MEMORANDUM

submitted by the

HIGH AUTHORITY OF THE EUROPEAN COAL AND STEEL COMMUNITY

to the

GOVERNMENT OF THE UNITED STATES OF AMERICA

Luxembourg—March 1954

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CHAPTER I

TOWARD A UNITED EUROPE

1. The political fragmentation of Europe has been an underlying cause of war and has obstructed Europe's natural economic development.

The destinies of Western Europeans have for too long been ruled by political boundaries. These boundaries have resulted in barriers that are unrelated to the logic of economics or geography and that are anachronisms in the modern world.

The division of Western Europe into small national units has bred tensions and rivalries. It has caused a series of wars progressively larger and more devastating; it menaces the future. So long as this fragmentation persists, the soil of Western Europe will remain fertile for conflicts. There is even less reason to hope that the rest of the world could keep aloof from such conflicts than there was in 1914 or 1939.

Political fragmentation has had only its most spectacular consequences in war. It has also retarded economic growth, delayed essential social adjustments and depressed the standard of living. It has led the separate nation-states into a vain quest for self-sufficiency. Blocked off by national boundaries from raw materials and markets, the European producer has been discouraged from raising his output and lowering his costs. He has sought to maintain his position in the local market not so much through competitive initiative as through protective legislation and restrictive private agreements. The result has been rigidity and stagnation.

War and economic nationalism have reinforced each other. Together they have produced the conditions that generate fear, unrest and instability. These conditions must be eliminated if the world is to attain security and peace.

2. The first step towards a united Europe has been taken with the Coal and Steel Community.

Today the peoples of Western Europe are on their way towards putting aside the national divisions of the past and establishing a federal structure that will give Europe's hopes and energies a chance for fulfillment.

In May, 1950, Mr. Robert Schuman proposed the creation of a European Coal and Steel Community. Six countries—Belgium, France, Germany, Italy, Luxembourg and the Netherlands—jointly drafted a Treaty. By June 16, 1952, the Parliaments of the six countries had ratified the Treaty by large majorities. Since August 10, 1952, when its executive branch assumed its functions in the city of Luxembourg, the Coal and Steel Community has been a living European experiment.

For the first time, the peoples of Western Europe have created a Community of supranational character, to which the national states have given some of their sovereign powers. Operating less than two years, the Community has established its authority; within the limits of its jurisdiction it has proved its capacity to govern.

Meanwhile, two other steps have been taken. A treaty creating a European Defense Community is now in the process of ratification by the parliaments of the six member states. Under the auspices of the Common Assembly of the Coal and Steel Community a special commission has proposed the main lines of a European Constitution, an essential feature of which would be a parliament, which would be elected directly by the people of the member states and to which the executive authorities of the Coal and Steel Community and the Defense Community would be responsible. It is now being considered by the six governments of the Community.

The six member states do not consider that the Coal and Steel Community, as presently constituted, defines the boundaries of the new Europe. In fact, the Coal and Steel Treaty, as well as the two other proposed instruments, contains provisions whereby other European states may join the Community. The member countries hope that other states and peoples will determine to embrace these principles and become a part of the Community. Discussions are now going forward with the United Kingdom for establishing a close association between it and the Community.

3. The institutions of the Coal and Steel Community constitute a form of government, in which the separation of powers is clearly recognized.

(a) The executive power is embodied in a High Authority consisting of nine members, chosen for a fixed term by the Governments.

The High Authority is responsible for seeing to the establishment of a single market for coal and steel throughout the territory of the Community. It is also responsible for supervising adherence to the rules of a free market and preventing interference with the play of competition.

The High Authority makes its important decisions after consultation with a Consultative Committee, made up of representatives of producers, workers, consumers and distributors, which meets regularly with the High Authority.

At the end of the fifth meeting of the Consultative Committee its then President, the head of one of the major coal enterprises of the Community, stated on behalf of the Committee:

> "The measures that have so far been taken by the High Authority and approved by all the producers, workers, consumers and distributors have been prudent and have been applied with a minimum of controls (dirigisme)."

