

*Bulletin from the*  
**EUROPEAN**  
**COMMUNITY**  
*for coal and steel*

INFORMATION SERVICE • HIGH AUTHORITY • LUXEMBOURG

**TOWARDS A FEDERAL GOVERNMENT OF EUROPE**

*Today Europe is in march towards unification. Yet the details of this progress are not well known nor is their significance widely understood. Concentration on the military aspects of a combined Western European effort has tended to obscure the day-by-day accomplishments of the first truly European government—the European Community for Coal and Steel.*

*It is the purpose of this report and of the reports that will be regularly issued hereafter to bring to the American observer a factual account of the Community as it evolves—its problems, its achievements, its emerging significance.*

For the past two years sovereign federal institutions have been at work in Europe within the framework of the European Community for Coal and Steel.

Those institutions possess federal powers, limited for the time being, over the vital coal and steel economies of six free and democratic nations; Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands. Those federal powers are exercised with one principal object: to raise the standard of living of the people of the Community by creating an expanding competitive market for coal, iron ore, and steel—a market of 160,000,000 consumers (roughly the population of the United States) in which the basic materials of Europe can be produced and distributed.

The Community government — for within its

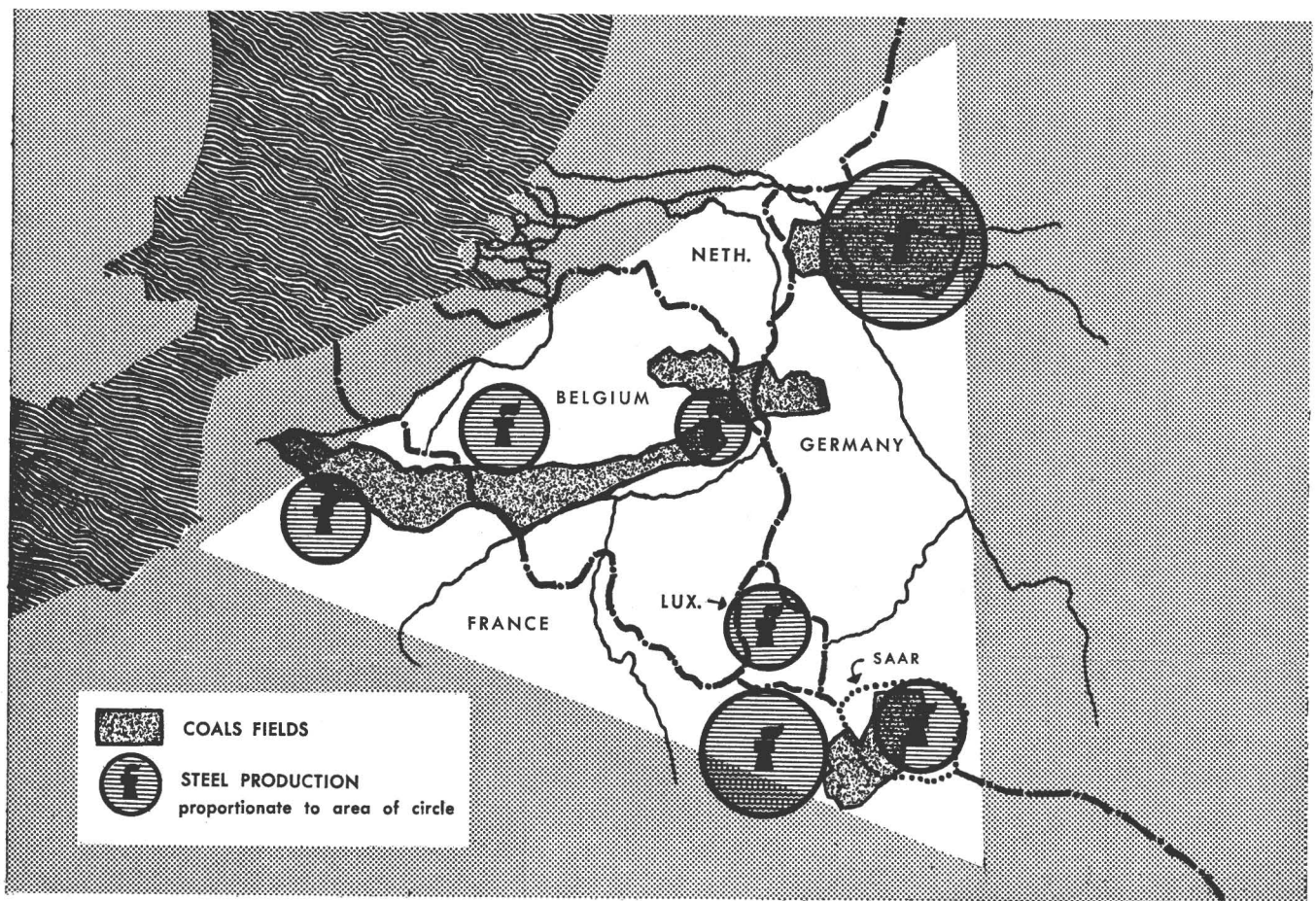
field of operations the Community is a true government with sovereign powers—has an executive, parliamentary, and a judicial branch. The executive (High Authority) administers the provisions of the treaty of 1952 which created the Community and which serves as both a constitution and a code of laws. The High Authority is answerable to the parliamentary branch (Common Assembly). Its decisions are reviewable only by the judicial branch (Court of Justice).

