

EUROPEAN COAL AND
STEEL COMMUNITY

HIGH AUTHORITY

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SUMMARY OF THE INTRODUCTION TO HIGH AUTHORITY 15th GENERAL REPORT

1. In submitting its Fifteenth General Report, the High Authority thinks it well to draw attention to the rather special circumstances in which the European Coal and Steel Community finds itself at the present time.

In the first place, for the past three years it has been necessary constantly to bear in mind the eventuality of an early merger of the three Community Executives, and subsequently of the three Community Treaties, while at the same time ensuring that E.C.S.C.'s work goes steadily forward as if that eventuality did not exist. The difficulties created by this uncertainty on something so fundamental are too obvious to need enumeration.

In the second place, on the economic and social side, the Common Market for coal and steel has been proving more and more difficult to run adequately on the basis of the regular Treaty provisions alone. In the case of coal the High Authority has had for quite some time to avail itself of Articles 37 and 95, which unlike the regular provisions were really framed for exceptional cases; whereas for steel the High Authority and the Council have been engaged since the end of 1966 in a detailed study of possible further measures some of which might also overstep the bounds of normal Treaty implementation.

Closer Cooperation with the Council

Accordingly, the High Authority feels it necessary to offer some comments concerning the institutional aspects of its present approach. The comments are occasioned by the construction tending to be placed on

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the very close co-operation with the Council of Ministers that has grown up in the last few years, which is, wrongly, taken as implying that the High Authority has surrendered part of its independent status, or at any rate is not asserting this.

In point of fact, this co-operation stems direct from the Treaty. So far from delegating back to the national authorities powers vested in the Community, it is intended to devise additional Community-level modes of action over and above those provided for in the Treaty and ensure that these dovetail satisfactorily with the policies the Governments are pursuing in the spheres remaining under national sovereignty.

Such additional arrangements have clearly become essential. With the whole position of coal in the economy entirely altered since 1950, and the iron and steel industry having to undertake adjustments no one could possibly have anticipated at the outset, the need for a Community-level structural policy is now generally accepted. But because of these very developments, the market system set up by the Treaty of Paris and the specific powers provided under it are no longer adequate in themselves to ensure that changes and development on the coal and steel Common Market take place in an orderly way. It is one of the Treaty's basic assumptions that, generally speaking, competition among the Common Market operators will be sufficient stimulus, except in cases where the High Authority is empowered or obliged to intervene by means specifically provided for. Now, as regards the coal industry for example, this assumption no longer holds when the position of Community coal vis-à-vis its competitors is primarily determined by government intervention.

While the High Authority accepts that the competitive system and corrective mechanisms laid down in the Treaty are not now always adequate to attain certain desired objectives, this does not mean that it is in any way inclined to underrate the importance of competition as a spur to technical and economic progress. On the contrary, a healthy degree of competition is essential, and the High Authority has every intention of seeing that this is maintained. At the same time, there are limits : it is necessary to know those limits, and to ensure, by appropriate corrective measures, that the process of adjusting to circumstances does not degenerate into general disorder.

Against this background, the Treaty articles which permit new departures - stopping short of "major revision", a step requiring ratification by the six national Parliaments - are now assuming special importance. Prominent among them is Article 95, which sets out procedure for taking action in "cases not expressly provided for" in the Treaty, and secondly for amending the text of the Treaty itself.

Reasonably enough, the High Authority does not enjoy the same independent powers with regard to these new departures as it does in the implementation of the regular Treaty provisions : in particular, it has to work closely with the Council of Ministers in instituting any course

of action under Article 95. So, the structural difficulties in the Common Market having reached proportions beyond the capacity of the regular Treaty provisions to tackle, it is necessarily obliged to act in conjunction with the Council. But this does not in the least imply that it is not at the same time making full use of every weapon of its own which the Treaty affords : on the contrary, it implies precisely that it is.

Increased Aid to Workers and Industry

The Fifteenth Report records continuing intensive financial activity. During 1966, the High Authority raised loans worth 103 m. dollar units of account, bringing the total loan capital raised since the Community's inception to 662 m. units of account. 1966 also witnessed still greater efforts on the social side, more especially with respect to redevelopment and workers' readaptation : 17 m. units of account were paid out during the year (1) in loans to aid schemes in five out of the six countries for establishing new industries able to reabsorb former miners and steelworkers (the total amount lent for this purpose to date now stands at 46 m. units of account), while grants from the E.C.S.C. levy for the tiding-over and retraining of the redundant workers themselves in now running at over 10 m. units of account a year, as compared with 3-4 m. only four years ago. In addition, considerably larger sums than before were set aside from the levy for technical and social research.

