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Background Information
May 10, 1963

**EUROPEAN COMMUNITY MOVES TO COUNTERACT
WEAKNESS IN STEEL MARKET**

The European Coal and Steel Community is taking steps to counteract the current weakness in the steel market which has caused Community steel producers to cut production and prices. At a meeting in Luxembourg on May 4, the ECSC Council of Ministers authorized two immediate measures:

1. It asked the High Authority to hold bilateral talks with Great Britain, Austria, and Japan in order to study present developments in the world steel market and definitions of dumping.

2. It instructed a special steel committee, comprised of representatives of the six member governments and the High Authority, to draw up by May 15 comprehensive measures to deal with the situation and in particular to enable Community steel producers to overcome the disadvantages they face in competition with other producers in European and world markets. (One such measure proposed by the High Authority was that the six Community countries should coordinate their policy on imports from Communist-bloc countries.)

Simultaneously a steel industry committee set up in April by the High Authority and the chairmen of the national steel producers' associations was considering what action could be taken within the steel industry itself.

The Council of Ministers will meet again on June 6 to discuss the steel market further in light of the steel committee's report.

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How the Market Has Deteriorated

The High Authority has acted because it believes that, unless some action is taken, the price level at which the Community's steel industry sells may be forced down below the level of production costs.

High Authority member Fritz Hellwig told the Council of Ministers on May 4 that a price war among steel producers in the Community and other countries had intensified during recent weeks and that steel firms' margins had fallen. Producers have been forced to cut their expenditure and to reconsider their investment programs, he said, and sales in the iron-ore producing regions were also suffering, particularly in Lorraine. The Community would probably not reach the production level for iron ore and steel envisaged for 1965 in the High Authority's General Objectives, Herr Hellwig added.

The recent leveling-off of Community steel output after the spectacular growth of the last 10 years is partially because the world's steel-consuming industries are not expanding at the same rate as industry as a whole. Although the Common Market Commission forecast a 5 per cent industrial expansion rate for the Community in 1963, steel consumption is expected to increase only 3 per cent over that of 1962.

In addition, some steel-producing countries outside the Community which formerly sold only on home markets are now beginning to enter the world steel market.

Community Producers Face Special Problems

There are a number of other factors operating against Community steel producers:

Some producers outside the Community have been able to sell at low prices because of low production costs, high profits on home markets, or favorable government policies.

The Community's harmonized external tariffs on steel -- between about 6 and 12 per cent, depending on the type of steel and the country of entry --

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are considerably lower than those of its principal competitors. The effect of this is especially marked at a time when prices are weakening, since duties are generally levied not on the tonnage but on the value of the steel imported.

Community steel firms must comply with ECSC rules on price publicity and non-discrimination. When they align their prices on those of steel imported from countries outside the Community, they have to provide proof of the competitive prices which necessitated such an alignment. Non-Community producers selling in the Community do not have to operate within these restrictions.

As a result, Community steel producers in recent months have had to meet severe competition in their own markets from imported steel. This has had a marked effect both on steel production and on prices in the Six. The low prices of imported steel have in some cases forced Community producers to decrease their prices (although Community price lists have in general remained fairly steady).

Production in the entire ECSC during the first quarter of 1963, at 17.9 million metric tons, was 1.5 per cent less than in the same period of 1962. In Germany, the Community's major producer, it was down by 4 per cent.

For the second quarter of this year, the High Authority estimates that production will fall one per cent below 1962's second quarter, but imports will probably be up by about 31 per cent, reaching an estimated 1.05 million tons.

While steel imports into the Community have increased, ECSC exports have fallen sharply. They are expected to rise again slightly in the second quarter of 1963, but, at 2.95 million tons, they still will be 13.7 per cent lower than in the same period last year. High Authority experts believe, however, that there will be a slight rise in Community consumption in the second quarter of this year and that production will reach 18 million tons. The increase will probably be greatest in Germany, where the recent setbacks have been most severe.