The Community's main task is to create and maintain conditions that will promote competition free from the bondage of national boundaries, obstructions and discriminations imposed by governments, and from restrictions imposed by private agreements in the form of cartels.

As it unleashes competitive forces within a broad single market and facilitates the modernization and improvement of equipment and methods, the Community is steadily increasing both the production and productivity of the coal and steel enterprises. In this way, it is achieving its prime economic objective—to raise the living standards of the people of the Community.

What brought about this form of limited federation, uniting countries that for centuries had been at warring with one another? What has it accomplished in the two years of its existence? What does it mean for the United States?

This report will try to cast light on these questions.



## EUROPE'S INDUSTRIAL TRIANGLE

### THE NEED

A caprice of history has made the political map of Western Europe a jigsaw puzzle of national frontiers. Yet its key industrial resources are concentrated in an inverted triangle not more than 250 miles on each side. Its base stretches from the coal fields of the Ruhr across the coal fields of Belgium into northern France; one side slants southeast to encompass the coal and iron ore fields of Lorraine and Luxembourg to the Saar; the other side rises northward across Germany to the Ruhr. So many political boundaries intersect this tiny triangle that it contains part or all of five of the six member countries; only Italy lies fully outside its borders.

Around the rich deposits of coal and iron ore that make this triangle the economic heart of Western Europe grew up a huge complex, or several complexes, of basic industries; coal mines, iron mines, washeries, ore plants, coke ovens, blast furnaces, and steel mills.

Artificial barriers erected by governments and private agreements prevented the natural economic use of these resources. With complementary industries cut off from doing business with one another and consumers shut away from producers, these barriers denied to Europe the economies a mass market makes possible. The situation was as if each of the forty-eight states controlled and taxed the flow of coal and steel across its borders, as though each state discriminated against the production of the others.

It was as though each tried to build a heavy industry combine to serve its own small market even though this meant using the low-grade, high-cost materials within its borders rather than the high-quality, low-cost materials of the neighboring state.

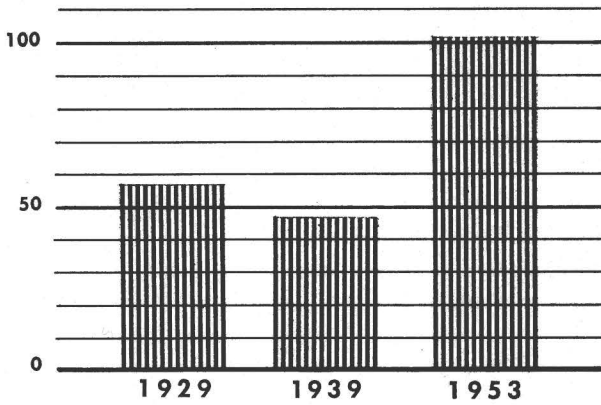
As might be expected, these conditions tended to stifle the competitive spirit of European producers. Cramped by the narrow walls of national markets, they developed a psychology of restrictionism. Foreclosed from competing in neighboring markets, they sought to maintain their profit positions in their small home market not by adding customers but by raising prices. They sought to secure their positions of relative monopoly by even tighter protective legislation buttressed by restrictive private agreements known as cartels. The result was rigidity and stagnation, at the very time when technical advance made possible—and a growing population required—flexibility and expansion.

