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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 has examined the Fourth 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/526) and their supplementary statement (L/526/Add.1), of data contained in the Note by the Executive Secretary (L/543) as well as of the additional information submitted by the representatives of the member States and the High Authority in the course of the discussion.

2. 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 contains the conclusions of the Working Party.

II. Measures taken pursuant to the Decision of 10 November 1952

3. The Working Party noted that the Italian tariffs on coke and steel applicable to imports from other member States have been further lowered as provided for in paragraph 1 of the Decision. As regards coke, the tariff in the third year of the transition period was reduced to 11.25 per cent (from 13.50 per cent in the preceding year) and further to 8.25 per cent for the year starting in February 1956. For ordinary steels, the rates applicable as from 1 May 1956 correspond to the Annecy rates reduced by 45 per cent. Duties for special steel were generally reduced by the same proportion as those applicable for ordinary steels as from the same date, in so far as these duties had not already undergone a larger reduction.

4. In accordance with paragraph 4 of the Decision, the Benelux Governments continued to maintain tariff quotas for certain iron and steel products. It was noted that quotas for pig-iron and semi-finished products show a considerable increase in 1956 as compared with the preceding year and that other quotas have been adjusted either upwards or downwards to meet the requirements of Benelux consumers. For the purpose of a comparison of the quotas with the actual consumption in the Benelux countries, the observer of the High Authority agreed to consider the possibility of supplying next year data on the consumption of the products in question.

5. The member States continued to have recourse to the provision of paragraph 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 remained severe during the period under review and that, in the application of the export restrictions, the European territories of the member States are considered as if they constituted the territories of a single contracting party.

6. The Working Party noted that no action had been taken under paragraphs 2, 3 and 5 of the Decision during the period covered by the Report.

7. The Working Party took note of the measures applied by the member States under the Decision and came to the conclusion that actions taken so far 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

8. 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.

9. As regards the export restrictions on scrap, the Working Party noted that, in spite of the measures taken by the Community to encourage saving in the use of that essential material, the internal requirements of the Community remained exceptionally high and had to be met largely by imports from third countries. The report of the Community stressed that the increase in steel production was not accompanied by an equal rise in scrap availability in the Community. Apart from the measures already described in last year's report for reducing scrap consumption, the Community has this year facilitated the import of some kinds of haematite pig iron by means of a suspension of customs duty and has taken various measures to encourage such investments as would lead to an increased production of pig iron and to a consequent reduction in scrap consumption. It was recognized that this shortage was not limited to the Community but existed also in other steel producing countries. The Working Party expressed the hope that the Community Authorities would nevertheless take the necessary precautions to maintain as far as practicable the traditional channels of trade.

10. With regard to coal, the representative of Austria referred to the increasing difficulties which his country had had to be adequately supplied with coal from the Community. Exports from the Community to Austria since 1952 had declined heavily, especially as regards coking coal, whereas there was an increase in exports of coal to other countries during the same period. In the first half of 1956, coal exports from the Community to Austria were only 58 per cent of the quantity exported in 1952, whereas the combined coal exports of the Community to other countries were 32 per cent larger than in 1952.

Austria had therefore to rely more heavily than before on supplies from the United States which, in view of the Austrian geographical situation were far more costly than supplies from the Community. The higher cost of imported coal has thus resulted in an increase in the cost of steel production in Austria. The Working Party noted that the Austrian import demand was mainly for coking coal which was in short supply in the Community. The representative of the Community pointed out that the relative increase in their exports to other countries was accounted for by exports of other qualities of coal which the Community was in a better position to supply. Finally, the Working Party noted that producers of the Community and users in Austria recently had had discussions which would prevent any further deterioration of the present situation and which might lead to an improvement in the exports of coking coal to Austria.

11. As regards the supply of coke, the observer of the High Authority gave a full account of the measures envisaged to eliminate the present shortage of that essential material. The Working Party noted that the present coking capacity in the Community was barely sufficient to cover the current requirements for domestic consumption and export. The High Authority has encouraged investments in the building of coking plants and has, in particular, assigned a substantial part of the loans raised recently to that purpose. Technical research has been devoted to the use of coal so far considered as unfit for the production of coke, and these studies have already led to practical results. Finally, progress is made in the research concerning the use in the future of low-shaft furnaces which consume less coke than traditional blast-furnaces. It is recognized, however, that the measures taken with regard to increases in the production of coke or to economy in its use in the Community countries cannot be expected to show substantial results until after some years.

