of the problem is no longer of great importance, since price fixing by Governments is becoming less widespread and the prices that remain fixed do not differ greatly from those determined under free competitive conditions. Such is the case with gas and electricity prices. As concerns slag, the price is maintained in all countries largely below that which would result from a parity with

superphosphates. Consequently, the steel industry is required to subsidize agriculture but in comparable proportions in the six countries of the Community producing Thomas steel.

Thorough and delicate studies will be necessary to measure exactly the effect of the various factors likely to introduce distortions in competition. It will then also be possible to establish a balance sheet comparing overall charges supported by products of national origin, imported products, and exported products in country to country relations within the Community. Desirable changes in legislation will obviously require time, but in any case the first overall conclusion is that, everything considered, the distortions in the six countries are of limited scope. Comparison with Great Britain reveals an extremely different situation. Contrary to the system in effect in the six countries, coal is practically untaxed in Great Britain, and for the most part the miners' social security is financed out of the general budget, itself financed by indirect taxes from which coal is exempted or taxes on profits which the coal industry does not pay since it sells at production costs. This legislative difference explains almost entirely the difference in price between British coal and the coal of the Community. No attempt whatsoever is made to judge the merits of either system, that in which all charges are included in production costs or that characterized by large-scale transfers organized through public finances. It should be noted however, that the two systems are incompatible, and the correct relationship of real costs of production cannot be established without prior correction if an attempt is made to set up side by side production wherein costs are determined under such different conditions. Such an attempt would also tend artificially to reduce or increase production in a manner disadvantageous both for the countries where production would be reduced and for the countries where it would be increased.

§ VII

MEASURES UNDER WAY

The imminent opening of the common market for coal, iron ore, scrap iron and, two months later, for steel will occur during a quarter for which certain international decisions have been taken for the allocation of coal. It also presupposes progress on certain measures as regards prices and the setting up of the perequation mechanisms provided for in the Convention.

Distribution.

Taking into account the import programs for American coal and the fuel requirements foreseen by the countries of the Community, the High Authority considers that the situation for coal supply during the first quarter of 1953 does not require the application of special measures for distribution as provided under Article 59 of the Treaty.

The Sub-Committee on Distribution and Supply of the O. E. E. C. met on November 21, 1952 and the Sub-Committee on Coal Markets of the E. C. E. on November 25. During these meetings recommendations to be sent to the Governments on the subject of export allocations for the first quarter of 1953 were unanimously adopted.

Within the framework and by virtue of its competence in matters of distribution, the High Authority has stated that adherence to the terms of these resolutions is obligatory for the member countries of the Community. This decision relating to the first quarter of 1953 will not be affected by the opening of the common market.

The continuation of allocations until the end of the quarter will provide a useful transition, since during the

first weeks of the common market's existence trade will remain patterned on the decisions taken, although it will be possible at that time to observe the placing of orders for subsequent trade.

The High Authority has not yet taken any decision for the second quarter of 1953.

Prices.

On January 5, the High Authority began talks with experts from the different Governments on the specific price problems which might arise for products or for certain regions when the common market opens.

These talks will include a meeting with the Council which will take place immediately following the closing of the session of the Assembly.

Perequation.

The opening of the common market for coal presupposes the setting up of perequation mechanisms. This requires the precise definition of producers' earnings and market ton, which must serve as basis for the perequation levies. In addition, there must be rapid verification of relative costs in order to determine which regions of the Community shall contribute to these levies. A working group has been formed for this purpose.

The setting up of the mechanisms provided by the Convention consists merely of creating the conditions in which the necessary collections and payments may be made without delay. The decision to institute a levy and the fixing of the amount of the effective payments will not

necessarily occur as soon as the common market opens and depends upon talks with the Belgian Government on the amount of the subsidy to be entered in its budget for the coal industry and which, in conformity with Section 25 of the Convention, governs the level of the perequation levies and payments to be financed by the other producers of the Community.

PART FOUR

**Improvement of Living Conditions
of the Workers**

IMPROVEMENT OF LIVING CONDITIONS OF THE WORKERS

The fundamental articles of the Treaty require that the European Coal and Steel Community take steps to ensure an increase and a rationalization of production and an increase in consumption. Such objectives, however, also imply on the part of the Community an obligation to improve the living and working conditions of the workers and to coordinate the progress in these fields.

The Community must become a concrete reality for all of its members, workers as well as producers. This will be achieved only if the standard of living in the Community is effectively increased. The spirit forming the primary condition for any fruitful cooperation within an enterprise must also reign within the vast framework of the Community.

To be sure, part of the effects of this social progress resulting from common efforts will become apparent only in the long run. An increase in the standard of living often first takes the form of increases in production, investments and markets¹). However, the High Authority has already obtained valuable information on this subject.

The work accomplished by the High Authority relates first to measures for guarding against large-scale unemployment which must be sought within the limit of possibilities. To a certain extent this work also concerns the income of the workers. It covers the general living conditions of labor and lastly the question of the cooperation of the workers and their organizations in the institutions of the Community.

¹) Similarly, the workers cannot immediately satisfy their tendency to move to areas having high wage levels.

Protection Against Unemployment

In all countries, the primary concern of the workers is to ensure themselves employment. Article 56 of the Treaty and Section 23 of the Convention on transitional measures introduce a real revolution in modern economic policy. In effect, they provide for readaptation assistance to help protect workers against certain kinds of unemployment. This applies to the case of large-scale unemployment of a technological nature such as might break out following the introduction of new technical methods in certain fields of the Community. This assistance will also be applicable in case enterprises or certain of their establishments find themselves particularly threatened when the common market is established. In such a case, provision is made for assistance in the financing of investments for the creation of new employment and for non-reimbursable allocations to the workers to cover the period of temporary unemployment, the search for new employment, and the retraining of workers. Payments of this kind within the framework of transitional measures may be made during a maximum period of two years following the end of the transitional period.

It is particularly with these obligations for readaptation assistance in mind that the High Authority has taken steps to assure as soon as possible the collection of the levy on the production of coal and steel, which under the terms of Article 50 of the Treaty shall contribute to the financing of the assistance which might prove necessary.

It would be impossible to attempt to evaluate at this stage the various possible effects of the safeguards referred to above. Furthermore, it must be considered that any widespread unemployment resulting from economic developments affecting the over-all economy must be fought by other methods, since measures forming part of a general economic policy play the decisive role in this case. One fact,

however, does stand out clearly at this time : in the long-term employment policy envisaged by the Community, a new element has been introduced decisively strengthening social security and leaving the way open to a radical increase in productivity.

Wages and Labor Movements

The second principal element contributing to the standard of living of workers is wages. Apart from specific cases involving a reduction of wages as a means of competition and in which the High Authority has the right to intervene directly, the role of the High Authority is essentially to gather information necessary for the appreciation of the possibilities for improving living and working conditions of the workers as well as the dangers threatening them.

In conjunction with the International Labor Office in Geneva, the High Authority has undertaken a study of wages, social security and working conditions in the coal and steel industries of the six member countries.

On the basis of the information available thus far, it appears that since 1950 when a study was made in connection with the negotiation of the Treaty, sizeable wage increases have occurred in all the countries, both in the coal and steel industries. Nevertheless, two elements should be distinguished :

1) First, the increase in wages accompanied an increase in production : general production in the case of Germany, increased output in the mines in France.

2) On the other hand, however, the increase in wages was also accompanied by an increase in the cost of living, which has been very unequal in the different countries. The greatest increase in the cost of living was in France,

while it was very moderate in Belgium, Luxembourg and the Netherlands. Belgian and Luxembourg wages are among the highest, however, with Dutch wages being among the lowest.

The combination of these two factors does not seem to indicate any clear tendency for a narrowing of the difference between wage levels. Whereas the difference between German and Belgian wages has declined, the difference between Dutch wages and those of the rest of the Community has increased and a disparity has also been introduced between French and German wages.

