

GENERAL AGREEMENT ON TARIFFS AND TRADE

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EUROPEAN COAL AND STEEL COMMUNITY

Report of the Working Party

I. INTRODUCTION

1. In accordance with its terms of reference, the Working Party examined the Third Annual Report of the Member States of the European Coal and Steel Community. The examination was conducted on the basis of the information supplied by the member States in their Report (L/419) and their supplementary statement (L/419/Add.1), of data contained in the Note by the Executive Secretary (L/425), as well as of additional information submitted by the Member States and the High Authority in the course of the discussion.
2. Taking into account the remarks made by certain representatives at the plenary meeting, the Working Party conducted its discussions in the form of a free exchange of views between the various members of the Working Party in order to arrive at a common understanding of the difficulties experienced by the Community as well as by the contracting parties which are not members of that Community.
3. The Working Party submits to the CONTRACTING PARTIES the results of its examination: Part II contains comments relating to the measures taken by the Member States with respect to the waiver embodied in the Decision of 10 November 1952; Part III contains comments pertaining to other aspects of the commercial policy of the Community in so far as they affect the interests of third countries; Part IV contains observations of an administrative character and Part V the conclusions of the Working Party.

II. MEASURES TAKEN PURSUANT TO THE DECISION OF 10 NOVEMBER 1952

4. In accordance with paragraph 1 of the Decision, the Italian tariffs on coke and steel applicable to supplies from other Member States of the Community have been gradually lowered; in the case of coke, the tariff went down from 15 to 13.50 per cent in November 1954, for ordinary steel, the rates applicable as from 1 May 1955 correspond to the Annex rates reduced by 25 per cent, and

duties for some types of special steels have been brought into line with the duties applicable to ordinary steel as from 1 August 1955. As permitted under paragraph 1 of the Decision, these reductions in the Italian tariff have not been extended to supplies from other sources.

5. In accordance with paragraph 4 of the Decision, the Benelux Governments maintained tariff quotas for a number of iron and steel products. The Working Party noted that no change had been introduced in duties for imports outside quotas, and that the quotas for 1955 had been substantially increased for many items so as to satisfy the domestic demand for these products.

6. The Member States continued to have recourse to the provisions of Article 6 of the Decision in order to maintain a temporary restriction on exports of scrap. The Working Party noted that the shortage of that essential material became more severe during the period under review. In the application of that measure, the European territories of the Member States are considered as if they constituted the territories of a single contracting party.

7. No action has been taken so far under the provisions of paragraphs 2 and 5 of the Decision.

8. The Working Party took note of the measures taken by the Member States under the Decision and came to the conclusion that actions taken to date are consistent with the terms of the waiver.

III. OTHER MEASURES TAKEN BY THE MEMBER STATES AND THE COMMUNITY IN THE FIELD OF COMMERCIAL POLICY

9. The Working Party also had the opportunity of discussing other aspects of the commercial policy of the Community and, in particular, the extent to which the interests of third countries were taken into account during the period under review in the application of export controls on scrap, in the application of tariffs and other trade regulations, and in the discharge of the Community's undertaking to ensure that prices charged by its producers in third markets remain within equitable limits.

10. As regards the restrictions imposed on the export of scrap to third countries, the Working Party noted that the situation in the Community has substantially deteriorated during the period under review. Consumption increased by more than 20 per cent in the first quarter of 1955 and the Community was obliged to import very substantial amounts from abroad, and in particular from the United States, in order to meet the increased domestic demand resulting from higher steel production. This resulted in an almost complete halt in exports of scrap from the Community to third countries. This situation had affected countries like Austria and Sweden which traditionally relied on the Community for their supplies of scrap. The position was particularly difficult for those countries in view of the growing difficulty of obtaining scrap from other sources. The representatives of those two countries drew the

attention of the representatives of the Community to these problems and enquired whether the Member States or the High Authority intended to take measures in order to remedy that situation, i.e. by resorting to the provisions of Article 59 of the Treaty. The observer for the High Authority explained that the High Authority had examined the possibility of resorting to these provisions, but came to the conclusion that this would not be appropriate since the shortage of scrap was not due to short-term developments but was of a structural nature. On the other hand, the High Authority introduced as from 1 April a system of equalization payments which would encourage producers to substitute pig-iron for scrap in the production of Martin Steel. This system should reduce the domestic demand for scrap and enable the Community to increase its exports to third countries. This system should lead to a reduction in the demand for scrap within the Community and bring about, as a result of a decline in the import needs of the Community, an alleviation of existing pressures at present felt on the world market for scrap. Such a situation should enable third countries to obtain regular supplies from the world market, and might make it possible for the Community to resume to a certain extent its traditional supplies to a number of third countries.