12. As regards the supply of steel products, the Working Party noted that there had been a slight decline in trade in those products among the Community countries, while exports to third countries have increased. Its attention was drawn to the fact that the slight fall recorded in 1956 had to be viewed in the light of the exceptional increase in trade which took place between the Community countries in 1955, and that the volume of that trade remained at a very high level in 1956.

13. The Working Party devoted a large part of its time to the price policy followed by the Community exporters, and to the effect of such policy on the interests of third countries. This discussion was based on data submitted by the member States and the Governments of Denmark and India, as well as on the Note prepared by the Executive Secretary.

14. As regards export prices for coal, the Working Party noted the communication from the Danish Government according to which prices for coal exported from the Community to Denmark had been in line with those applied within the Community.

15. As regards export prices for coke, the Working Party noted that the prices paid by Danish and Swedish importers were substantially higher than those charged by the cokeries to the domestic consumers of the Community. Even if freight charges are taken into account, the price differential during the period under review remained substantial. While recognizing that it is not easy to make an accurate comparison between export prices and domestic prices in the Community because of the important export trade in coke resulting from the processing of coking coal imported into the Community, the price of which is substantially higher than the coal produced in the Community, the Working Party noted that there has been a substantial difference between the two price series. According to Danish data there had been a certain degree of stability in German coke prices - internally and externally - until 1 June 1956 when export prices went up. From then on, even when differentials are calculated on the basis of 93 DM per ton paid for coke processed of German coal only, the difference amounted to 35 per cent from 1 June to mid-July 1956 and to 24 per cent from mid-July to 20 October, when internal coke prices in Germany went up, leaving a differential of 13 per cent. Some disappointment was expressed at the fact that this narrowing of the price differential occurred not as a result of a fall in the export price but of an increase in the domestic Community price.

16. The Observer of the High Authority explained that the Community Authorities have endeavoured to maintain exports to traditional customers in spite of an exceptional pressure on supply in the Community. The users in the Community had been obliged to buy a substantial part of their supplies in the form of coke produced in the Community from imported coal in the same way as the third countries importing coke from the Community. For that part of their supply they also had to pay a higher price than the one quoted for coke produced out of Community coal.

17. The Working Party considered that, in the absence of precise data on the actual prices paid by importers from third countries, and by Community users for their total supply of coke, it was not possible for it to come to any definite conclusion on this point. Some members of the Working Party, however, expressed the view that an unduly high proportion of the extra cost caused by the processing of imported coal was borne by the importers of Community coke and also of Community steel in third countries, the more so as the need for increased imports of such coal by the Community was not due to a substantial increase in the Community coke exports, but to the very large rise in the internal coke consumption during the last three years.

18. The Working Party took note with satisfaction of the assurance given by the Observer of the High Authority that every effort would be made to keep export prices for coke within equitable limits and that the Community Authorities would see to it that exporters will not take advantage of the present market conditions by pushing prices to an abnormal level in their relations with their traditional customers.

19. The Working Party then addressed itself to the question of steel prices. It noted with satisfaction that the system of price differentials for exports to various destinations had been abolished. The last of the differentials to be removed was in respect of sheets for which the new uniform price, as from 19 October 1956, was brought down to the lower price applied before.

20. The Working Party noted however, that, if the minimum export prices, i.e. the prices fixed by the Brussels Convention of exporters, did no longer differentiate among third countries, there were substantial differences between these prices and some of the price data which were communicated by the Danish Government or reported in the Note by the Executive Secretary. It was recognized by the representatives of the Community that, for the reasons set forth in paragraph 23 below, exports were not always made at minimum prices. They were not in a position to give any definite estimate of the part of the total export which was made at prices exceeding the Brussels Convention levels, but their view was that, in the majority of cases, the minimum prices were applied.

21. In this connexion, the representative of Denmark stated that, although his country has been able to buy large quantities at the minimum export prices - and this was particularly true of purchases in Luxemburg - higher prices were quoted in a number of cases. In the period from November 1955 to February 1956, for instance, the percentage of all merchant bars and sections which were imported from Belgium and Germany at prices at least three dollars per ton higher than the minimum prices, accounted for about two-thirds of the total transactions.