Whereas these overall wage movements can be roughly measured, comparison of wage levels in different countries is difficult in view of the absence of uniform professional classification. The High Authority has entered into contact with the International Labor Office which has already made considerable progress in drawing up standard definitions of professional categories. This work is necessary not only for the establishment of comparative wage studies but also for application of those clauses in the Treaty whereby the member States agree to permit the free movement of qualified labor in the coal and steel industries. This necessity underlines the relationship between those provisions of the Treaty pertaining to wages and labor movements.

Equality in the improvement of living conditions for workers, one of the objectives of the Community, cannot be artificially obtained by increasing nominal wages in regions of lowest wages in a manner which could not be sustained by the increase in production itself. Equality, on the contrary, will result from the economic measures taken in this field under the Treaty.

Everything else being equal, production always tends to seek regions where labor is cheap. It is this very development which tends to increase wages in those regions,

if at least the workers are in a position to obtain the benefit of the increased production. Without underestimating the material and psychological difficulties of a change of residence, it must be admitted that the possibility which the Treaty offers labor for obtaining other employment elsewhere provides labor with an important bargaining instrument in such negotiation. This freedom of movement of labor cannot result in a lowering of the wage level in regions where wages are highest. Two safeguards have been established, one prohibiting the use of wage reductions as a means of competition by enterprises, the other prohibiting discrimination against immigrant labor. Hence, recourse to immigrant labor cannot be used as a means of pressure on the wage level.

Such is the way in which the common market, governed by the Treaty, insures equality in the improvement of living and working conditions of labor in the industries under the jurisdiction of the Community.

Workers' Housing and Safety Conditions

It is obvious that the security of employment and the profound analysis of wage conditions are but many of the questions relating to the living conditions of the workers. Just as important for the worker in his role of consumer and also for the increase in output is the question of housing conditions, closely tied in with the general problem of investment.

This output depends essentially on the nature of the living conditions of the workers. The worker with good housing near his place of work gives much better results than the worker who twice a day must commute a considerable distance or who does not find in his home adequate comfort or sanitary conditions. The necessity of taking steps to improve this situation is especially acute in

those industries where, despite modern technical progress, the work of the laborer remains extremely arduous. It is particularly pressing in the coal industry where, for lack of adequate housing, certain mines cannot keep their personnel: too large and too frequent a turnover in personnel is one cause of lowered productivity.

In order to cope with this problem, the High Authority provided for the formation of a Sub-commission on Workers' Housing under the Investments Commission, made up of representatives of producers and workers as well as officials and construction technicians. This Sub-commission set itself the task of establishing an inventory of existing housing in the Community. Of the approximately 1,750,000 persons employed in the industries coming under the jurisdiction of the Community, some have no housing; many others have inadequate housing or housing located too far from their place of work.

The survey is being continued methodically, but on the basis of the results already obtained it is apparent that nearly one-fifth of the workers of the Community lack housing or have inadequate housing.

Not all housing needs, however, have the same degree of urgency. A shortage of 140,000 housing units exists; this must in any case be overcome by new construction. In the case of housing which is inadequate or located too far from the place of work, the methods adopted in each country and in each enterprise for remedying this situation are not always similar, and no objectives can be defined until additional studies and on-the-spot surveys are made.

The problem is made more difficult by two factors: first, a certain number of existing housing units are little by little becoming unusable and will have to be replaced; second, especially in the coal industry, housing units are generally left at the disposal of the occupants when they are no longer able to work. This represents a burden for the coal industry of a scope difficult to estimate.

From the results of the studies under way, it is in any case evident that a minimum of 50,000 or 60,000 new housing units will have to be constructed annually in the Community during the next four or five years. This minimum figure may be subject to correction as a result of the studies undertaken by the High Authority.

For some years the industries of the Community have made a considerable effort, often with the assistance of the public authorities, to resolve the problem of workers' housing. On January 1, 1952, the enterprises of the Community had at their disposal over 600,000 housing units. The creation of the Community opens new possibilities which the High Authority is exploring in cooperation with the interested parties. The construction of housing for workers in the coal and steel industries becomes a common task. The total volume of construction in question is extremely high; this will permit the granting of contracts on a much larger scale, the rationalization of elements of construction and a systematic effort to raise productivity in practice. The broader utilization of new techniques and unity of conception, which does not exclude diversity in execution, are the source of this progress which can be decisive. An eventual contribution of the High Authority may facilitate the undertaking of housing programs on a European scale and make it possible to find ways to reduce construction costs.

* * *

Any improvement in the general living conditions of the workers should also include measures for the prevention of work accidents, constantly on the rise, and for protection against the development of occupational diseases. Since in this field too the High Authority disposes of its own financial means assured by the levy, research can be financed to increase safety conditions in the coal and steel industries. Furthermore, there exists the possibility of using certain funds from grants.

The High Authority is already in contact with the international organizations competent to provide the necessary cooperation in this field.

Cooperation of Workers

This review of the situation would be incomplete if it did not make mention of the very important subject of the forms of cooperation of the workers in the institutions of the Community.

For the first time in modern history, the European Coal and Steel Community has provided in its Charter for cooperation on a supranational basis of workers, consumers and their organizations within the framework of the Community.

This cooperation is carried out in three ways :

- (a) by consultations,
- (b) by recourse to the cooperation of producer associations,
- (c) by worker and consumer representation within the Consultative Committee.

(a) As concerns the *consultations*, the workers, as well as the consumers, dealers, enterprises, and their respective organizations, have the right to submit their suggestions and their observations to the High Authority at any time. All the partners must really feel themselves members of the Community ; it is with them and not apart from or despite them that the common tasks must be accomplished. The High Authority hopes that intensive exchanges of views will constantly help to strengthen cooperation.

In order to develop this method of cooperation, the High Authority may, on its own initiative, at any time consult its partners and their organizations. It intends to follow this practice.

(b) Article 48 of the Treaty proposes giving still more concrete form to the cooperation provided by the workers and the consumers. By means of its organization and its working methods, the High Authority cannot advance in a vacuum. It needs constant and close contact with reality every day and if it wishes to avoid overstaffing it must delegate certain of its tasks to subordinate authorities. However, the delegation of such tasks to *organizations* consisting solely of producers would result in excluding workers (and consumers) from these intermediate stages, not to speak of other dangers. It is for this reason that certain tasks will be delegated to producers' organizations only when qualified representatives of workers and consumers participate in the leadership of such organizations or in consultative committees affiliated to them or when the organizations assure in any other way "a satisfactory place in their organization to the expression of the workers' and consumers' interests." In the meantime, the different member countries will proceed to set up the producers' organizations. The forms chosen will vary according to the country, but in every case the workers (as well as the consumers) will be represented.

(c) Workers (and consumers) will achieve their most effective representation within the *Consultative Committee* already referred to elsewhere in the present report.

We would merely like to stress at this time that the workers' representatives — as well as the producers' representatives — have been designated by the Council of Ministers upon the proposals of the competent organizations; the Treaty prescribes consultation of the Consultative Committee in a great number of cases; the Committee shall in addition be heard in all cases deemed necessary by the High Authority; and the Committee can call its own meetings upon the request of the majority of its members.

The Consultative Committee will assume its functions during the coming weeks.

The workers therefore contribute to the formation of the decisions of the High Authority by means of consultation. They express their opinion within the Consultative Committee on the decisions prepared by the High Authority. They participate in the execution of tasks within the producers' organizations formed.

Through the implementation of the provisions of the Treaty, the cooperation of workers and consumers will pass from desire to reality.

The picture is thus complete: the High Authority and the workers cooperate in the same institution. The High Authority benefits from the advice of the workers and places at their disposal its own information. If we add to this picture the cooperation with producers, consumers and Governments, we thus acquire an idea of the Community striving for the creation of a Europe characterized by high economic output, social equality, and general well-being.