11. While recognizing that the present situation on the scrap market resulted from factors beyond the control of the Community authorities, the Working Party expressed the hope that the measures introduced by the High Authority would alleviate the situation for third countries and that, if these measures proved to be insufficient, the High Authority would consider the adoption of further measures designed to maintain a regular flow of scrap to countries which traditionally relied on the Community markets for their supplies.

12. As regards import controls, the Working Party noted that no new measure had been taken to restrict imports from non-member countries. It noted further that the French Government had relaxed the quota arrangements applicable to imports of special steel from OEEC countries and that the German Government was granting liberally licences for the import of coal from the dollar area.

13. So far as tariffs are concerned, no substantial change took place during the period under review. Temporary tariff reductions which had been applied before have been on the whole maintained during 1955. On the other hand, the Working Party noted that no progress had been made towards the harmonization of tariffs. Some representatives expressed some disappointment at the lack of progress in that direction as their governments, when they agreed to the waiver, expected that early action towards the harmonization of tariffs would make up part of the disadvantages which their export industries had suffered as a result of the establishment of a common market for iron and steel. These delegates also felt disappointment at the fact that no indication was given by the representatives of the member States and the High Authority as to the policy to be followed or the steps to be taken by them during the remaining part of the transitional period with regard to the harmonization of tariffs.

14. In this connexion, the representatives of Austria and Sweden pointed out that the gradual reduction of the Italian duties on steel supplied by other

members of the Community made it more difficult for their exporters to enter the Italian market. It was stressed that the discrepancy between the duties applicable to the Community and to third countries varied at present from 6 to 15 per cent according to the products and might increase to 22 or 23 per cent if rates applicable to Community products were further reduced. While this handicap might not be too serious at present in view of the high demand for steel on Community markets, the Austrian and Swedish representative felt that serious injury would eventually be caused to the exporters of their countries unless the harmonization of tariffs contemplated in the Preamble to the waiver were speeded up before the end of the transitional period. In their view, such an harmonization should bring down the general incidence of the Italian tariffs on steel to a level comparable to that of the tariffs of the other Member States.

15. The Working Party noted that no tariff negotiation has taken place with third countries during the period under review. The agreement with the United Kingdom which provided for exchange of views and a possible co-ordination of policies regarding tariffs and other barriers to trade had not led so far to negotiations on tariffs and the negotiations with Austria had not yet been resumed.

16. Some representatives viewed with concern the recent agreement between the United Kingdom and the European Coal and Steel Community referred to in paragraph 15 above, and expressed the fear that the arrangement might well develop into a regional agreement of the producers of a very important commodity and work to the detriment of the consumers. The representatives of the United Kingdom and of the Community explained however that the agreement was not one between producers, but between the Community and the United Kingdom Government; that each side was pledged to have regard to the interests of third countries, and that the agreement did not envisage any derogation from existing GATT or other international obligations. The representatives of the Community explained also that the Community would be quite prepared to enter into negotiations leading to similar agreements with importing countries.

17. The Austrian representative indicated that his Government has included a number of steel items in its lists of requests for the Tariff Conference to be held in January 1956. Austria would be prepared to discuss these items either with the members of the Community individually or with the High Authority acting on behalf of the six countries, if Section 14 of the Convention containing the Transitional Provisions made such a procedure necessary. These negotiations should take place within the framework of the GATT Tariff Conference. The representatives of the Community indicated that they were ready to examine the proposal of the Austrian Government, but that the present instructions of the High Authority were related to a negotiation of a wider scope as contemplated in Section 14 of the Convention containing the Transitional Provisions, and that it would be necessary for the High Authority to obtain new instructions. The Member States of the Community would give their answer to the proposal of the Austrian Government before the opening of the 1956 Tariff Conference. Certain other

members of the Working Party considered that there would be practical advantages in using the facilities offered by the GATT Tariff Conference for the conduct of negotiations with Austria and expressed the hope that the parties concerned could agree to avail themselves of that opportunity. The Working Party recalls that, in the reports submitted at the Eighth and Ninth Sessions, it expressed the view that it was highly desirable that negotiations should be held between the Community and Austria without delay. It is, moreover, of the opinion that the proposal of the Austrian Government is consistent with the procedure adopted for the Tariff Conference to be held in January 1956.