(b) The High Authority is responsible directly to a parliamentary body, the Common Assembly; it is not responsible to the national Governments. The Assembly, which consists of a single house of 78 members elected by the parliaments of the member countries, meets periodically to review the work of the High Authority and to assure its democratic control. By a vote of censure the Assembly can cause the resignation of the members of the High Authority.

The Assembly has met four times: its last meeting was held in January, 1954. At each meeting it has expressed its confidence in the High Authority and its agreement with the policies being followed by the Community.

(c) In order to assure harmony between the policies of the Community and the general economic policy of the member countries, the Community includes a Council of Ministers of the member states, with which the High Authority consults and exchanges views. 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 the member countries. On some matters, the High Authority and Council of Ministers are required by the Treaty to act jointly.

(d) The decisions of the High Authority are reviewable, not by national courts, but by a Court of Justice of the Community. The enterprises within the Community and the member states are entitled to appeal to the Court from the acts of the High Authority. Already litigants of both these classes have availed themselves of this right in cases now pending before the Court.

4. In the field of coal and steel, the institutions of the Community exercise supranational powers throughout the territories of the member nations. The supranational character of these powers distinguishes the Community from international organizations.

(a) The High Authority is not required to obtain the prior approval of the member governments with regard to its activities. The High Authority, the Court, the Assembly and their staffs are expressly prohibited from receiving any instructions or guidance from the national governments.

(b) The decisions of the High Authority are binding on the coal and steel enterprises in the Community without having to be embodied in national legislation or decrees.

(c) The High Authority has power to enforce its decisions directly against enterprises. It can compel the national governments to enforce its decisions. It can sue and be sued.

(d) The High Authority has power to levy and collect the first European tax. The tax levy, which it has collected since January 1, 1953, yielded about $33 million in 1953. In succeeding years, the annual revenue from this source may be expected to approximate $50 million.

(e) As has been pointed out, the High Authority is responsible not to the national states, but to a Common Assembly, which alone is empowered to remove the members of the High Authority from office.

5. The Community provides a new freedom for the basic industries of Europe: freedom from past restrictions, and freedom to serve a newly expanded market. At the same time the Community makes it possible for the consumer to obtain the benefits of a large single market.

(a) European industries, hedged in by national boundaries, have been unable to avail themselves of the cost-savings of mass production. Initiative has been discouraged. Lacking a market for the volume production that would make it possible to operate on low profit margins, industries have sought to secure high unit profits on low volume.

Trade between nations has been restricted. While the volume of production advanced from an index figure of 100 in 1913 to 170 in 1953, trade between European nations was moving from 100 to only 102.

The economic under-development of Europe is reflected in the gross disparity between Europe's national income and that of the United States. In 1951/1952, for instance, the annual national income per employed person in the Community, while varying among the different member countries, was on the average only $1,128, as against $4,368 in the United States, and the national income per capita was only $528 as against $1,848. In terms of other indices of economic development, the countries of the Community, compared to the United States, have only 40% as much annual capital investment per capita ($126 as against $314, in 1952); 25% as much steel production per capita (in 1951, 167 kg. as against 609); and about 27% as much energy consumption per capita.

This under-development must be partly attributed to the devastation wrought by two wars—the disruption of production and markets, the destruction of plant and equipment through direct damage and the accumulation of depreciation and obsolescence. Equally responsible, however, are the low level of intra-European trade, the maintenance of uneconomic industries within artificially restricted markets, and the political and social instability that come from inadequate living standards.

Europe has to establish conditions similar to those that have made possible an unparalleled level of economic activity in the United States. With its 160 million consumers, the Community is a market of about the same size as that of the United States. If the vital forces inherent in this market are set free, the economy of Europe will be completely transformed for the benefit of its people and for the advantage of the entire free world.