PART FIVE

**Development of Consumption
of Coal and Steel
Investments and Their Financing**

CHAPTER ONE

LONG-TERM DEVELOPMENT OF THE MARKETS FOR COAL AND STEEL

In industries where investment projects are spread over a period of years — a new mine is ready for full operation only six to eight years after the first sinking of the shaft — it is invariably necessary to examine the question of possible market developments. The High Authority has assigned to a group of economists, working in cooperation with a larger commission including producers, trade union experts and high-ranking officials in the economic field, the task of preparing forecasts on long-term demand for coal and steel of the Community.

To be more exact, it is not a question of drawing up estimates as such. Over a ten year period figures for production or demand may prove to vary appreciably from present estimates. A greater investment effort resulting in a more rapid increase in over-all production will mean a more rapid increase in demand for coal and steel. Inversely, profound changes in production techniques may result in more sudden substitutions of other sources of energy for coal, a reduction in demand for coke for the production of steel, and the substitution of other materials for steel in a series of uses.

Furthermore, the rate of economic expansion could be greatly affected if the world allowed another profound crisis to occur similar to that which characterized the 1930's.

Even if the fluctuations are absorbed, effective demand after a ten year period varies according to the level of activity in the year under consideration. Taking 1951 as reference year for the study of production and demand levels means that the study is based on a year characterized by intense economic activity, and consequently the estimates based on those figures assume that the end of the period also coincides with a high level of activity. This is the situation for which the responsible authorities and the heads of enterprises must prepare. Productive capacities must be able to meet the requirements of a period characterized by a high level of activity.

It is therefore clear that a study of this nature can be undertaken only on the basis of certain general assumptions. One must assume that there will be no war or any fundamental changes in the international political situation, that governments will succeed in avoiding drastic fluctuations in economic conditions and that technical progress will continue without any spectacular new changes. It is obvious that estimates must be progressively adjusted and revised if events during the next few years deviate from these initial assumptions. The present study of the situation is merely a preliminary one and must be continued and broadened. Its purpose was to attempt to provide a preliminary estimate of probable demand in ten years' time while making an additional estimate of the probable level of demand at the end of the next five years.

As for internal consumption, estimated long-term demand is based on the relationship between the demand for coal or steel and the level of over-all production or, what amounts to the same, the level of real national income corrected to take price variations into account.

The relationship between demand for coal and the level of national income is explained by the fact that all

activities, including household users, consume energy. Although the percentage reliance on coal is gradually decreasing, coal nevertheless remains the principal source of this energy.

The relationship between national income and the consumption of steel is explained first of all by the fact that investments, which are approximately proportional to the level of national income, require steel. Likewise, the increase in the consumption of durable goods, for example, household appliances, confirms this relationship of consumption to income.

Increase in Income

We must therefore examine first of all the question of the real income of the countries of the Community. Examination of the evolution of real income is based on a combination of three elements: the working population, the degree of employment of this population and the productivity of this population. It can be assumed that there will be no very great variations in employment; in other words, the hypothesis of large-scale unemployment in particular can be excluded. In addition, the difficult tasks facing Western Europe lead one to believe that there will not be any appreciable shortening of the work week. In other words, the degree of employment, characterized by the proportion of the working population actually employed and the length of the work week, will remain unchanged.

The third factor, the productivity of the working population, requires more profound analysis, based on well-defined assumptions.

There has been a constant increase in productivity in the modern world and, over a sufficiently long period, a well-defined average rate of increase can be detected. On the basis of experience over a fifty year period, the average

rate of increase in productivity from year to year can be fixed at between 1.5 % and 2.0 %. It should be pointed out that this rate is cumulative and corresponds to a doubling of productivity over a period of thirty years and a sevenfold increase in the course of a century. This represents a substantial increase even though it is very slight over a small number of years. It should also be pointed out that this rate of increase in productivity applies to the entire economy. Although an increase in income results also in an expansion in such services as distribution, teaching, administrative services, and medical care, the increase in productivity in these sectors is very low. There is a disproportion between the rate of increase in general productivity and that which may be achieved in industry: industry however, represents only 35-40 % of the value of total production.

Even if the increase in productivity were only to attain that rate, it would nevertheless require that measures be taken to enable coal and steel production to meet increased requirements. It would be inconceivable for a shortage in coal or steel to be responsible for slowing down economic development.

The experience of the past few years and the changes which have occurred in the European situation lead one to believe that the rate of increase in productivity will be far more rapid. Since the war it has amounted to 10% from one year to the next in certain cases. For countries of the Community, it averaged 4% during that period. It is impossible, however, to project this figure for future purposes unless corrections are made. This figure pertains to a period of reconstruction preceded by a period of low production. It is easier to regain previous production levels than to push ahead over entirely new ground. This reconstruction effort is still not entirely completed and in Germany in particular will continue for another one or two years. In addition, there is no doubt that the countries of Western Europe have become aware of the necessity of expanding social pro-

grams in order to permit an increase in the standard of living and to avoid the risk of a growing disproportion between the expansion of production in this part of the world and that noted in the United States as well as in the Soviet Union.

One of the manifestations of this psychological change is the considerable widespread emphasis placed on investment since the war. If these countries partially modify a policy based too exclusively on the search for security in favor of a policy of economic development, the rate of increase of productivity would be accelerated. The creation of the Coal and Steel Community is the most striking sign that such is indeed the case. Investments undertaken and those under way continue to bear fruit. In addition, services of all sorts have already achieved wide scope in Europe and attention is being centered today on the development of industrial production at the same time that consumption of durable goods is increasing. However, industrial production can increase more rapidly than total production. Finally, even if continuation of the exceptional rate of increase during past years cannot be expected in the future, it must at least be admitted that the rate does show signs of slowing down. It cannot be assumed that it will undergo a brusque change and decline to the average rate noted in the past.

These considerations lead the Commission to estimate that the annual rate of increase in productivity will be 2.5 % over a period of ten years in contrast to the rate of increase of 1.6 % noted over a long period in the past. The Commission is even of the opinion that during the first five years the rate of increase may amount to 3 %. Allowing for a certain increase in the working population, it can be estimated that total production will in five years be about 20 % higher and in ten years 35 % higher than in 1951.

This estimate differs slightly from the objective of a 25 % increase in production over five years as proposed by the O. E. E. C.

The significance of the increase is different in each case. The O. E. E. C. proposes an increase which can be achieved by means of a continued and coherent effort. The estimate made by the experts designated by the High Authority is of quite a different nature. It obviously takes into consideration the policy of expansion defined by the Treaty and the influence that the Community will have over the development of production and the action of the Governments. Since the Community has jurisdiction only in a limited field and is not competent to formulate an over-all economic policy, this is an estimate of a probable increase and not that of a desirable objective.

On the basis of the estimated increase in general population, certain conclusions can be made regarding the evolution of internal demand for coal and steel.

Demand for Coal

It is possible to derive an estimate of the increase in demand for coal from the estimated increase in general production by attempting to ascertain what relationship normally exists between general production and coal consumption. It is apparent that the phenomena in question cannot be appropriately interpreted unless the influence of two entirely distinct factors is examined separately.

First, demand for coal is a function of the level of income, i. e., the level of production.

Second, demand for coal is progressively reduced as a result of technical advances made in utilization and the substitution of other sources of energy, such as petroleum

products and hydro-electric power. For example, the unit consumption of coal for producing electricity, manufacturing paper or cement, is in the most modern installations only a fraction of that in older installations. As for the substitution of petroleum products or hydro-electric power this is the case principally in France and Italy, and to a much lesser degree in Germany and in the Benelux countries.