18. The Working Party noted with satisfaction the measures taken by the Community towards the elimination of assistance and subsidies presently granted to certain Community producers. It also took cognizance of the extensive data submitted by the Community regarding the elimination of transport discrimination. It noted, in this connexion, that the direct international tariffs for railway transport which have been introduced during the period under review were applicable not only to Community products, but also to products originating in third countries when they were carried over the territory of at least two Community countries.

19. Finally, the Working Party devoted a large part of its time to the export prices charged by Community exporters and to the effects of such price policy on the interests of non-members. The question of price policy was not limited this year to steel prices. Some representatives drew the attention of the Working Party to the situation existing on the coal and coke market. The revival of business activity in the Community involved a substantial increase in the demand for coal and particularly for coke and this development modified to a large extent the trade pattern of the Community. The Community had to import substantial quantities of coal, especially from the United States, and there was a risk of a serious decline of its export surpluses. A suggestion was made to the effect that it might be useful to consider reverting to the system of allocation within the framework of the ECE and the OEEC which was in force some time ago, but the representatives of the Community pointed out that this drastic measure had not been thought to be necessary in the present juncture since the programme recently elaborated within the framework of these organizations for trade in coal during the first three months of 1956 did not give rise to any difficulties. Another cause for concern was the rapid depletion of stocks of coke in the Community which seemed to indicate that exports might be reduced, as it appeared that the production capacity of the Community was fully utilized at the present time.

20. As regards the prices charged by Community exporters to their customers abroad, the Working Party had at its disposal the data supplied by the High Authority in response to a request of the Danish Government. The Working Party considered these data, especially those relating to coke, with a view to ascertaining whether these prices remained within equitable limits within the terms of the Preamble to the Decision of 10 November 1952.

21. The Danish delegation was not entirely satisfied by the information submitted as the replies did not contain the requested detailed information concerning the relationship between export prices for coal and coke and the corresponding common market prices. The price data could not be reconciled with the prices available to the Danish Government. In view, however, of the fact that the documentation presented by the High Authority was not complete and that the Danish Government was pursuing bilateral discussions with the High Authority, they did not wish to press the point at this Session. The representatives of the Community pointed out that it was difficult for them to supply, with respect to coal and coke, price data as detailed as for steel, as the request for information came just before the Session. Moreover, the provisions of the Treaty did not allow the High Authority to ask data from the exporting merchants and to disclose individual data which were covered by professional secrecy, therefore the High Authority gave information in percentage terms instead of in actual terms. They pointed out also that, in view of the reduced supply of coal in Europe, it was necessary for the Community consumers to bear the cost of the increasing prices of coke due to the need for heavy imports of coking coal from the United States, and that, in their view, third countries relying on supplies from the Community should bear in common with those consumers the increase in prices which resulted from circumstances beyond the control of the Community producers, or they would suffer a reduction in exports similar to that decided by another major exporting country.

22. Some representatives stated that they did not agree with the arguments put forward by the observer of the High Authority against the disclosure of detailed information on export prices for coal and coke. A reference was made to the fact that such information is already published in some importing countries and that the same kind of price data are regularly reported to the ECE by certain importing countries.

23. Some representatives noted with concern a statement made by the observer of the High Authority according to which the High Authority was not in a position to give price data from exporting merchants. This statement indicated, in their view, that the High Authority was not always in a position to control whether their obligation to maintain prices within equitable limits was being respected. These representatives pointed out that the increased imports of coking coal from the United States were due to a considerable increase in consumption of coke within the Community. In their view, it was therefore most reasonable that the consumers of the Community who received increased deliveries of coke should bear the increase in delivery prices for American coking coal instead of the consumers of certain third countries who receive diminished deliveries of coke from the Community.