The economic results of political fragmentation were apparent in the statistics of coal and steel production of Western Europe as compared with other areas where a mass market existed. In 1953, when the Community's common market opened, United States steel production had climbed from 57.3 million tons\* in 1929, the highest prewar period, to 101.2 million tons. The Soviet Union, which in 1929 produced under five million tons, had by

\* Tonnage figures are metric.

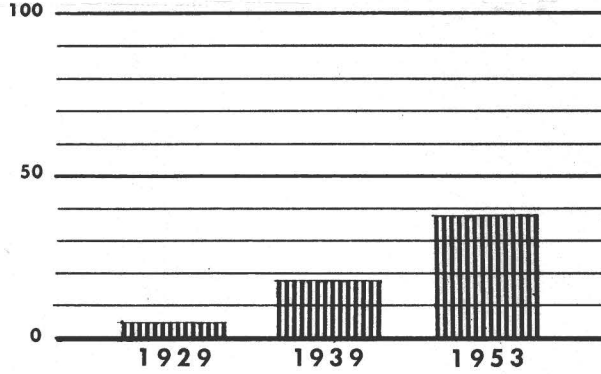
### U. S. A. STEEL PRODUCTION

in millions of metric tons



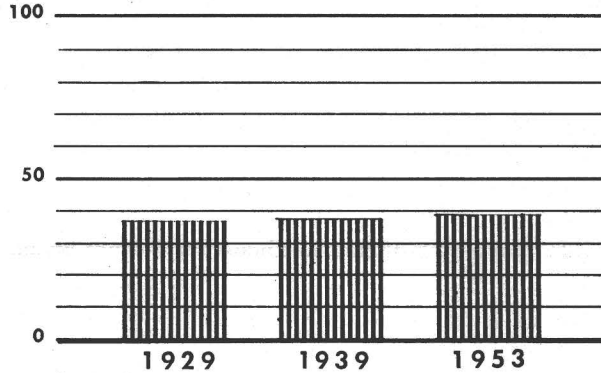
### U. S. S. R. STEEL PRODUCTION

in millions of metric tons



### COMMUNITY STEEL PRODUCTION\*

in millions of metric tons



\* Excluding Eastern Germany Steel Production

1939 quadrupled its output to 18.8 million tons. In spite of the ravages of war, it had by 1953 raised this figure to 37.8 million tons.

In contrast to these impressive production increases the nations of the Community had made little advance. With an output of 37.0 million tons in 1929, they produced 37.7 million tons in 1939. This they had raised to only 39.6 by 1953. Western Europe, with perhaps the world's greatest concentrated reservoir of human skills and ingenuity, was losing its place in the world march.

Economic nationalism was not merely holding down

the standard of living; it was contributing to the conflicts between nations that periodically erupt in war. In particular, the age-old tensions and rivalries between Germany and France, intensified by six years of occupation and counter-occupation, posed a continuing threat to the strength of the democratic coalition and to world peace.

These problems were not new but the old solutions had not worked. Some postwar progress had been made through international cooperation without the surrender of sovereignty. Existing international organizations served to bring together like-minded men from different countries for the discussion of common problems. But they promised little progress toward the goal of federation.

### THE SCHUMAN PROPOSAL

This initiative was taken by the French Government on May 9, 1950. In an historic declaration on that date M. Robert Schuman, then French foreign minister, proposed that Europe's coal and steel economies be integrated to provide a solid underpinning for the building of a federal Europe.



ROBERT SCHUMAN, *proponent of the Coal and Steel Community Plan.*

The reasoning that prompted M. Schuman's declaration can be briefly summarized. The postwar succession of brave efforts to unify the nations of Western Europe had failed not for lack of good will, but because they did not come to grips with simple economic and political realities. Because they had envisaged progress on too broad a front no genuine advance toward European unity had been made in any sector. M. Schuman proposed that as a beginning integration be achieved for coal and steel—basic materials not only for waging war but for building peace among nations. To place the entire Franco-German production of coal and steel under a common authority, along with the production of other European countries, would create an economic fusion that would make war between France and Germany "not only unthinkable but materially impossible."

This was to be the first step toward unification. In M. Schuman's words, it would "be the heaven from which may grow a wider and deeper community between countries" which in the past had been enemies.

After months of negotiation, drafting, and discussion, by representatives of the six nations, a treaty giving effect to his proposals was signed on April 15, 1951. Fourteen months later, on June 16, 1952, this treaty had been ratified by the six parliaments. On August 10, 1952, the institutions of the European Coal and Steel Community began work in the City of Luxembourg, the provisional capital of the Community. The Community had become a living reality.