All other factors being equal, an increase of 1 % in production corresponds to an increase of 0.7 % in coal consumption. This figure cannot be accepted as such, however. The other factor comes into play regularly from year to year regardless of the rate of increase in production. In other words, it is practically a function of time. For the six countries as a whole, the decline in consumption amounts to about 0.6 % annually.

The result of the combination of these two factors — increase in requirements in function of production, reduction of requirements in function of time — is that the decline in consumption has less time to take effect the more rapid the increase in general production. On the contrary, the reason why coal consumption in 1951 is at a far lower level than in 1938 is that because of the war general production has not undergone normal expansion during such a period, whereas technical advances and substitutions have continued to have their full effect.

Consequently, it can be estimated that coal consumption will increase by 25 million tons in five years and by 45 million tons in ten years. In order to make an estimate of total demand, normal demand for exports to third countries must be added to the consumption of the countries of the Community. Export demand today amounts to 8 million tons, including the shipments to Sweden necessary for financing imports of iron ore. Under these conditions, it is reasonable to believe that exports will follow the same pattern as internal consumption and will amount to 10 or

12 million tons. The estimate of total demand thus works out to about 280 million tons in five years and 295 million tons in ten years¹⁾. The essential problem is whether the production of the Community can satisfy the increased requirements by reducing, if not traditional imports from other European countries, at least the abnormal imports from the United States, which are a strain on Europe's dollar balance.

Demand for Steel

As concerns the increase in the demand for steel, experience shows that up to a certain level of per capita consumption of steel, demand increases more than proportionally with the level of income. Only in countries such as the United States, where annual per capita consumption of steel is 600 kgs, has the increase in demand become less than proportional to the increase in total production. The annual per capita consumption of steel in Europe, however, is still only 200 kgs. On this basis, it could be estimated that with an increase of 10 % in national income, the increase in steel consumption would be about 12%. There are reasons to believe that the proportion will be even greater. Without exaggerating the influence of armament, a considerable amount of steel is still required for reconstruction and equipment. The proportion of investment with respect to total production is substantially higher than in the past; an ever greater fraction of income is being devoted to consumption of automobiles and household appliances. It is for these reasons that the experts have estimated that during the next ten years an increase of 1 % in income would be accompanied by an increase of 1.3 % in steel consumption.

It is still necessary to define the point of departure for estimating total demand. At first it was thought that an

1) Not including lignite.

average of the years 1950, 1951 and 1952 could be chosen as reference. On the one hand, however, production rose from one year to the next at an annual rate of about 12 %. With spreads of this magnitude such an average has no significance. On the other hand, one half of 1950 was marked by limited economic activity, particularly in the equipment sector; in part of 1952 there was a decline in activity in the consumer goods industries. The result is that in 1950 steel consumption was relatively low in comparison to total production, whereas in 1952 it was relatively high. For this reason it is preferable to select 1951 as the base year, since economic activity throughout that year was distributed fairly equally among the various sectors.

Consumption was greatly limited in 1951 by intensive exports which amounted to almost 10 million tons in crude steel equivalent. This is illustrated by the rapid increase in purchases in the Community as soon as consumers in the Community were assured of more abundant supplies in 1952. At that time, they sought to replenish inventories which had been greatly depleted in 1951.

In order to estimate real consumption for 1951, an intermediate level between apparent consumption in 1951 and 1952 was taken. In 1951 apparent consumption was approximately 28 million tons in crude steel equivalent and in 1952 approximately 34 million tons including reconstitution of stocks previously drawn down.

In other words, probable real consumption could be estimated at about 31 million tons of crude steel at the level of 1951 activity. It is this consumption which would increase by 26 % in 5 years with an increase of 20 % in income and by 45 % in ten years with an increase of 35 % in income.

To this real consumption must be added the normal increase of stocks resulting every year from higher levels of activity. On the assumption that there will be a regular

increase in economic activity over the period in question, it is estimated that an additional quantity of 500,000 tons of crude steel will be required annually for stock purposes.

In addition to this internal consumption, there is also export demand which plays an essential role for the steel industry of the Community. A margin of uncertainty inevitably enters the picture at this point as regards the rate of development of undeveloped areas, the creation of local industries in new countries, the status of trade relations with the East, and the more or less irregular demand of certain markets, such as the United States or Canada.

According to various assumptions, export demand can be estimated at between 7 to 10 million tons in crude steel equivalent which, added to internal demand, makes it possible to fix at between 46.5 and 50 million tons the total production of crude steel necessary in five years and between 52.5 and 56 million tons the total production necessary at the end of ten years.

These preliminary estimates must obviously be completed by an analysis, currently under way, of the evolution of demand for coal and steel in the principal sectors of the economy. It is particularly apparent that these estimates will be met only if the increase in over-all production continues in Europe and if the industries of the Community are capable through continued modernization to maintain their position under future competitive conditions.

CHAPTER TWO

INVESTMENTS

1. The problem of investments should be examined in the light of the prospects for development of the internal and external markets of the Community. To stress the tendency toward increased consumption of coal and steel is simply to recognize a fact. The growth in population, technological progress, industrial development and improved living standards characterize the economic evolution of the modern world. Regardless of the temporary fluctuations in demand, all these factors imply a larger consumption of energy and steel, favored by the creation of the common market, and presuppose, therefore, the existence of means of production ready to satisfy this increased consumption.

This is but one of the aspects of the investment problem. To be capable of large production is of little importance if the costs of production are not sufficiently low. The issue is not one of investment only to increase productive capacity at any price, but rather one of first emphasizing the development of productivity so as to make it possible to improve the quality of the products and to lower their cost.

Such results could not be achieved without the active participation of workers in this common effort. Accordingly, a basic condition for an increase in productivity is investment tending to improve the working conditions and the living standards of the workers. Typical of the investment needed is construction of workers' housing, sufficient in number and in quality.

2. During the past few years the various countries of the Community have made progress toward such objectives. Sizeable investment programs were undertaken in the national framework and, in general, were carried through successfully, thanks in particular to American aid.

GROSS INVESTMENT ¹⁾ IN THE COMMUNITY ²⁾

(in millions of dollars, units of account)

	1949	1950	1951	1952
Coal industry ³⁾	500	460	450	550
Steel industry	280	340	400	550
Total	780	800	850	1,100

1) Including amortization

2) Provisional estimate subject to correction.

3) Including housing construction.

After four years devoted to reconstruction, can it be said that European production is capable of keeping up with the rest of the world? The creation of the Community opens new prospects. Orders of magnitude, estimates and fruitions can now be envisaged on another scale. With a market of more than 150 million consumers, the prospects for future needs take on a new significance. Dangers of disorder, duplication, and a lack of new equipment tend to disappear. A wider use of new techniques becomes possible.

This manner of approaching the investment problem is made concrete in the Treaty. It provides that the High Authority, after having consulted the various interested parties, is to define periodically the general objectives concerning modernization, long-term orientation of manufacturing, and expansion of productive capacity. In addition, the High Authority is to publish these general objectives after having submitted them to the Consultative Committee.

The High Authority has already held numerous consultations on the problem of investments. This study is being continued with a view to defining with precision the long-term investment objectives and to submitting them to the Consultative Committee, in conformity with the Treaty.

In this area as in others, the essential purpose of the present report is to describe the work of the High Authority in this first period, to illustrate the problems to be faced, and to give initial guidance for its subsequent actions. Future work will permit an elaboration and, where necessary, a rectification of the provisional conclusions of the present report. The Committees of the Assembly are to be kept informed of the progress of this work.

Survey of Investments in the Community

3. While waiting to define with precision long-term production objectives, the High Authority is prepared to outline a general framework for development ; the concrete programs to be studied at a later date are to be placed in this framework. This over-all view will enable the enterprises to orient their projects and to avoid the juxtaposition of individual projects, incoherent and incompatible, with all its regrettable consequences — technical and financial.