24. The observer of the High Authority pointed out that the data submitted by the High Authority in its written and oral replies on coal and coke prices showed that, if the prices charged by the Community exporters during 1955 were weighted by the volume of actual exports, they would reach a level approximately equal to that of prices charged on the Common Market. The minimum discrepancies as compared with prices charged on the internal market which have been found in recent contracts which are very often in the nature of additional contracts covering small quantities and containing special provisions remain very moderate. In those circumstances, the Observer of the High Authority stated that the Authority, on the basis of information gathered by it, came to the conclusion that export prices during that period remained within equitable limits.

25. The Working Party agreed that the documentation at its disposal was not sufficient to enable it to arrive at any definite conclusions regarding the equitable character of the prices charged during the period under review and it recommended that the CONTRACTING PARTIES, at their next Session, should have more data on the prices of coal and coke in order to enable them to examine this question more fully at the next Session."

26. The Working Party had at its disposal an extensive documentation regarding the prices applied by community suppliers for the export of steel as well as an analysis made by the secretariat on the price trends. The Working Party was not in a position to reach agreed conclusions regarding the extent to which export prices were maintained within equitable limits. The representative of Denmark felt that the only criterion which should be adopted in this connexion was a comparison with the prices applied in the common market, whereas the Community maintained that the comparison should take place with the export prices of other suppliers, the comparison with the domestic prices being considered only as a subsidiary test. Other members of the Working Party felt that a comparison with domestic prices was an important element for a discussion of the problem of equitable prices.

27. Some reservations were made regarding the comparability of export prices from various supplying countries. The Working Party recognized that any comparison between steel prices was imperfect, since the qualities of steel which are current in the various markets are not always substitutable and it might be difficult to ensure that prices published and used for those comparisons were equivalent to those actually charged to the consumers. It came, however, to the conclusion that the data supplied were useful in giving a general indication of the trends and noted that, in the view of the High Authority, most of the exports were actually made at the published prices, i.e. at the prices which were given by the Member States in their Supplementary Statement. The Working Party noted this year, as in preceding years, that the Community exporters were still charging lower prices on the dollar markets, in particular on the United States and Canadian markets, than for other destinations. The observer of the High Authority pointed out that this resulted not from any deliberate policy on the part of the Community exporters, but from the fact that the exporters to the United States and Canadian markets had to adjust their prices to those charged by United States and Canadian producers and that, furthermore, the orders received from United States and Canadian customers were such as to enable the Community producers to plan their production in advance, and therefore, to reduce their cost of production. The representative for India expressed the hope that the Community producers would be prepared to follow the same policy for exports to his country where costs of production were lower than in almost any other country in the world and where imported steel enjoyed a subsidy financed by a charge levied on home produced steel and that the Community producers would be prepared to grant rebates if other customers were able to make their orders in the same way as North American buyers.

28. Some delegations pointed out that, according to the official price lists of the Community, special rebates were granted to exporting steel working industries of the Community. Even if the special rebates were not taken into account, there had been an increasing discrepancy between the steel export prices of the Community and the corresponding common market prices during the past year. In this connexion, the observer of the High Authority recalled that, as

a result of recent trends in economic activity, the discrepancies obtaining at the time when the common market was established between some higher prices within the Community and the corresponding lower prices charged upon exports to third countries had been widened and had extended to all products. As a result of the upward trend in the degree of economic activity, the two sets of prices were at present very similar and, while export prices tended to be slightly higher than internal prices, such a tendency did not, however, affect all products and in general the present price disparities were clearly less than those obtaining in the opposite direction in the Spring of 1954. The observer of the High Authority further expressed the view that, with the exception of certain flat products, the export prices charged by producers within the Community were notably lower than the corresponding prices charged by other major world exporters on external markets.