The preamble to the Treaty testifies to the intent of its signatories and their awareness of the link between economic progress and political federation:

"THE PRESIDENT OF THE GERMAN FEDERAL REPUBLIC, HIS ROYAL HIGHNESS THE PRINCE ROYAL OF BELGIUM, THE PRESIDENT OF THE FRENCH REPUBLIC, OF THE ITALIAN REPUBLIC, HER ROYAL HIGHNESS THE GRAND DUCHESS OF LUXEMBOURG, HER MAJESTY THE QUEEN OF THE NETHERLANDS,

"Considering that world peace may be safeguarded only by creative efforts as great as the dangers menacing it;

"Convinced that the contribution which an organized and vital Europe can bring to civilization is indispensable to the maintenance of peaceful relations;

"Conscious of the fact that Europe can be built only by concrete actions creating a real solidarity and by the establishment of common bases for economic development;

"Desirous of assisting through the expansion of their basic production in raising the standard of living and in furthering the works of peace;

"Resolved to substitute for historic rivalries a fusion of their essential interests; to establish, by creating an economic community, the foundation of a broad and independent community among peoples long divided by bloody conflicts; and to lay the bases of institutions capable of giving direction to their future common destiny;

"Have decided to create a European Coal and Steel Community . . ."

## EUROPE'S FIRST FEDERAL INSTITUTIONS

The treaty signed by the six member nations guarantees existence to the Community until the year 2002. It follows the principles enunciated by Montesquieu which guided the drafters of the United States constitution in providing for a clear separation and balance of powers, with responsibility distributed among the executive, parliamentary, and judicial branches.

### The High Authority

The High Authority, the Community's executive branch, consists of nine members, chosen for fixed terms by the member governments. The members do not "represent" the countries from which they come. They are, in fact, forbidden to solicit or accept instructions from any government, including their own. No more than two members may be of the same nationality. The nine members now serving are:

JEAN MONNET, of France, President; FRANZ ETZEL, of Germany, First Vice-President; ALBERT COPPE, of Belgium, Second Vice-President; LEON DAUM, of France; PAUL FINET, of Belgium; ENZO GIACCHERO, of Italy; HEINZ POTHOFF, of Germany; DIRK SPIERENBURG, of the Netherlands, and ALBERT WEHRER, of Luxembourg.

The High Authority is responsible for seeing to the establishment of a single market for coal and steel throughout the territory of the Community. The single market for coal, iron ore and scrap went into effect on February 10, 1953; for steel, on May 1, 1953, and for special steels on August 1, 1954.



JEAN MONNET, President of the High Authority.

The High Authority does not administer the market. Its powers are regulative. Its main task is to make sure that trade barriers and discriminatory and restrictive practices are eliminated and not thereafter revived, and that conditions are created and maintained which will permit the free play of competition.

Since the transition from national markets to a common market necessarily results in dislocations both for industry and labor, the High Authority is tackling the problem of easing the readjustment by a series of measures, including a housing program and the retraining and relocation of workers.

Once the High Authority makes a decision, all coal and steel enterprises must follow it or suffer penalties. Neither individual enterprises nor member governments may appeal to national courts to review decisions of the High Authority. Their sole right to appeal is to the Community's Court of Justice.

To the extent possible, however, the High Authority seeks to bring about compliance with its decisions not so much by sanctions as by breaking through the traditional atmosphere of secrecy which surrounds many European business enterprises. Through compelling the disclosure of facts the High Authority believes an informed public opinion can influence recalcitrant enterprises and, in the long run, be more effective than direct penalties. The High Authority employs discussion and persuasion, following the practice, before making important decisions, of reviewing a proposed action with the 51 man *Consultative Committee*, composed of representatives of all interested groups—producers, workers, consumers and distributors.

As one of its essential sovereign powers, the High Authority levies and collects taxes. The Community's excise—which constitutes the first truly European tax—

is based on the value of the production of the Community's coal and steel enterprises. At its present rate of 0.9%, the levy yielded about \$33,000,000 in 1953, and the 1954 yield should approach \$50,000,000.

### The Common Assembly

Since the Community is sovereign in the exercise of the powers delegated to it by the member governments, the High Authority is not directly responsible to those governments but to a parliamentary body known as the Common Assembly. The situation is roughly analogous to that existing under the United States Constitution where the Federal Government is answerable not to the governments of the 48 states but to the American people through the Congress.