4. In order to obtain this over-all view, the High Authority needed first of all to know the existing situation as well as possible. For this purpose a number of top experts were assembled and asked to bring together within a very brief period, information on present production, existing productive capacity and investments now under way.

The information gathered gives a very instructive picture of the present orientation of production. Some of the data cannot, however, be expressed in tabular form, since this would give a false impression of finality and certainty. The data is being verified.

Several elements of uncertainty remain. They could not very well be avoided in drafting the questionnaire.

They can only be eliminated by on-the-spot surveys and by direct conversations soon to be undertaken.

With this reserve, a first balance sheet of the Community as it existed when the High Authority assumed its functions has been drawn up.

5. The following facts are self-evident from this balance sheet.

First, the Community must be placed in a position to satisfy the increase in demand for coal and steel. As was shown in the previous chapter, an increase is inevitable under existing conditions in the modern world.

The Community is currently obliged to import coal to supplement its own production. Imports of American coal constitute a burden for the Community which would long ago have proven unsupportable without American aid. Since 1946 the countries of the Community have had to expend about 1.5 billion dollars at current prices, nearly 2 billion dollars in 1952 prices, for the import of nearly 100 million tons of American coal.

IMPORTS OF AMERICAN COAL

	<i>(in millions of tons)</i>	<i>(in millions of dollars (1))</i>
1946	11.2	136.4
1947	25.8	313.1
1948	15.3	185.5
1949	8.8	106.7
1950	0.1	1.4
1951	13.2	408.5
1952 ²⁾	16.4	324.7
Total	95.8	1,476.3 ³⁾

1) Average delivery price in Europe at time of delivery.

2) Estimate.

3) Or \$ 1.9 billion at 1952 prices.

The production of the Community must be competitive. For the most part, the countries of the Community are traditionally exporters of steel. During recent years the

existence of exceptional circumstances made it possible to maintain steel exports at a high level. However, it is only by improving the quality of production and by lowering costs that Europe can retain in the future export possibilities indispensable for the payment of its vital imports.

PRODUCTION, NET EXPORTS AND APPARENT CONSUMPTION OF STEEL OF THE COMMUNITY (a)

(in millions of tons crude steel equivalent)

Production (b)		Net Exports (c)	Apparent	Consumption
			(tons)	(per capita)
1936	31.1	6.7	26.4	156
1937	36.3	7.7	28.6	170
1938	35.—	5.—	30.—	176
1949	28.6	5.6	23.—	147
1950	31.6	7.9	23.7	150
1951	37.7	11.—	26.7	167
1952 (d)	41.7	8.3	33.2	200

a) Sources : ECE Statistics, Geneva.

b) For the period 1936 to 1938, the figures are for the countries of the Community within their frontiers for those years.

c) Including exports of tubes and wire.

d) Provisional figures.

The lag of the European economy as compared to the expansion of American and Soviet industry is a striking example of the present inadequacies of production. In 1913 the countries of the Community produced almost as much steel as the United States and six times more than Russia. Today they produce only one third as much as America and only slightly more than the Soviet Union. Average per capita consumption of steel is not substantially higher in the Community than in Soviet Russia, but the use to which this production is put varies greatly from country to country. In the Soviet Union and in the United States the very high level of investment indicates awareness to establish a solid industrial base for the future, while in Europe consumption absorbs the greater part of production. In view of these facts, the imperative necessity of making further progress is self-evident.

COMPARATIVE STEEL PRODUCTION*(in millions of tons)*

	1913	1929	1948	1952 (a)
Community	25.2	35.3	22.9	41.6
Great Britain	7.8	9.8	15.1	16.2
United States	31.8	57.3	80.4	82.8 (b)
Russia and satellites (c)	7.9	9	34.8	43.6
Russia alone	4.4	4.9	18.8	35 (d)

a) Estimate

b) After a loss estimated at 20 million tons due to strikes.

c) Source: "Statistisches Vierteljahresheft Juli/September 1952", "Die Eisen- und Stahlindustrie", Statistisches Bundesamt, Dusseldorf.

d) Source: "Economist", 11., X., 1952.

The balance sheet of the present situation also demonstrates the inadequacies of living conditions. About 1,750,000 persons are employed in the industries of the Community. Nearly a fifth of them lack housing or are housed inadequately. Finally, when the present situation is analyzed, one major fact stands out. Europe suffers from a grave handicap in the conditions of financing: the very heavy burden of high interest rates and the uncertainty and absence of a flow of funds. The following chapter is devoted to this question.

6. In the light of this situation, the objectives to be obtained are clearly apparent.

In order to be able to ensure a balance between production and the needs of consumption and exports, the Community must be capable in four or five years time to produce annually 47 to 50 million tons of crude steel and 275 to 285 million tons of coal. In other words, an additional 6 to 8 million tons of steel and 35 to 45 million tons of coal.

At the same time that productive capacity is being increased, the industries of the Community need to develop their productivity so that quality of production will be improved, costs will be lowered substantially, and working conditions of labor will be bettered.

As concerns working conditions, special emphasis must be placed on workers' housing. It is both the condition

for active participation of labor in the general productivity effort and the means of progressing towards a higher standard of living, one of the fundamental goals of the Community.

7. The technical means used to achieve these general goals will depend upon the initiative of the enterprises. Certain general conclusions can nevertheless be formulated at this stage as a result of the consultations conducted so far by the High Authority. Essentially, the modernization of existing installations duly completed is relied upon to bring about the necessary changes. The replacement of deteriorated or outmoded equipment is a pressing necessity in many enterprises. This replacement is almost always accompanied by an increase in power and capacity whether it is a question of mining machinery or of a washing plant, a blast furnace or a Martin steel plant.

In the steel industry in particular, no entirely new plant is in process of construction. The effort to modernize and to complete existing plant, if carried through in a sufficiently active manner, should make it possible to meet the necessary production goals.

In the coal industry, the extension of existing mines and the creation of new mines must be envisaged, but the main effort should be placed on improving individual output. This increase can be facilitated in large measure by equipment to lighten the work in the mines. It also presupposes other conditions which do not depend upon technical investments, such as the construction of housing for miners. Miners' housing is very insufficient at the present time.

Lastly the maximum utilization of the productive capacity of the steel industry requires regular supplies of coke and ore. This can be assured only by a wiser utilization of scarce products (coal, scrap...) and by modernization of equipment.

8. It is now the responsibility of the services of the High Authority to conduct with the enterprises more detailed inquiry into their investment programs. This work will be guided by the directives of the Treaty. In particular, an attempt will be made to verify whether the orientation given to the programs conforms to the specialization which is made possible by the opening of the common market and will have results beneficial for all concerned.

The High Authority knows already that in its work it can count on the fullest cooperation from producers, workers, and their associations. The High Authority conceives its task as based on the development of the most open and close relations between it and the interested parties, as well as among the interested parties themselves.

Steel Industry

9. The production of crude steel in the Community increased from 28 million tons in 1949 to nearly 42 million tons in 1952.

The following table shows the major categories of annual steel production during that period.

(in millions of tons)

	1949	1950	1951	1952 ¹⁾
Total production of pig iron	24	26.1	31.3	34.6
Production of crude steel:				
— Thomas	16.5	17.6	20.8	23.—
— Siemens-Martin	10.2	11.9	13.8	15.3
— Electrical and others	1.8	2.1	3.1	3.4
— Total crude steel	28.6 ²⁾	31.6	37.7	41.6 ²⁾

¹⁾ Estimate.

²⁾ Difference resulting from rounding of figures.

10. This table does not permit an expression of the productive capacity existing at the present time.

A preliminary estimate of this capacity was made by the Investments Commission by assuming that the best production figure realized during a recent three-month period had been maintained throughout the year. The resulting estimate was 38 million tons of pig iron and 45 million tons of crude steel.