29. It was clear from the data submitted that there had been a substantial and continuous increase in the export prices of the Community from the beginning of 1954 onwards. Some members of the Working Party were not satisfied that these increases were justified by the trend of the markets or by increases in the cost of production. They recognized that there had been a change of conditions in the world steel markets but they considered it debatable whether these changes would justify the increase in prices which has taken place. They felt that the setting up of a common market could have been expected to improve the conditions of production in the Community and therefore to bring about a general reduction of export prices, other things remaining equal. It was pointed out in this connexion that the main reason which the representatives of the Member States adduced in support of their request for a waiver was that the creation of a Community devoted to the improvement of the conditions of production would benefit not only the Member States, but all contracting parties. In view of that statement, which was embodied in the Preamble of the waiver, it appeared that the Community had a particular responsibility in seeing that any benefit resulting from an improvement in the conditions of production should be passed on not only to the consumers of the Community, but also to consumers in all other contracting parties.

30. The observer for the High Authority stressed that it was the considered view of the Community authorities that the recent increase in prices was entirely due to normal factors, either to a revival of the demand on all steel markets, or to increases in the cost of production (raw materials, freights, wages). If the price movements for exports and for domestic consumption were not absolutely identical, which is only natural since prices on the export markets and on the Community market were not influenced by the same factors, the general trend has been very similar. There was a natural tendency for variations on the domestic market to be of smaller amplitude than variations on the export market, but, as experience had shown, this resulted in lower prices for exports in times of slack demand which made up for disparities which might have obtained when markets were active. Moreover, a comparison between price movements during the present boom period and the preceding Korean boom period showed that price increases this time amounted to about

20 per cent whereas they reached about 200 per cent during the preceding period. Subject to the views expressed on paragraph 28 above, the Working Party did not disagree with the general statement of the observer for the High Authority that it had not been established beyond doubt that prices charged exceeded equitable limits. On the other hand, the Working Party was not in a position to conclude that prices had always been equitable. The Working Party felt, as it did last year, that the existence of an export cartel in the Community and therefore the adoption of a common export price policy by an association of producers of Belgium, France, Italy, Luxemburg, the Kingdom of the Netherlands and the Federal Republic of Germany which was in a position to exercise a considerable influence on the formation of prices on export markets led to the feeling that consuming countries were deprived to a certain extent of the advantages which would result from free competition among the national producers of the Community countries. Some representatives were of the opinion that, in order to make up for this situation which was partly the result of the setting up of a common market, the High Authority should intervene more actively and exercise a closer supervision of export prices. The observer of the High Authority recalled that the High Authority continued to ensure that export prices charged by the Community producers remain within equitable limits. In conclusion, the Working Party suggests that the CONTRACTING PARTIES recommend to the High Authority that they note carefully the remarks and suggestions made by members of the Working Party and that the Community Authorities consider whether some practical measures could not be devised in order to give a clearer assurance to third countries that their consumers would benefit from improvements in the conditions of production in the Community.

IV. OTHER QUESTIONS

31. The Working Party noted the arrangements made for the publication of official information on changes made on tariff and other regulations as regards coal and steel products in the International Trade News Bulletin, and recommends that this publication should be continued.

32. It recommends also that the report of the Member States and the Note by the Executive Secretary be circulated at least three weeks before the opening of the Session and that requests for additional information be submitted in writing to the Executive Secretary at least one week before the opening of the Session.

33. Finally, the Working Party recommends that the Note of the Executive Secretary be prepared along the same lines as this year, but that it should include also a section on coal and coke prices. It suggests, moreover, that any contracting party willing to do so should send to the Executive Secretary, for insertion in his Note, price data on coal and steel products which would be available to them and relating either to the export prices quoted by their exporters or to prices actually paid by their importers. The Working Party felt that these additional data might throw some further light on the question whether prices charged by the Community exporters remained within equitable limits. It also suggests that the Executive Secretary consider if and to what extent it would

be possible to add to his Note some comments on the formation of prices on various export markets.

V. CONCLUSIONS

34. The Working Party is of the opinion that the examination of the three annual reports of the Member States has led to fruitful results. Although, on certain important points, the approach of some members of the Working Party differed from that of the Community, it appeared that the general tour d'horizon which has taken place this year led to a better understanding of the problems and difficulties of all concerned. The Working Party believes that the pattern set by the discussion this year should serve as a model for the examination of the next annual reports of the Member States. It hopes that the suggestions made in the course of the discussion would be duly taken into account by the Member States when they prepare their report next year.