ALCIDE DE GASPARI, the late president of the General Assembly

Beyond this point, the analogy is closer to the parliamentary systems of Great Britain and certain other European countries than to the presidential system of the United States. Unlike the British Parliament or the American Congress, however, the Common Assembly has no legislative powers. Its task is to serve

as a control on the actions of the High Authority. To review those actions it meets at least once a year. If it disapproves, it may by a vote of censure oust the High Authority in a body.

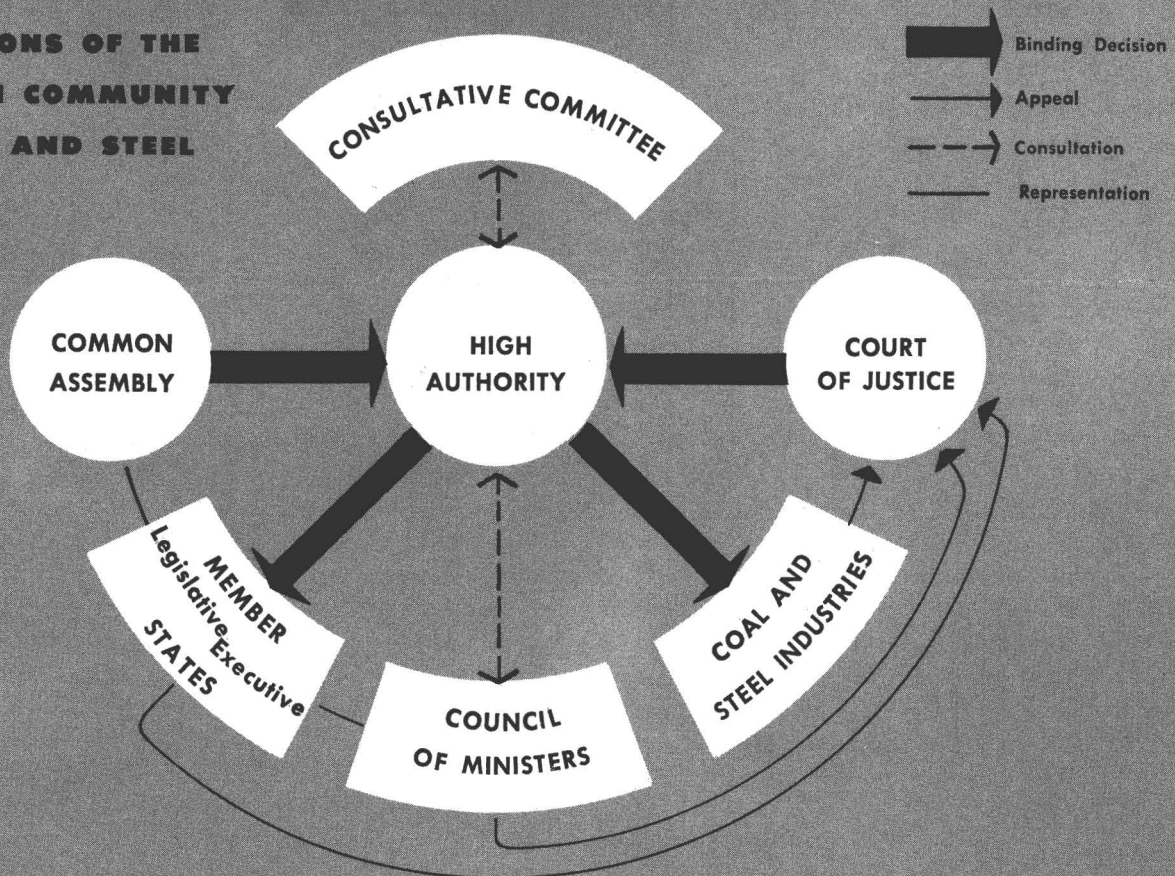
At present, the members of the Common Assembly are elected by the parliaments of the participating states. But this is generally regarded as a provisional arrangement. At a later stage it is expected that they will be elected directly by the people of the Community. Such an evolution has its counterpart in American history: until passage of the Seventeenth Amendment, United States Senators were elected by state legislatures.