(b) In liberating these forces the Community has com menced at the base of all modern economies, coal and steel. The industrial heart of Western Europe is a triangle, of which each side is roughly 250 miles in length. This triangle stretches from the coalfields of the Ruhr across the coalfields of Belgium to those of Northern France. It is bounded in the South by the coal and iron ore fields of Lorraine, the Saar and Luxembourg. Small as it is, the triangle contains part or all of the territory of five of the Community's six member countries; it includes over 90% of the coal and 70% of the iron ore of the Community. With the creation of the single market for coal and steel, the natural economic advantages of this industrial triangle are for the first time linked together.

To eliminate the impediments that crippled trade under a system of national coal and steel markets was a complicated operation. This operation was begun with the decisions of the High Authority setting up the single market, which took effect on February 10, 1953, for coal and iron ore, and on May 1 for steel. To avoid an undue disruption of the economic life of the Community it has been necessary to bring about the single market by stages. Nevertheless, in the few months that have elapsed since the High Authority announced its initial decisions, the major obstacles to a free play of market forces have been done away with. Customs duties affecting the movement of steel within the Community—with rates as high as 28%—have been entirely suppressed, with the exception of the special case of Italy where this elimination is being carried out 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 eliminated. Double pricing of coal, steel and iron ore moving among the member states has been abolished.

In the complex field of freight rates, all discriminatory practices are being subjected to detailed study.

Already many discriminatory rates have been terminated. New rail tariffs are being prepared to replace split rates which paralyzed the movement of goods across national boundaries. Unreasonable differentials between rates for the transport of different products are being revised.

The High Authority has required all enterprises to publish their price lists; it has forbidden them to discriminate between buyers. For example, the special prices that the German coal industry granted the German shipping, railroad, electric power and gas companies have been prohibited. The same is true of the discriminatory rebates formerly allowed to particular customers by the steel industries in France, Italy and the Netherlands.

Obviously not all restrictive measures and controls have yet been eliminated. In accordance with the transitional provisions accompanying the Treaty, a number of temporary arrangements have been put into effect to cushion the tremendous economic impact of the change. Certain freight differentials along national lines have not yet been altogether suppressed. A temporary system of subsidies is being afforded certain industries in the Community to ease the change-over to the single market while they take the necessary steps to adapt themselves and to modernize. Yet all these provisional arrangements are under constant review; the emphasis is on sweeping them away as soon as possible.

(c) The High Authority has the power to compel the removal not only of artificial national barriers but also of obstructions to the free play of the market imposed by the operation of cartels, producers' agreements, and excessive concentrations of economic power. Articles 65 and 66 of the Treaty contain the first far-reaching anti-trust law to be applied in Europe. Under their provisions, producers' agreements that may in any way restrict competition are forbidden, and enterprises are permitted to merge or consolidate only if the High Authority finds that such concentration will not operate to restrict competition.

At the request of the High Authority, the national purchasing and distribution agencies for scrap iron have been dissolved in France, Germany and Italy.

A cease and desist order has been issued to a large coal-selling organization in Southern Germany that has violated the Treaty by allocating customers.

By an administrative decision in July, 1953, the High Authority put into effect, as of August 31, 1953, the Treaty provisions prohibiting all agreements in restraint of trade. In order to stimulate the greatest possible number of combinations to disclose their activities, the decision suspended the effect of this prohibition for those agreements whose participants applied before August 31 for specific authorization. The High Authority is presently reviewing the applications for authorization of sixty such agreements.

Furthermore, the High Authority has made an exhaustive investigation of the activities of central coal, steel and iron ore sales and purchasing organizations in the various member states. Several of these investigations have come to an end and the High Authority is about to start administrative proceedings against the central coal sales or purchasing organizations of the Ruhr, Southern Germany, France, Belgium, Luxembourg, and the Netherlands, which will result in their liquidation or reorganization.

As a result of these investigations, some organizations have modified their activities on their own initiative so as to bring them into line with the anti-trust provisions of the Treaty.

In the field of concentrations of economic power, the High Authority has adopted a policy favoring those concentrations of enterprises that will permit a greater specialization and rationalization of production, while at the same time preventing the regrouping of enterprises which by their combined monopolistic position would imperil competition.