It is advisable to point out, however, that certain mills were unable to operate at peak capacity because of the shortage of raw materials. On the assumption that supply had been entirely satisfactory, the preceding estimates could be increased to 41 million tons of pig iron and 49 million tons of crude raw steel.

11. If these figures were interpreted to mean that the actual and continuous production of that amount is possible, it could be concluded that the objective of 50 million tons of crude steel has almost been reached.

But this conclusion would not be valid, for the following reasons :

a) In many cases the present rate of operation of the mills is greater than that yielding the most favorable manufacturing costs and assuring the best equipment maintenance. The steel shortage existing until recent date had incited producers to operate their plants at an excessive rate incapable of being maintained permanently. It is generally admitted that the coefficient of utilization of the theoretical capacity of a mill for normal operation is of the order of 80 to 85 %.

b) Furthermore, present productive equipment is to a very great degree of antiquated construction and needs to be replaced. In evaluating the results of investments under way, it is therefore essential to take into account the disappearance of outmoded equipment.

c) Lastly, productive capacity alone could not give a sufficiently clear picture of the means now at the disposal of the industry. The improvement in the quality of goods and the lowering of manufacturing costs depend upon a general modernization, which will be necessary even if no increase in tonnage is sought. This modernization seems to be the purpose of most of investment programs currently under way in the mills for which a detailed examination must next be undertaken.

Of course, any modernization is necessarily accompanied by increases in productive capacity and the study undertaken should determine whether the orientation given to new projects is in harmony with the probable changes in demand by category of product.

12. From the preliminary information gathered by the Investments Commission on the subject of investments under way, it appears that the steel industry of the Community is increasing its present productive capacity by large proportions. Additional studies and on-the-spot surveys are necessary in order to describe in any great detail the results to be expected from these investments.

It is now apparent that a special effort is being made with respect to Martin steel and electrical steel. The emphasis being placed on these two categories would seem to indicate that the enterprises expect to have less difficulty in obtaining scrap iron than in 1952. Such a guess seems, to say the least, hazardous and should be examined more carefully.

Moreover, information obtained on investments with respect to rolled steel shows a very decided orientation toward the modernization of rolling mills for medium and thin sheets and for large strips. Such a development corresponds to the recent trend toward consumption of "flat products" of which the American economy furnishes a striking example. There is some reason to wonder whether

industry has not anticipated to a too large degree in this field the possible trend of consumption, but the creation of the common market should permit better utilization of this productive capacity within the Community and in the export trade.

Lastly, new techniques which are being prepared (low temperature furnace, general use of oxygen in Thomas steelmaking, continuous blast) are likely to influence future investment projects.

13. Various methods can be used for estimating the total cost of investments necessary in the steel industry. In its survey the Investments Commission gathered data on the payments to be made for investments under way: these figures give an approximate idea of the expenditure contracted for the immediate future. Another method makes it possible to estimate directly the cost of the necessary modernization, by calculating separately the expenditures for the expansion of productive capacity and those for the renewal of existing installations. Finally, a crosscheck of these calculations makes it possible to confirm these estimates: merely to keep up existing steel installations requires a new expenditure of approximately 8 % of the value of the production of a good year. The accelerated rate of investments indispensable to assure an intensified modernization will require an additional expenditure of comparable size. Consequently, the investments necessary for the next few years can be estimated to be equivalent to at least 12 to 15 % of the annual turnover of the steel industry.

All these methods of computation give approximately the same results: the annual amount of gross investment in the steel industry of the Community during the next four or five years should amount to some \$ 400 to 500 million (units of account). It will be noted that these figures, which include replacement expenditure normally financed by the enterprises from their own resources, are

coherent with the known amount of gross investment realized during the past few years.

Coal Industry

14. Coal consumption in the Community amounted to about 254 million tons in 1952. Of this amount the coal industry of the Community produced 240 million tons; the remainder had to be imported, mainly from the United States, but also from other third countries.

COAL BALANCE SHEET OF THE COMMUNITY FOR 1952

<i>(Coal, in millions of tons)</i>			
Deliveries to consumers (a)	254.4	Production	240.4
Stockpiling at mines	3.8	Imports	22.3
Exports	4.5		
Total	262.7		262.7

a) Including mines' consumption, allocations to personnel and charge for cokeries and briquetting plants.

During the past few years coal production in the Community has developed as shown in the following table :

COAL PRODUCTION OF THE COMMUNITY

<i>(in millions of tons)</i>	
1949	211
1950	218
1951	233
1952 (a)	240

a) Estimate.

As with the steel industry, the Investments Commission has made a preliminary estimate of existing productive capacity. Projecting over a full year the production figure for the best consecutive three months' period leads to an estimate of 254 million tons for productive capacity. However, as with the steel industry, this figure should be used with care. Continuous exploitation at too high a rate would quickly compromise the future of installations and coal deposits.

15. The attempt to determine objectives for the coal industry brings into play many diverse factors. Prospects for market development show that an expansion in coal consumption must be expected. Whatever may be the tendency of the modern economy, where improved yield permits increasing economy of energy and where the relative importance of more recent forms of energy tends to increase, coal nevertheless remains the fundamental and as yet most available source of energy for Europe. Moreover, the demand for energy increases with economic expansion.

The planned increase in steel production also presupposes assurance to the steel industry of a sufficient supply of the necessary raw materials.

Lastly, Europe must foresee considerable difficulty in finding in large imports the necessary supplement to its production. Great Britain has not maintained the traditional rate of its exports to the Continent, and imports of American coal cannot be considered as a lasting solution to the problem, since they impose on the European economy a dollar burden which would be insupportable without American aid.

This problem has already been studied by the Ministerial Group formed in 1951 in the O. E. E. C. to examine the conditions under which Europe could succeed in doing without imports of American coal. The work of this Group will be of valuable assistance to the High Authority in carrying out its studies.

One of the questions which should be studied by the Joint Committee is whether exports of English coal to the Continent could again contribute toward satisfying the requirements of the Community.

16. Due to the special nature of the problem raised by the production and consumption of coal, it is difficult at

the present stage of the High Authority's work to define in a precise manner the objectives which must be met.

In the coal industry more than in any other industry, production is dependent upon individual output. It is striking to note that in certain mines of the Community the underground output per manshift is as high and sometimes higher than before the war, but in other mines it remains very much lower.

There is no doubt but that certain known causes partially explain this situation. The operation of numerous mines becomes more difficult as the deposit is used up; the mechanization of installations increases losses in the extraction stage and widens the difference between gross extraction and net production. Instability of the labor force is one cause of low productivity.

Nevertheless, these causes are inadequate to explain the difference often noted between present output and prewar output, and the slow rate of progress of some mines remains disquieting.

It is clear that this question is the key to the study of the problem of investments in the coal industry. A return to output only halfway between present output and prewar output would be enough to overcome a large part of the difference between available production and probable requirements.

17. The planned increase in steel production would require an increase of approximately 8 to 11 million tons in coke production. Coke production totalled 63 million tons in 1952, based on a theoretical capacity of about 70 million tons. Of this production, around 35 million tons were used in the steel industry.

Modernization and expansion underway in coking plants must therefore be vigorously pursued.

COKE SUPPLY OF THE COMMUNITY IN 1952

(in millions of tons)

Production	62.9
Exports	5.0
Availability	57.9

18. These considerations make it possible to define the orientation to be given to investments in the coal industry.

a) Priority should be given to investments contributing toward increasing individual and shift output in the mines. The creation of new mines is necessary but emphasis should be placed on modernization in the mines and on the surface and on the extension of existing installations. But investments in the mines are only a part of the investment program to be realized. The construction of housing in order to provide the miners with better living conditions near their place of work will be of exceptional importance in this effort to increase output. In conclusion, it may be said that investments are and can be but one of the aspects of this problem and that other measures are necessary.

b) In the choice of investments to be undertaken, special attention should be given to the production of coking coal. It should be noted, however, that new coking processes for high volatile coal may to a certain degree contribute to a solution of the problem of the shortage of coking coal.

c) It would appear that substantial economies can be realized in the consumption of coal at the mines, in particular by development and modernization of electric power plants.

d) Ways should be sought to increase the consumption of brown coal briquettes to satisfy industrial and domes-

tic needs. This would require investment in the lignite industry. This question is currently under study.