The delegates to the Assembly are apportioned among the nations of the Community in rough relation to the population and importance of the coal and steel industry in each country. Seventy-eight in number, they reflect all aspects of Western European political thinking except Communist. In the debates of the Common Assembly, national political identities have already tended to fade and political ranks to reform on the basis of international issues. The Common Assembly is serving as a kind of proving ground for Europe's new statesmen, no longer limited to narrow national issues but who are dealing with problems that have a European purview.

### Court of Justice

The first federal European judiciary is the Community's Court of Justice. It is the only judicial body to which individual industries or the governments of member nations have the right to appeal from decisions of the High Authority. Its jurisdiction supplants that of the national courts of the member countries and its judgments are final.

## INSTITUTIONS OF THE EUROPEAN COMMUNITY FOR COAL AND STEEL





MASSIMO PILOTTI, *President of the Court of Justice.*

The Court of Justice is composed of seven judges appointed for six-year terms. The President of the Court is Signor Massimo Pilotti of Italy. As precedents accumulate — and there are already five pending cases on the docket—the Court is beginning to develop its own jurisprudence based upon interpretations of the treaty and enriched by the diverse legal traditions.

### **Council of Ministers**

In addition to the High Authority, the Common Assembly and the Court of Justice, which represent the traditional tripartite division of powers, the Community

includes a Council of Ministers. This body is made up of representatives of the member states and owes its existence primarily to the limited character of the Community's jurisdiction. In the modern, complex, economic society, actions such as those taken by the Community with respect to coal and steel necessarily have repercussions in other economic sectors, just as actions taken by the member states with respect to other economic sectors have an impact on the coal and steel economy. The Council of Ministers functions to assure harmony between the policies of the Community and the general economic policies of the member states. While retaining its power and duty of decision, the High Authority has made it a rule to discuss with the Council all matters of interest to the governments of member countries. On certain matters the High Authority and the Council of Ministers are required by the treaty to act jointly.

## **PULLING DOWN THE BARRIERS**

The transformation of six national coal and steel markets into a vast single market of 160,000,000 consumers is a task of unprecedented complexity. To avoid undue disruption of the economic life of the Community, it has been necessary to move by stages. Nevertheless, in the few months that have elapsed since the single market was made formally effective, first for coal and then for steel, most major obstacles to the free play of competitive forces have been eliminated.

### **National Barriers**

Customs duties affecting the movement of coal and steel within the Community—with rates as high as 28%—have been entirely suppressed except for the special case of Italy where this elimination is being carried on gradually over a five-year period. Export and import licenses and all quantitative restrictions on the movement within the Community of coal, steel, iron ore and scrap have been abolished. The double-pricing of coal, steel, and iron ore moving among the member states has been eliminated.

### **Discriminatory Freight Rates**

In the intricate field of freight rates, discriminatory practices have been studied intensively by a group of European experts. This study, begun in the Fall of 1952, was completed in July, 1954. Thirty-two distinct discriminatory practices already have been eliminated in the freight tariffs of the six countries: fifteen in France, ten in Germany, four in Belgium, two in Luxembourg and one in Italy.

The governments of the member states are now considering proposals by the High Authority to set up "international through rates" to replace the "split rates"

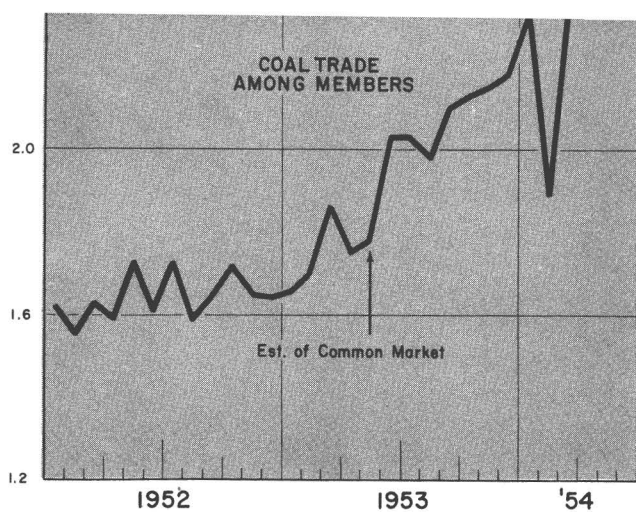
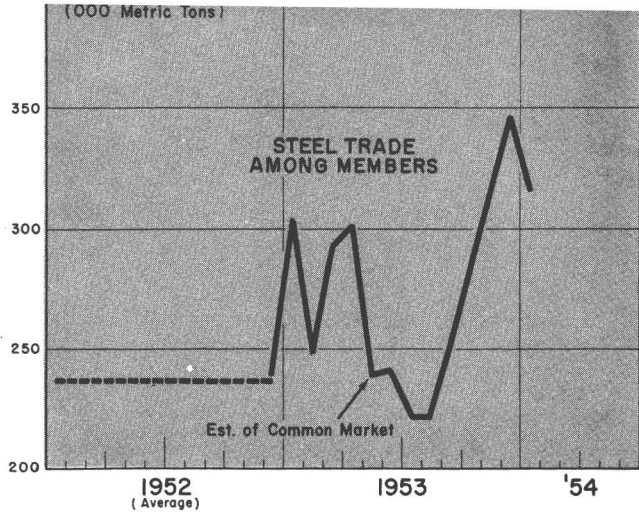
that have paralyzed the movement of goods across national boundaries. The long-established practice of "split rates" has, on the average, made it 25% more expensive to shift Community-produced goods across a frontier than within a country. The "through rates" are expected to go into force in 1955.