Following this policy, the High Authority has authorized several concentrations in the steel industry which will improve the conditions of production. A proposed regulation, which would exempt certain concentrations from the requirement of prior authorization of the High Authority and which was recently submitted to the Council of Ministers for their concurrence, follows the same principles.

(d) The movement of coal and steel within the Community is now beginning to conform to the natural laws of the market, resulting in a marked increase of coal and steel transactions between the member countries, at lower prices.

In January, 1954, the exchange of **coal** was 40% greater than the monthly average of the two years that preceded the establishment of the single market.

In 1953—the first year of the single market—the exchange of coal among the member countries increased by 3.6 million tons, or 21.7%, in spite of the decrease in coal consumption caused by general economic conditions.

In 1953, as compared to 1952:

—Germany increased her coal deliveries to the other countries of the Community by 1,235,000 tons, or 13.6%; at the same time France and the Saar increased their deliveries to Germany by 369,000 tons, or 9.4%.

—Belgium increased her coal deliveries to the Netherlands, France, Italy and Germany by 1,278,000 tons, or 55.4%; at the same time deliveries to Belgium from other countries of the Community (Germany, the Netherlands) increased by 489,000 tons, or 100%.

—France and the Saar increased their coal deliveries to the other countries of the Community by 685,000 tons, or 15.3%; at the same time Belgium, Germany, and the Netherlands increased their deliveries to France and the Saar by 690,000 tons, or 14.4%.

As to **iron ore,** sales by French mines to Belgium and Luxembourg increased 10% from 1952 to 1953. Before the single market was established, the French Government imposed quantitative export restrictions. These have now been abolished, with the result that the French iron ore mines have increased their production and sales. The Belgian steel works are consequently taking a much larger tonnage of French ore and reducing their use of scrap iron by one third. As a result of this change, the Belgian steel works have reduced their cost of production.

With regard to **steel,** the exchange between the countries of the Community did not change much during the first months following the establishment of the single market, but it has been increasing regularly from September, 1953; in December, 1953, the exchange of steel was 37% above the monthly average for the sixteen months preceding the establishment of the single market.

As between January-September, 1953 and the last quarter of 1953, the monthly average movement of steel among member countries increased by 22.2%.

With reference to the same period:

—Germany increased her steel deliveries to member countries (the Netherlands, Italy, France and the Saar) by 25,800 tons per month, or 73.9%.

—Belgium increased her steel deliveries to member countries (the Netherlands, Germany, Italy) by 2,800 tons per month, or 4.5%.

—France and the Saar increased their steel deliveries to member countries (Germany, Italy) by 5,900 tons per month, or 7.6%; at the same time the France-Saar consumers, who only purchased small quantities abroad before the establishment of the single market, have now increased their purchases from member countries by about five times.

—Luxembourg has increased her deliveries to member countries (Belgium, Germany, the Netherlands, France and the Saar) by 17,300 tons, or 23.2%.

—Italy has increased her purchases from other countries of the Community by 49.4%.

This increased exchange has not occurred at the expense of third countries which have been exporting steel to the Community: imports from third countries have remained more or less on the same level during this period, and even Italy, whose purchases from the Community increased the most, has at the same time increased her imports from non-member countries.

The competition brought about by the establishment of the single market has caused producers to find outlets in the regions of the Community where the demand is more active (Germany, the Netherlands, Italy) and has forced them to adapt their prices to the conditions of the market.

Finally, competition has led some industrialists to speed up important changes in their methods of operation, such as new concentrations and specialisation of steel enterprises in France and in Belgium, gradual closing of coal mines with high production costs in the South of France, and re-employment of workers in areas where capacity is expanding.

6. The success of the Coal and Steel Community will contribute to the defense of the free world.

The free world must be able to defend itself. In the free world defense requires high productive capacity and a strong will in the people.

Our form of society not only must show that it can expand production,* but also must offer a rising standard of living and demonstrate that it can expand economic horizons for all the people.