19. Taking into account these various factors, we can make an estimate of the volume of investments to be undertaken. As in the case of the steel industry, crosschecks have been made among the various methods of calculations. They lead to the conclusion that in the next few years the coal industry should realize gross investment of about \$ 400 to \$ 450 million, (units of account), representing approximately 15 % of the annual turnover of the coal industry of the Community. This amount, which includes replacement expenditure of about 8 to 10 % but does not include expenditures for housing construction, should be considered as a round figure subject to revision. It is coherent with the amounts of corresponding expenditures made in the past few years.

Iron Ore

20. The planned increase in steel production requires an adequate supply of iron ore.

The following table shows iron ore production of the countries of the Community during the past few years. (These figures, as all others in this section, relate not to tonnages of raw ore but to corresponding tonnages of iron).

PRODUCTION OF IRON ORE IN THE COMMUNITY

<i>(in millions of tons)</i>	
1949	13.1
1950	13.0
1951	15.7
1952	18.4

The tonnages of iron ore extracted in the Community therefore increased by 40 % from 1949 to 1952; during the same period the production of pig iron increased

by 48 %. In other words, the dependence of the Community upon external sources of supply increased during the past four years. In 1952, about 30 % of the iron ore used by the Community was imported.

21. The study of investments under way shows that the increase in production currently scheduled does not exceed two million tons annually. But an annual production of 50 million tons of crude steel would require an even larger supply of ore than indicated above if scrap availabilities tend to decline. It is estimated that 32 million tons of iron ore would be necessary if the target for steel production is to be met. To what extent could the Community rely on imports to fill part of its requirements ? This question can be answered only after a common study of the situation has been made and eventually after certain negotiations with third countries. In the meantime, it could be assumed that the percentage of supply of the Community from external sources would remain comparable to what it is today. In this hypothesis the Community must be capable of producing 22 to 23 million tons of iron ore, in other words, of increasing its annual production of iron ore by at least 20 %. Programs under way will begin to show results principally in 1953 and 1954 ; hence it is necessary to make provision for new investments whose effect will be felt at a still later period.

22. These measures for increasing the production of the Community should be completed by a search for means of assuring regular supply of iron ore from other countries. This should be facilitated both by the expansion envisaged in Swedish and Norwegian production and by the operation of deposits recently discovered or newly equipped (Brazil, Conakry, Labrador, Mauritania, Venezuela...). In the absence of supply from these sources, the Community would be compelled to increase its investment effort even more and the forecasts just discussed would have to be revised.

Housing Construction

23. Equipment, modernization and the raising of living standards are different aspects of a single problem.

The realization of new investments tending to increase the production of the Community is inconceivable unless a parallel effort is made to better the working and living conditions of the labor force.

A considerable financial outlay will be necessary to continue the programs under way and to carry out within a reasonable time the objectives outlined in the preceding chapter. The annual outlay for this purpose will have to be about \$ 250 or 300 million for the entire Community during the next four or five years.

The methods of combined financing involving recourse to self-financing of the enterprises, the capital market and governmental assistance generally used in various countries can be applied in a new and different manner due to the existence of the Community. Enterprises whose own resources are tied up in financing productive investments will often only be able to share in covering construction expenses and must resort to a great extent on external capital.

24. The outlook for the future of the Community is thus dominated by the necessity of investments. Whether it be a question of the coal industry, the steel industry, iron mines or housing construction, the harmonious development of the Community requires that means of financing be found in all these sectors. Under what conditions is this financing possible ? The object of the next chapter is to answer this question.

CHAPTER THREE

FINANCING

1. The objectives just defined for production, modernization and the raising of living standards will be attained only if the necessary investments can be soundly financed. The equipment effort to be undertaken demands continuity and presupposes the existence of regular means of financing at interest rates and with a duration adapted to the nature of the necessary investments. Are these conditions met by the methods of financing currently in use in the countries of the Community ?

Present Methods of Financing

2. A general study is being made of present methods of financing. On the basis of preliminary data a general table can be drawn up, indicating the general order of magnitude rather than giving precise statistics.

FINANCING OF GROSS INVESTMENT IN THE INDUSTRIES OF THE COMMUNITY (1948—1952)

		(Percentage of total)
<hr/>		
a) <i>Coal Industry</i>		
Self-financing by enterprises	37 %	} 100 %
Banks and Capital Market	12 %	
Governmental assistance (including external aid-32 %)	51 %	
b) <i>Steel Industry</i>		
Self-financing by enterprises	40 %	} 100 %
Banks and Capital Market	30 %	
Governmental assistance (including external aid-17 %)	30 %	
<hr/>		

(Above are provisional figures)

The above table clearly shows that the pattern of investment financing is approximately the same in the coal and steel industries. In both cases the figures show that traditional financing methods are no longer adequate to assure coverage of necessary equipment expenditures.

3. The examination of financing methods used in 1952 reveals that a certain change in the pattern of investment financing has occurred during the past few years. In 1952 the Community devoted almost one billion dollars (units of account) to gross investment in the coal and steel industries. The breakdown of this figure by sources of capital is practically the same for the two industries, as shown below :

**FINANCING OF GROSS INVESTMENT IN THE
INDUSTRIES OF THE COMMUNITY
IN 1952**

(Percentage of total)

	<i>Coal Industry</i>	<i>Steel Industry</i>
Self-financing by enterprises	44 %	40 %
Banks and Capital Market	31 %	26 %
Governmental Assistance (external aid)	25 % (4 %)	34 % (7 %)
	100 %	100 %

(Above are provisional figures).

Comparison of the above figures with those in the preceding table shows that in 1952 the methods used for financing investments in the coal and steel industries have become even more similar :

— The amount of self-financing by enterprises is considerable (at least 40 % in each case).

— The contribution of the capital market remains weak (about 30 % in each case).

4. The enterprises, which traditionally relied upon the capital market to cover a larger part of their investments, can no longer meet their capital requirements in the European markets. Security and continuity of financing are thus not assured, and the cost of financing is excessive. In most of the countries of the Community the rate of long-term borrowing amounts to 8—10 % and sometimes more. Even at this rate, enterprises can find only a small part of the funds they lack. The few European markets which have retained their vitality, such as the Swiss market, can obviously furnish only partial assistance in the financing of investments in other countries.

At the same time, the rate of interest in Great Britain is about 5 %, and in the United States is only about 4 % for loans of an average duration of twenty years. As a result of this situation, the construction of a steel mill requires the incorporation in the cost of each ton of steel produced of financial charges up to twice those in the United States and the United Kingdom and even more, depending upon the country where the mill is constructed.

This represents an enormous handicap for Europe.

5. This inability to obtain sufficient funds on the capital market explains in large part the relative increase in self-financing as a method of covering investment expenditures.

On several occasions the self-financing possibilities of industry have been systematically enlarged in certain countries by a deliberate policy of encouraging enterprises to modernize their equipment. Several methods have been used to this end. In particular, measures tending to limit the distribution of profits earned by enterprises have been adopted by certain Governments. Other Governments have preferred fiscal provisions allowing account adjustments of large amortization items for tax purposes.

Within the framework of economic controls, certain Governments have thus fixed prices so as to permit a large degree of self-financing.