### **Cartels and Private Agreements**

Quite as important as the restrictions and discriminations resulting from governmental action are those imposed by cartels. To put a stop to these practices, the High Authority has been vigorously enforcing the first far-reaching anti-trust law ever to be applied in Europe. This law not only forbids producers' agreements that in any way restrict competition, it also is aimed at undue concentrations of economic power that may result by creating enterprises with too dominant a position in the market. Thus the treaty permits enterprises to merge or consolidate only if the High Authority finds that concentration will not restrict competition. The law has teeth: the High Authority can impose fines amounting to as much as 10% of an enterprise's daily turnover during a period of violation.

Among the first anti-trust violators to be brought to book were the coal sales organizations. A cease-and-desist order was issued against Oberrheinische Kohlenunion, a large coal sales organization in Southern Germany, prohibiting it from apportioning customers within the South Germany area among its sales organization members. Similar organizations for the purchase and distribution of scrap iron in France, Germany and Italy have been dissolved by the High Authority.

In July, 1953 the High Authority directed that the treaty provisions prohibiting all agreements in restraint of trade would become effective as of August 31, 1953. Under this decision of the High Authority, companies that were members of cartels were required either to dissolve their agreements or to file a request for specific



authorization showing why they were not in restraint of trade. The High Authority is presently reviewing applications for the authorization of sixty such agreements.

**The Consequences**

How effective have these actions been? Is industrial activity still circumscribed by national boundaries, or is a healthier organization of the coal and steel economy developing in response to competition and to the now available economies of mass production for a mass market?

While it is too early to give a final answer to these questions, two indications are particularly encouraging. The first is that since the single market went into effect the level of trade among the nations of the Community has greatly increased. The second is that many of the coal and steel companies are being forced to reorganize and regroup to meet competitive conditions which the single market has created.

**Trade Among the Member Countries**

By the middle of 1954 roughly 40% more coal and steel was being shipped across the national boundaries within the Community than during the corresponding six months of 1952, the last year before the single market was established. Orders on hand in June, 1954 indicated that a further increase in such international but

intra-Community movements could be predicted. This is almost conclusive evidence that the national boundaries no longer define separate markets. Nor has this increased activity been at the expense of countries outside the Community, for imports from those countries have remained fairly constant.

**Reorganization—A Product of Competition**

The ability of buyers to select their purchasers without regard to national boundaries has created an increase in competition. For the first time sellers within a national state are in danger of losing even long, well-established customers to competing producers in other parts of the Community. Faced with such competition and no longer able to rely on the protection of closed markets, the producing companies are being forced to reorganize in order to improve productivity and bring costs down to a competitive basis.

A case in point is the steel industry in France. Operating under the shelter of protectionism, the French steel industry has for years been characterized by an excessive number of little producers most of which produce on far too small a scale to meet modern standards of efficiency. Four mergers have now reorganized 55% of France's steel capacity into firms of a size and type capable of competing in the Community's market. One of these mergers had been recommended by French Government experts as far back as 1946 but the enterprises were compelled to act only when the creation of the single market deprived them of the comfort of government protection.

Similar rejuvenation efforts are taking place in the Belgian coal mines. A study is presently being made of several of the least productive mines to explore the alternatives of reorganization or shutting down. Faced with intensified competition, the coal mines in the south of France are attempting to increase their productivity and eliminate their marginal production.