To make this possible, changes in economic conditions and in habits of thought are required. A climate must be created in which European producers can develop a self-

*A striking and challenging comparison is to be found in figures for steel production (millions of metric tons):

	1929	1939	1953
U. S. A.	57.3	47.9	101.2
Community	37.0	37.7	39.6
U. S. S. R.	4.9	18.8	37.8

reliant and competitive spirit in the hope of profit and under the spur of the market. The required changes are so sweeping as to constitute a peaceful revolution. Such a revolution is in progress for the coal and steel industries of the Community; its momentum must be sustained and stepped up.

In its larger purpose the Community is hastening the day of full political and economic federation. It is proving to the peoples of Europe that the abandonment of their national rivalries will bring about a relaxation of tensions, an expansion of economic activity, and a rise in their standard of living. As the first working federal institution in Europe, the Coal and Steel Community is at once the embodiment and the test of the federal idea. It is essential that it perform competently and with dispatch the tasks entrusted to it. More than that, it must be able to demonstrate to Europeans that it has earned the support of the rest of the free world.

CHAPTER II

Toward a Dynamic Economy

1. The economic expansion of the Community.

The Coal and Steel Community is founded on the belief that the European economy can be transformed by the forces of a vast single market for coal and steel. With goods free to move within the large trading area of a single market, the market mechanism should itself bring about a realignment of trade patterns based on considerations of low cost and high quality. It should bring about mass production and specialization. It should compel the most efficient use of resources, and the development of constantly improving productivity and production by the use of new machines and techniques. As productivity and production are increased and the costs of producing coal and steel are reduced, labor in the coal and steel industries should be in a position to enjoy a higher standard of living. At the same time the Community as consumers of coal and steel should benefit by lower prices, and the use of coal and steel within the Community should increase.

These are the economic objectives of the Community—objectives to be achieved by creating conditions in which the industrial machinery of the Community can be driven by the power of the market. The function of the High Authority is primarily to see to it that these conditions are achieved, and that, once achieved, their consequences are not distorted by outside interference—whether by national states, by combinations of producers, or by crises or shortages brought about by abnormal world conditions. These objectives have been explicitly set forth in Article 3 of the Treaty to guide the institutions of the Community.

To accomplish these aims, it is, at the beginning, necessary that priority assistance be given to projects for capital improvements designed to increase productivity and production in the case of primary raw materials.

2. Adequate capital cannot be found in the Community for all the investments needed in the basic industries.

The projects for decreasing costs and increasing production in the primary industries require substantial investment. Such investment will be economically feasible only if the enterprises can obtain funds on a continuing basis at sufficiently low rates of interest and with sufficiently long terms of amortization. Such funds would normally be obtained through (a) self-financing, (b) capital markets, (c) bank loans, or (d) government loans. When the possibilities of these sources are examined, however, it is clear that under present conditions they are inadequate.

A. Self-financing

When the term "investment" is taken in its broadest sense, including investment for replacement, the sources of financing to be thought of first are the amortization charges and the retained earnings of the enterprise itself. Immediately after the war, earnings were small because costs of production rose rapidly while selling prices were government-controlled. A few years later, the advent of the sellers' market and the removal or relaxation of price controls enabled the enterprises to accumulate certain profits available for capital improvements, but during the last year, with the end of the extraordinary demand that followed the outbreak of hostilities in Korea, margins have been again declining.

Between 1949 and 1953, that part of their aggregate investment which the coal and steel industries of the Community covered by their own resources was as follows:

COAL AND STEEL INDUSTRIES IN THE COMMUNITY: GROSS INVESTMENT AND INVESTMENT SELF-FINANCED, 1949-1953 (IN MILLIONS OF DOLLARS)

	1949	1950	1951	1952	1953 (Est.)
Total gross investment	760	780	830	1110	1160
Self-financing ...	250	230	360	470	400
Percentage	33%	29%	43%	42%	34%

Most of the enterprises are now able by self-financing to take care of current replacement, but self-financing will not contribute much to new capital investment funds for some time to come. The new competitive conditions of the single market may be expected to compel the enterprises to pass on to the consumers a large part of the benefit of cost reductions achieved through rising production and productivity.