Self-financing, however, is a means having certain limits and cannot be increased without risk, because the possibilities for expansion of the entire industry depend on the prices of basic products. As a result, Governments have recently felt compelled to slow down the increase in self-financing by revoking the preferential measures taken or by limiting them to certain priority sectors of the economy.

6. In view of the scope of the requirements to be satisfied and the inadequacy of traditional means of financing, Governments have intervened in various ways to facilitate the coverage of investment expenditures. Subsidies or direct loans have been granted by the Government or by semi-public organizations, and the Government has also offered to rebate interest rates or guarantee the servicing of loans contracted by enterprises. United States economic aid has played an important role; about one-half of all Governmental assistance to industries of the Community has been financed by means of that aid. For almost two years, however, United States aid has been earmarked for another purpose. Increased budgetary difficulties in view of the need for large rearmament programs has limited the possibilities for the Governments to help enterprises finance their investments.

7. Conditions for investment financing in the Community at the present time are hence uncertain. Enterprises rarely find financial means with any degree of regularity, yet this is indispensable for any continuous equipment effort. They also risk not being able to maintain their rate of investment. Excessively high costs of investment financing impose a difficult burden on the economy.

Will the creation of the Community make it possible to find a solution to certain of these difficulties?

The Community and the Financing of Investments

8. The Treaty provides that the High Authority shall assist in financing investments. It is agreed that the High Authority's intervention can and will be only in the form of complementary assistance and will make only a partial contribution to the solution of the difficulties described above. Though limited, this contribution can nevertheless be of great importance. Experience proves that in every investment project it is more or less easy to provide for part of the financing but that the task of finding the balance of necessary funds presents far more delicate problems. If, in addition, this supplementary fraction of the financing could be procured under normal conditions, the contribution of the High Authority could play an essential role in helping to achieve objectives for production, modernization, and raising of living standards in the Community.

9. The necessary means for this purpose have been defined by the Treaty, which gives the High Authority full financial autonomy. This is true not in theory but in fact, and it is based on a fundamental innovation: the High Authority has the right to impose annual levies on the production of the Community. These levies, which are collected directly from the enterprises without any Governmental interference, constitute the first form of international tax. The product of the levies will be used, in particular, to guarantee the servicing of loans contracted by the High Authority and eventually to assure the servicing of loans contracted directly by the enterprises of the Community with the guarantee of the High Authority.

The existence of the levy gives a basis to the High Authority's own credit. As a result of the resources which it has the right to collect directly and which over a full year may amount to about \$ 50 million (E. P. U. units of account), the High Authority can offer to its creditors a

signature guaranteed by the coal and steel output of the Community.

ANNUAL AMOUNT OF LEVY AT RATE OF 0.9 %

(Based on 1952 production and prices)

	1952 Production <i>(in millions of tons)</i>	Yield of Levy <i>(in millions of dollars)</i>
BKB and semi-coke of lignite	17.2	0.7
Coal (after deduction of 12 % of total production figure)	211.9	23.7
Pig iron not used for production of steel		
Ingots	3.5	1.5
Thomas steel in ingots	23.0	9.7
Other steel in ingots	17.5	0.9
Finished products and final products	29.5	6.5
Total		52.0

In other words, for the first time a borrower will be able to undertake investment from resources outside the national framework in different European currencies. It is on this basis that the contribution of the High Authority to the financing of investments may be envisaged.

If the Community is able to establish its own credit, it will be in a position to gain access for European enterprises to capital markets now closed to them. In Europe and elsewhere in the world there exist sources of capital prevented from investing in the countries of the Community because of the memory of unfortunate experiences with past investments there. It is this situation which must and can be modified by means of the system just described.

Investors in the countries of the Community hesitate to invest in operations offering no protection against the uncertainties in the national economies. Within the framework of the financial structure of the Community, new methods will be established in an attempt to overcome this hesitation by making investments productive and by accompanying them with irrevocable guarantees.

10. These were the reasons why the High Authority fixed the rate of the levy so that it will amount to 0.9 per cent by July 1, 1953. It is essential that the Community prove its financial capacity. Until such time as the levy is in effective operation, doubts may persist in the mind of future lenders.

It is also in this spirit that pains were taken to make the system of assessment and collection of the levy extremely simple so that the first receipts could be collected early in 1953.

The method of assessment takes account of two rules laid down by the Treaty providing for the taxing of products on the basis of their average value and the elimination of cumulative taxation. In order to simplify matters, it was decided to base the levy on the volumes of production well defined in the statistics of the enterprises for a number of limited products and to tax an average value minus an amount representing products already taxed which enter into the costs of this production.

This system made it possible to establish a simple scale of six figures, indicating the amount of the levy per ton for each category of product.¹⁾

The simplicity of the assessment of the levy will permit extreme flexibility in the methods of collection: each month the enterprises themselves can refer to the above-mentioned scale, calculate the amount of their assessment, and deposit the amount in a bank or postal account opened for this purpose by the High Authority.

11. Once regular collection of the levy has begun, the High Authority will be in a position to resort to the credit

¹⁾ BKB, coal of all categories, pig iron for casting or steelmaking, Thomas steel in ingots, other steel in ingots, finished products and final products designated in Annex I to the Treaty).

facilities opened to it. As that time it will be able to contribute to the financing of investments in conformity with the provisions of the Treaty. The first form envisaged is aid for investments. This may have two aspects: either the High Authority will grant, from resources procured by borrowing, direct loans to the enterprises whose programs seem to be most urgent and most necessary, or it will enable enterprises, by means of its guarantee, to obtain capital from sources not open to them in the absence of this guarantee.

This assistance from the High Authority is only supplementary and, in accordance with the Treaty, will in no case take the form of an acquisition of ownership or participation rights by the High Authority. The High Authority will not become a kind of holding company for the coal or steel enterprises of the Community.

If the bases of the credit of the High Authority are solidly established, its contribution will be characterized by a regularity which will give investment financing that continuity so much lacking today. In addition, the High Authority will strive to adjust the conditions and duration of its future financial assistance in such a way as to assure as far as possible the use of means of financing in a manner well adapted to the nature of the investments undertaken.

The second form of financial intervention by the High Authority provided for in the Treaty concerns the solution of problems of adaptation which might arise for enterprises or workers on the opening of the common market. In this field the assistance of the High Authority will take the same form of loans or guarantees as in the other investment programs.

12. The financing requirements of the Community during the next few years must be visualized in this per-

spective of progress. It will be the responsibility of the High Authority to make an estimate of the cost of investment and the means of financing necessary.

Pending completion of the analysis of the individual projects of the enterprises, which will require some time, we must limit ourselves to an attempt to formulate an over-all estimate. This can only be very general for the following reasons :

— at the present stage only figures of over-all programs based on a probable average cost are available ;

— the cost of carrying out investments currently varies from one enterprise to another.

It is nevertheless essential to have a preliminary outline of the financial effort to be undertaken by the Community. This over-all estimate will be revised little by little in the light of the more precise information which will become available in the future, but it will constitute a general framework encompassing the individual projects subsequently submitted to the High Authority.

The preceding Chapter gave the order of magnitude of gross investment planned for the coal and steel industries and for the construction of housing in the Community. The entire program represents an annual volume of \$ 1 billion to 1.3 billion (units of account). A large part of this gross investment, probably 40 to 50 %, is normally covered by amortization and presents no financial problem. For the balance, the enterprises must resort either to reinvestment of part of their profits or to outside capital. The present Chapter has demonstrated, however, that the methods of financing used in the past are grossly inadequate for solving the difficulties encountered by the enterprises.

What contribution can the High Authority make towards solution of these difficulties of investment financing? It is impossible at the present time to make a specific answer. The establishment of the levy enables the High Authority to prepare for a new phase of its policy. During the coming months one of the primary tasks of the High Authority will be to establish and make use of its own credit for the benefit of the Community.

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