The High Authority established a number of new arrangements to improve control over compliance with the pricing rules and also, for the purposes of its investment orientation work, added to its existing powers concerning compulsory declaration of projects certain further facilities designed to help it elicit fuller particulars of enterprises' plans. Mention should be made of the action taken during the year to promote the utilization of Treaty products.

Both the number and the scale of the projected trade agreements and business mergers on which the High Authority was required to give judgment were larger than ever before, mainly in consequence of the structural adjustment in progress in the steel industry. The High Authority also ruled on numerous applications for permission to institute special transport tariffs. Notable strides were made towards ensuring disclosure of all transport rates charged.

With regard to commercial policy, the Report sets forth in detail the considerations underlying the decision to retain, with some changes, certain external trade and tariff arrangements, coupled with

(1) Actual payments; the amount committed was 54,800,000 units of account between February 1, 1966, and January 31, 1967.

others unanimously decided upon by the six Governments within the field of their responsibilities.

The High Authority prepared and published a fresh set of General Objectives for steel running up to 1970, and also drew up a coal production target for that year. These calculations form the reference basis for its industrial loan policy, under which it was able to continue furnishing substantial amounts.

All these regular Treaty activities are as necessary as ever, and integral to a Community-level industrial policy. Although as time goes on additional measures are needed which the High Authority on its own is not empowered to take, this is no reflection on the means the Treaty does afford : on the contrary, it should be an incentive to devise new ways of acting as a Community in other contexts too, grounded on the solidarity among the member countries, until such time as the Treaty can be expanded and amended as the High Authority has so often urged it should be. In the meantime, we can consider it fortunate that E.C.S.C. is able to act on the special provisions in its own Treaty permitting the High Authority and Council jointly to break new ground where necessary.

This is no mere passive acquiescence : it is a definite, positive policy, offering the only possible alternative to national-level measures which would spell deadly danger to the Common Market. For that policy to work, the High Authority has to apply itself to evolving new arrangements framed in the interest of the Community as a whole, yet with due regard for the interests of all parties, and to accept full responsibility for them. It is no easy matter now, and it will not be easy in the future, to bring the Ministers and the High Authority to a common mind, but each fresh move in this policy is fresh proof of the Community's vitality in facing up to problems the makers of the Treaty could not have been expected to foresee.

THE E.C.S.C. INDUSTRIES

There is a wide difference between the problems involved in the two mining industries on the one hand and in the iron and steel industry on the other. The Community coal industry is in process of structural contraction : its outlets are dwindling steadily under pressure from other fuels and from imported coal, and, partly for geological reasons, only a certain amount can be done to make it more competitive. Community iron ore too is giving way more and more to its overseas competitors, which can offer a higher ferrous content at a lower price. The question is therefore what measure of assistance should be given to the two industries to prevent social and economic hardship resulting from unduly sharp and sudden contraction.

The Steel Market

Outlets for steel, on the other hand, will go on expanding. The rate of growth is less marked than formerly, however : temporary downturns are more liable to occur when there is a falling-off in the general level of business activity, as there has been latterly in various member countries. Largely on this account, Community crude-steel production showed a slight drop in 1966, from 85,900,000 tons to 85,100,000.

Just as this slowdown has overtaken it, the Community steel industry has become caught up in the technological revolution which has been going on for some time now in steelmaking all over the world. There have also been radical changes in patterns of seaborne transport, bringing down maritime freight-rates to well below the level of transport costs within the Community. Accordingly, the centres of steel production are shifting more and more to the coastal areas, for readier access to cheaper and/or higher-grade raw materials from overseas.

Ultra-modern plants are mostly also ultra-large, causing a substantial increase in output capacity. As long as a corresponding decrease has not been secured by scrapping obsolete works, the steel market is developing towards a serious supply/demand imbalance - a state of affairs which is by no means confined to the Community.

Competition, already strong for some time on the Community market, has recently become exceptionally fierce. The resulting collapse in prices (not paralleled in the other main steel-producing areas) represents a very real menace to the Community steel industry's future development, since it means that the enterprises are short of capital for modernization and reorganization. Investment projects declared during 1966 totalled barely \$ 300 m. the lowest figure since 1963 and nowhere near the annual average rate since 1960 of over \$ 500 m.