B. The European capital market

The enterprises in the Community at present cannot count on a significant amount of investment funds from the capital markets of Europe.

It is noteworthy that in 1952 and 1953 the coal companies obtained no equity capital at all. Until the capital markets have larger amounts of money available for investment, the public issue of stocks cannot be expected to yield any substantial funds.

The classic type of bond issues (more than five years maturity) provided only 23% of the total capital invested by the coal companies in 1952 and 29% in 1953 (in 1952 $70 million of a total $300 million and in 1953 $100 million out of $350 million). Two bond issues by Charbonnages de France in 1952 and 1953 accounted for more than half the funds raised by this method. The German, Dutch and Italian coal companies raised no funds on the capital markets in these two years.

As a result of the scarcity of long-term funds the cost of capital is very high. For example, the 12 to 15 year loans that the Charbonnages de France obtained on the French capital market (although they involve exceptional guarantees, such as a guarantee of payment by the French Government and clauses which adjust the value of the bond to variations in the price of coal as a safeguard against monetary depreciation) cost the borrower, when discounts and other charges are included, close to 10% interest.

The German coal enterprises of comparable status to the Charbonnages pay 8 to 10% interest for long-term funds.

The Netherlands is an exception, because liquid capital is abundant in relation to the requirements of the national economy, as a result of which interest is lower (3 to 4% for 20 year loans).

C. Short-term bank loans

For the most part, owing to the shortage of capital the enterprises have had to resort to short-term bank loans with the hope, often disappointed, of consolidating them later on. Short-term bank loans play almost as important a role as long-term loans in providing capital funds for the coal companies. They largely comprise short-term credits extended by the banks and renewable for a 3 to 5 year period. In spite of the short-term nature of these credits, the interest is very high (7.5% in Germany; about 8% in France and 4% to 5% in Belgium). This type of financing for capital investments is intolerable except as a makeshift and involves a constant threat to the stability of the enterprise.

D. Governmental assistance

During the last few years, the governments of the member countries have made loans to the basic industries. In some cases these loans come directly from the public budget (France and Saar); in others, they come from the counterpart of United States aid (Germany, Belgium, and formerly France); on occasion they come from divers sources by way of semi-public lending institutions (Belgium).

Germany adopted a special law which requires manufacturing industries to provide investment capital for the basic industries. This system, called "Investitionshilfe", raised 1 billion DM (about $240 million), 40% of which went to the coal and steel enterprises. It was a temporary, non-recurrent expedient, now terminated. But even under this measure the conditions were onerous, for interest was as high as 8% for 12 to 15 year loans.

E. General limits on sources of investment funds

The inadequacy of investment funds available from European sources results from existing economic conditions. Substantial investment capital is needed to increase production significantly, yet the present low level of production itself operates to prevent the formation of adequate investment capital. The situation is complicated by the fact that the Community must meet rising defense requirements, and by the existence of economic and psychological factors which inhibit private savings.

First, the Community's gross national product per capita is barely one-third that of the United States, as is shown by the following table:

GROSS NATIONAL PRODUCT PER CAPITA
(in dollars, adjusted to 1951 prices)

	1951	1952
—in the Community	568	589
—in the United States	2,148	2,171

Second, defense expenditures have laid an increasing burden on the national economies.

Third, the level of available private savings has been limited, primarily by the following factors:

a) the strong consumer demand after the privations of the war;

b) the relatively slender margin between consumer income and consumer needs, which has prevented savings from being accumulated to as large a degree in Europe as they are in the United States;

c) in some countries, lack of confidence in the national currency, which has tended to channel savings into consumer goods or into socially unproductive uses.

