

EUROPEAN COAL AND
STEEL COMMUNITY

HIGH AUTHORITY

GENERAL SECRETARY

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COMMUNITY ACTION FOR THE STEEL MARKET

Summary of Market Situation and High Authority Proposals
put to the ECSC Council of Ministers of 22 November, 1966.

At its meeting today the ECSC Special Council of Ministers was presented with a High Authority memorandum in which the present situation on the Community steel market is analysed and a series of remedial measures proposed. This memorandum and the introductory remarks made by Signor Dino Del Bo in his opening address to the Council are summarised below.

The Reasons behind the New Measures

The present situation of the Community steel market is one of serious concern. Although the rate of capacity utilisation, at present around 80%, does not present insuperable difficulties, the downward trend of prices and of receipts from steel sales must cause very considerable anxiety, all the more so given the steady rise in costs.

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In all parts of the world new modern steelworks, often of very considerable capacity, are being developed. Surplus capacity has grown from 12 million tons in 1950 to 62 million tons in 1965.

The efforts made by the Community steel industry to sell as much steel as possible on a market where supply exceeds demand have led to price cuts of up to 20% below list prices. This has been possible under the alignment procedure (to meet lower competing offers) and through rebates.

As a result prices have deteriorated in the Community to a far greater extent than in other major steel producing countries. Whereas steel prices in the ECSC are still around the same level as 13 years ago, in the United States and in Britain they have increased by about 40% over the same period.

The steel firms of the Community are consequently placed in a situation which does not correspond with the normal effects of fair competition.

This is a particularly dangerous situation since it jeopardises further new investment in modernisation and rationalisation, both vitally important at the present time. The Community steel industry therefore runs the danger of falling seriously behind its competitors in this respect.

In contrast, United States steel firms, with greater scope for ploughing back of profits, have far larger resources available for new investment. In Japan it is expected that the 1965 crude steel capacity of 46 million tons will rise, with the help of new ultra-modern steelworks, to a figure of 63 million tons in 1970. These works could export up to 20 million tons in 1970. In the USSR crude steel output should increase from 91 million tons in 1965 to 130 million tons in 1970, with priority given to steelworks producing 6 million tons per annum or more.

The necessary process of rationalisation in the Community steel industry has already led to programmes for workers' readaptation and regional redevelopment and these will be equally necessary in the future. The extent of these changes must be measured and advance preparations made at Community level, since it would be illusory to hope to regulate each case separately at national level.

Short and Medium Term Problems

In the short term a better equilibrium between actual production levels and demand for steel within the Community is required if the situation is to be repaired. An improvement in this quantitative relationship would help strengthen prices and thus free resources for the necessary capital investment.

For the longer term the efforts of steel firms and member governments must be co-ordinated with the new steel "General Objectives for 1970". The chief stress in these General Objectives is laid on the need to increase rationalisation and competitiveness while avoiding as far as possible unconsidered extensions to overall capacity which is already more than sufficient to meet demand.

In addition, the High Authority has emphasised for some time now that particular attention should be given to higher quality and greater specialisation. It has also insisted on the need to evolve the structure of the Community steel industry towards larger units capable of applying the most modern techniques.

These aims can only be attained by joint action between the different authorities responsible for the steel market. The member governments by virtue of their general economic and social responsibilities, and the High Authority as executive body of the ECSC, will have to coordinate their efforts, and with the help and advice of the steel industry undertake the application of a Community steel policy on these general lines set out above.

The Means of Community Action

1. Prolongation of Existing Trade Policies

At the end of 1963, the High Authority drew the Council's attention to the problem of protecting the common market for steel from the effects of abnormally low-priced imports. The result was the application of the four following measures:

- the increase in steel tariffs to the Italian level, average 9%,
- the introduction of a temporary specific duty on imports of foundry pig iron,
- agreement on maximum quotas for imports from State-trading nations,
- prohibition for Community producers to align their prices downward to compete with offers from State-trading nations.

The first two measures were based on a recommendation issued by the High Authority.

It is proposed to maintain all these measures with certain minor changes.

2. Outline of an overall Community Steel Policy

a) Short-term Action

In view of the general situation of the steel common market, the High Authority considers that action should be of a global nature. It should be applied in the first instance to achieving greater discipline over production as quickly as possible, the aim being to establish equilibrium between supply and demand as soon as possible.

Under the ECSC Treaty action of this sort can only be carried out with the Council's support, and the High Authority has declared its willingness to apply any method which would achieve the desired objective. It has stressed that the production discipline which it proposes should leave some margin for selectivity. This would make it possible to start straightaway with a process designed to reduce the excessive variety and dispersion in output capacity. At present obsolescent, depreciated plant continues alongside far more modern works in which new techniques are still being further developed.

The High Authority has asked the Council for a decision authorising the procedures necessary for the detailed study of a system of production control. This does not preclude other forms of action, for example on prices.

While awaiting the results of this study, the High Authority has prepared certain measures which it can apply within the scope of its own specific competence. These would extend and improve the existing High Authority practice covering market developments and prices. Before publishing these measures the High Authority will have explained their application to the Council. The measures are as follows:

- the publication - under Article 46 - of much more detailed quarterly and short-term forecasts, in which figures will be broken down into different categories of products. These detailed forecasts will be sent to individual firms as a means of persuading each firm to draw its own conclusions regarding its particular level of output. Hitherto the High Authority's quarterly forecasts covering output, consumption, exports and imports, were confined to crude steel figures by country.

- a decision - taken under Article 47 - obliging firms to declare sales made by alignment on the prices of other Community producers. This will complete the information which firms are already required to provide to the High Authority on

prices, but which until now only applied as regards price alignments to those made on offers received from outside the Community.

b) Long-term Action

The High Authority has emphasised that improved co-ordination of investments is essential if the difficulties of the steel common market are to be resolved. Under the ECSC system, advice is given by the High Authority, in line with the Community's General Objectives, on investments of any major scale. The High Authority can also help with the financing by loans of certain priority investments. The High Authority envisages certain means of reinforcing this system further. It has drawn up a draft decision governing the notification of investment programmes which would make possible a fuller appreciation of these investment plans.

In addition the High Authority has been informed by certain member governments of the actions taken by them to influence the development of the steel industry in the directions required by the economic conditions set out above. It is generally recognised that such plans cannot attain their objectives unless they fit in to the overall development of the Community, which in its turn is strongly influenced by developments on the world steel market. It is for these reasons that the High Authority considers that Article 26 of the Treaty, calling for harmonisation between the actions of the High Authority on the one hand and of member governments on the other, should be applied more fully in this respect. It therefore proposes a regular confrontation of member countries' plans with the Community's general objectives. Such consultations would aim at the co-ordination of national and Community conceptions.

The High Authority has asked the Council to instruct the Committee of Permanent Representatives (Commission de Coordination) to draw up procedures for such regular consultations.