

GENERAL AGREEMENT ON TARIFFS AND TRADE

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DRAFT REPORT OF THE WORKING PARTY ON THE EUROPEAN COAL AND STEEL COMMUNITY TO THE CONTRACTING PARTIES

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 Annecy 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 accompanied by similar reductions in the duties applicable 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 has 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 came to the conclusion that measures taken today 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 Sweden and Austria 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 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.

11. While recognizing that the 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 has 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.
14. In this connexion, the representatives of Sweden and Austria 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. While this handicap might not be too serious at present in view of the abnormal demand for steel on Community markets, serious injury would eventually be caused to the exporters of these countries unless the Italian tariffs were to be adjusted to those of the other Member States, as was contemplated in the Preamble to the waiver.
15. In this connexion, 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. The Austrian representative indicated that his Government had included in their lists of requests for the tariff conference in January 1956 a number of Treaty items. 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 paragraph 14 of the Convention on Transitional Measures made such a procedure necessary. These negotiations should take place within the framework of the GATT Tariff Conference. The representatives of the Community

pointed out that they were ready to resume the discussions with Austria but that the present instructions given to the High Authority were related to a negotiation of a wider scope as contemplated in Article 14 of the Convention on Transitional Measures and that it would be necessary for the High Authority to obtain new instructions. The Working Party recalled 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 considers that the Tariff Conference held under the auspices of the GATT would provide an appropriate opportunity for the resumption of such negotiations.

16. 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.

17. 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 which was in force some time ago, but the representatives of the Community were of the opinion that this drastic measure was not necessary in the present juncture since the programme recently elaborated for the exports of 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 further reduced, as it appeared that the production capacity of the Community was fully utilized at the present time.

18. [Price of coke.]

19. The Working Party had at its disposal an extensive documentation regarding the export prices applied by Community suppliers 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. Some members of the Working Party 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.

20. 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 that 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.

21. 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.

22. 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. 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 a group of countries 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. 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

23. 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.

24. 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.

25. Finally, the Working Party recommends that the Note of the Executive Secretary be prepared along the same lines as this year. It suggests, however, that any contracting party willing to do so should send to the Executive Secretary, for insertion in his Note, price data 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 considers 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

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.