Only if the Community can obtain funds from outside sources to increase production and productivity will it be able to develop its resources in the future to the point where it can fully cover its investment needs. Under present conditions, if a larger percentage of the Community's product were to be applied to investment, either the standard of living or the level of defense expenditures would have to be reduced. The social, political and military realities preclude such action.

4. The High Authority of the Community has the authority, duty and borrowing capacity to contribute to the financing of necessary investment.

The creation of the European Coal and Steel Community has opened new financial possibilities for the enterprises. The Treaty entrusts the High Authority with the task of contributing to the financing of the investment projects which are of the utmost importance for the Community as a whole.

The High Authority has the choice of two courses of action in carrying out this function:

a) It may guarantee repayment of funds which the enterprises borrow from third sources; or

b) It may itself borrow and make loans to the enterprises out of the borrowed funds.

In order to put the High Authority in a position to borrow money and in order to make its guarantees attractive to lenders, the Treaty provides the High Authority with a source of financial means. Under the Treaty the High

Authority is given the power to levy a tax—the first truly European tax—on the production of the enterprises of the Community. The regular collection of this tax creates a permanent revenue for the High Authority. Since January 1, 1953, the High Authority has levied this tax on the production of coal and steel at a progressive rate which since July, 1953, has been at the level of 0.9%. On December 31, 1953, accumulated proceeds had reached approximately $33 million; from January 1 on, the levy will bring in about $4 million a month.

This levy serves four purposes. Part of the proceeds of the levy is earmarked for defraying the administrative expenses of the Community's institutions; another part may be used for facilitating and coordinating technical research in the interest of all the enterprises of the Community; a third part will provide funds to relocate workers from plants which are closed as a consequence of the competitive pressure of the single market or as a result of technological improvements. However, most of the revenues are to be used to establish the credit of the High Authority. The most important aspect of the levies is that they represent the High Authority's power to tax and they underlie the credit of the High Authority that has been established. The accumulated funds resulting from the levies and not set aside for other purposes already* amount to $25,000,000 and represent a "guaranty fund" for the safety of the High Authority's engagements. That guaranty fund will increase as the outstanding debts and guarantees of the High Authority increase.

*February 28, 1954.

When the High Authority borrows funds directly which it re-lends to enterprises, the principal and interest repayments made to the High Authority by the enterprises augment the financial backing, and thus the borrowing capacity, created by the High Authority's tax revenues. Similarly, when it guarantees loans of the enterprises, there too the underlying obligation of the enterprises constitutes an additional resource behind the High Authority's engagements.

The High Authority must take steps to use its borrowing capacity in order to assist in financing the urgent investment projects of the enterprises. Since the possibility of obtaining funds on the European capital markets is limited, the High Authority must also use its financial power outside the Community.

For this reason the High Authority is asking the Government of the United States for a loan, on which it will undertake to make regular payments of interest and principal, and which will represent a sound credit transaction.

5. The High Authority will administer the funds at its command without seeking to dominate the investment policies of the coal and steel enterprises.

With the funds that it borrows, the High Authority will supplement the funds that the enterprises obtain on their own initiative. It will extend financing only as a lender or guarantor and will never acquire an ownership interest in the equity capital of any enterprise. The High Authority does not desire—nor, under the Treaty, does it have the power—to direct the investment policies of the borrowing enterprises, which will continue to retain full initiative and complete responsibility in the conception and execution of their projects.

In administering funds at its command the High Authority will pursue the policies of an informed and prudent lender. It will examine each project on its own merits, taking into account the financial soundness of the proposed investment and whether the enterprise has committed its own resources and credit. The High Authority 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 High Authority is convinced that by administering its resources wisely it can help to revive capital markets. It intends to use its credit in such a way as to attract new capital in greater volume than is available at the present time and thus, in effect, to multiply its own direct resources. It is convinced that this action will gradually bring about a reduction in financing costs and open the way to a revival of European capital markets to which the financial strength of the High Authority will enable it to make an essential contribution. The High Authority proposes to use every means available to it to hasten the day when the enterprises of the Community will be able to obtain the financing necessary for normal growth in the private capital markets of the world.