Policy on Steel

The High Authority has for the last year and more been urging enterprises to tailor production to demand, and not to attempt to sell extra tonnages on a market that cannot absorb them. It has so far relied mainly on its quarterly programmes in which forecasts will in future be broken down by products and enterprises, in order to bring home to every company just how matters currently stand in the market. A decision on pricing requiring enterprises to give particulars of their modes of quotation, will shortly be coming into effect. Nonetheless, the fact that the High Authority has so acted on tonnages and prices does not necessarily mean that more direct measures may not be needed to impose some degree of discipline upon the producers.

This is one of the points now being carefully examined by the Council of Ministers/High Authority ad hoc Committee on Steel which was set up in November 1966 at the High Authority's request. It was also agreed that the Ministers should regularly compare and discuss plans for the steel sector prepared in various member States. Meantime, so as to

improve its longer-range guidance and orientation work, the High Authority has issued a decision requiring enterprises to send it fuller details of their investment programmes than hitherto.

A substantial proportion - not far off 20 % - of the Community's steel is sold abroad, to say nothing of a similarly high proportion of indirect steel exports. This being so, the slide in the world market is an aspect of the present troubles calling for specially careful analysis. Thanks to its extensive contacts with third countries, the High Authority is able to keep in close touch with developments outside the Common Market. It has gladly accepted a suggestion by the British Government that the two, through the Council of Association, should study conditions in the world steel market to see what can be done about them, if possible in co-operation with other third countries concerned.

The steel industry in the Community is more fragmented than in some other big producer areas, but the pattern is now changing in the direction of larger units and greater specialization. This process continued in 1966 with the creation either of selling agencies or of concentrations of various kinds, some of them on a cross-frontier scale. The High Authority pursued its policy of endorsing such link-ups and agreements where calculated to increase competitive capacity.

The shrinkage in employment in the steel industry became more marked in 1966, when it reached 4 % : this is one side-effect of the rationalization of production which will be met by appropriate social measures.

Coal Policy

In March 1966, when the E.C.S.C. Council of Ministers resumed its meetings after the E.E.C. crisis of the previous June, the High Authority pressed for additional measures over and above those already taken under the Protocol of April 21, 1964, which instituted the transitional energy and coal policy pending the merger of the Treaties. Despite the Community system for national subsidies to the coal industry introduced in 1965, the position had deteriorated further, with production increasingly out of step with sales and stocks already up to an alarming level. As a reference basis for policy in the next few years, the High Authority drew up a Memorandum indicating as 1970 production target a figure of about 185 m. tons hard-coal equivalent; This compared with 209.8 m. tons in 1966, which in its turn is 6.2 % down on 1965. Assuming that this was the tonnage to be aimed at, it should then, the High Authority considered, be possible to work out what measures - chiefly State aids - would be needed to achieve it.

The Council agreed that steam-raising coal should be assisted by promoting its use in thermal power-stations, while special attention was to be given to the position in the private-household sector. It remained to find means of dealing with the key problem of coking-coal.

Proposals were worked out for supplementary assistance to enable the prices of coking-coal and coke to be aligned on the delivered prices of imports. In this way sizeable outlets for Community coal were maintained while artificial disparities in the steel industry's conditions of supply were eliminated. Proposals were also put forward for a multi-lateral compensation scheme among the six countries, to share the cost of this assistance in respect of coke and coking-coal traded between member countries. The Council gave its consent, under Article 95,1, at its 107th meeting on February 16, 1967. Designed to round off the Community system of State aids to the coal industry, also introduced under Article 95,1 in March 1965, the new arrangements, providing for an average subsidy per ton of 1.7 dollar units of account, were formally authorised under High Authority Decision 1/67 of February 21, 1967. This Decision is valid for the period until December 31, 1968, since pending the merger of the Community Treaties, it and similar measures are temporary in character.

The number of workers employed in coalmining again dropped sharply in 1966, by 62,000, or nearly 10 %. Despite this, and even though stocks meantime grew to a level now representing over two months' production, the incidence of short-time working was considerable, resulting in a production loss of more than 4,500,000 tons, twice as much as in 1965. This emphasises the scale of the labour problems involved by the contraction process. Active assistance with readaptation and redevelopment is therefore more necessary than ever in order to contain the social and regional impact as far as possible.

The difficulties now being encountered must not be allowed to conceal the fact that the technological and economic changes taking place in heavy industry are in fact a consequence of growth in a common market of economic and social progress. To meet those difficulties the High Authority will continue to turn to the fullest account all the potential of the Treaty of Paris, much of whose content, though dating back fifteen years, is still today as original and constructive as ever.