The temporary unemployment that is the by-product of reorganization and the closing of inefficient mines and mills is being dealt with by the resettlement of labor. Re-

**Note to New Readers:**

This issue marks the first in a series of monthly bulletins designed to tell interested Americans about progress within the six-nation Coal and Steel Community. This first issue is a general statement for background information dealing with the origin, organization, and activities of the Community. Subsequent Bulletins will take up issues involved in the expansion of the common market for coal and steel, recent developments in the Community, and the progress toward a unified economy in all sectors.

settlement is on a voluntary basis. Miners from the South of France, for example, are being offered incentives to move to the Lorraine where coal production can be expanded efficiently. Incentives include payment of all expenses for moving, as well as special compensatory benefits which for many workers are the equivalent of more than three months' pay. Most important, the miners also are guaranteed housing on arrival—perhaps the salient inducement in a Europe where an acute and persistent housing shortage is a major element of labor immobility. The three-million-dollar cost of the Lorraine resettlement project is being borne half by the High Authority and half by the French Government. As a pilot effort it is already showing signs of breaking down the European worker's fear that mechanization and increased productivity may cost him his job.

With the assistance of resettlement aid from the High Authority, the Italian steel industry is proposing to modernize its plant and methods. Resettlement plans are being prepared for other cases where, although industries are not undergoing reorganization, unemployment will result from the closing of mines or mills that cannot be operated profitably.

## THE POSSIBILITIES

The ultimate success of the free market in increasing the production and lowering the cost of coal and steel with a resulting rise in the standard of living for the Community's 160 million consumers, will depend very largely upon the extent to which modernization and capital improvement can be financed.

Like the rest of Europe, the Community is limited by a shortage of capital. Company reserves were seriously depleted by the need to rebuild war-damaged plants. The need to face the problem of deferred maintenance and obsolescence brought about by war and occupation has proved a further drain on capital reserves. On the European money market, capital, is available only at excessively high rates with the result that many companies, unable to obtain long-term loans, have been forced to finance capital improvements with short-term funds—a practice which, if widely adopted, could prove disastrous in even a minor recession.

Aware of this situation, the drafters of the Treaty gave the High Authority the task of finding and placing "financial means at the disposal of enterprises for their investments." The High Authority considers its responsibility in this area to be of the highest priority. To put itself in a position where it is able to borrow funds which it can relend to industries, it is setting aside tax revenues over and above the amounts needed for administrative expenses, the encouragement of research and readjustment assistance, as a continuing fund to assure its own credit.

When the High Authority borrows money which it relends to coal and steel enterprises, the principal and interest which those enterprises repay is a source of

revenue to augment the funds continually derived from taxes.

It was the borrowing capacity created by these combined sources of income that enabled the High Authority last April to obtain a loan of 100 million dollars from the United States through the Export-Import Bank. The High Authority is presently perfecting its arrangements for relending the funds made available by the loan, which bears interest at 3% a year and is repayable in 25 years.

In administering the loan funds the High Authority will act in the capacity of an informed and prudent lender. It will not attempt to direct the investment policies of the borrowing enterprises which will continue to retain full initiative and complete responsibility for the planning and execution of their projects. It will examine each project on its own merits, taking into account the financial soundness of a proposed investment and whether the enterprise has committed its own resources and credit. It will assure itself that in the competitive position of the common market any loan approved for a project constitutes a sound financial risk that can be amortized in a reasonable period.

## The Community and The United States

The Community is a European initiative in concept and purpose. Yet the United States and other nations of the free world have shown a continuing interest in the Community and its progress toward welding a United States of Europe. The concept of unity among Western European nations has vital meaning not only to Europeans but to freedom-loving people throughout the world. Only a united Europe can develop the powerful economic sinews and strong, stable political structure needed to protect and advance the ideals and institutions for which the free world stands.

President Eisenhower summed up the American attitude toward the Community on June 15, 1953 when he said:

"This Community seems to me to be the most hopeful and constructive development so far toward the economic and political integration of Europe. As such, this European initiative meets the often expressed hopes of the Congress of the United States."

Readers, students and teachers, interested in pamphlets, special information, or statistics concerning the Coal and Steel Community may write to:  
THE EUROPEAN COMMUNITY FOR COAL AND STEEL  
Information Office, 222 Southern Building  
Washington 5, D. C.

Chairmen of organizations dealing with international affairs may write to the above office for names of officials from the Community who will be available for speaking engagements in 1955.