22. The observer of the High Authority admitted that, at the beginning of this year, there was a tendency for export prices to get out of line with the minimum levels. But as shown by the following extract of the statement made by the President of the High Authority on 20 October, the High Authority had taken the necessary steps to remedy the situation:

"In view of the fact that price fluctuations are always greater in international trade than in the internal market of the Community, (since Community prices have to be published in the enterprises' schedules), it does not seem to us that such differences as can be noted between home and export prices go beyond the equitable limits laid down in the Treaty. Moreover, some months ago, when a certain edginess in export prices began to be observable, the High Authority did not fail to remind Community producers that care should be taken to see that these 'equitable limits' were not overstepped. I am glad to say that the High Authority's recommendation was complied with".

The Working Party recognized that, as far as the prices charged for exports to Denmark during May-June 1956 (the last period for which figures were available) were concerned, the average deviation from the minimum export prices had been very small. The differential with respect to heavy and medium plates, for which the Community is not a major supplier, remained however substantial.

23. The Working Party obtained further explanations from the observer of the High Authority regarding the price arrangements agreed upon by Community exporters. It noted that, as a rule, the minimum export prices are quoted when the producers had established direct channels with the users in third countries. When the sale is made directly from the Community producer to the foreign user, the minimum export prices were applied. On the other hand, when the sale was made to an importer in the third country or to an exporter in the Community country, there was no guarantee that the minimum export prices would still be applied. In present boom conditions the importing agents in third countries buy on various steel markets at different prices and usually resell at a uniform price corresponding to the highest price paid by them. This remark applied particularly to exports to countries such as India where, in the past, shipments had been largely sold through intermediaries. The elimination of one or more of these intermediaries is expected to result in better average prices.

24. In order to assess whether the export prices of the Community producers had remained within equitable limits, the Working Party considered the comparisons which had been made in the Note of the Executive Secretary, first between the export prices of the Community with the export prices of other exporting countries, and secondly between the export prices and the internal prices of the Community. For the reasons given last year, the representative of Denmark considered that the only criterion which the Working Party should adopt was a comparison of the export prices with the prices applied in the Common Market, whereas the Community maintained that the comparison should take place mainly with the export prices of the other suppliers, the comparison with the domestic prices being considered only as a subsidiary test. Furthermore, some reservations were made regarding the comparability of export prices from various supplying countries. It was stated that the prices do not apply to the same qualities of steel and that the price series given for the United Kingdom were based on "nominal basis prices" which may, in many cases, differ from the actual prices charged. As regards the United States, prices are indications of basis prices quoted by the larger steel companies. On the other hand, one of the comparisons in the Note was made between these nominal or basis prices with actual current quotations. It appeared to the representatives of the Community that such a comparison would be more convincing if the current quotations given for Community exports could be compared, not with nominal export prices of other exporting countries, but with the actual prices charged by suppliers in those countries. In reply to a question asked by the representative of Denmark, the observer of the High Authority explained that he made comparisons between Community export prices and the export prices of the United Kingdom and the United States, because he considered such comparisons useful, and not because he believed that the Community export prices were determined by the export prices of other exporting countries.

25. While recognizing that any comparison between steel prices is necessarily imperfect, the Working Party felt that, for the information of the CONTRACTING PARTIES, it might be useful to summarize the conclusions which are contained in the Note by the Executive Secretary, and which give a general indication of the price trends. The main conclusion was that the Community's minimum export prices for bars, sections, broad flange beams and wire rods continue to be lower than both the United States and the United Kingdom export prices, but, as regards flat products, those continue to be higher than those of the United States and those of the United Kingdom for sheets, but that the Community had, on the basis of its minimum export prices, a price advantage over the United Kingdom for hot-rolled strips and plates. On the other hand, if the comparison is made with the higher prices which, as explained above, are quoted for part of the exports, the conclusions are somewhat different. The export prices of the Community were significantly lower in August 1956 than those of the two sources only in the case of wire rods, and significantly higher only for heavy plates. In respect of other products, they were close to British export prices, but markedly higher than the United States export prices.

26. The Working Party then addressed itself to the comparison of the export prices applied in the Community with the prices applied in the Common Market. The representative of India expressed concern at the fact that over the past year export prices had increased to a larger degree than prices on the Common Market. He felt that this difference in the movement of prices needed some explanation. The representative of Denmark gave examples of price differentials during the first half of 1956 ranging from a few per cent in respect of Luxemburg, to 15 - 25 per cent in respect of the Federal Republic of Germany, and he maintained that the spread between internal and export prices was such that it was not possible to claim that the difference had remained within narrow limits. Although he had no precise data since the middle of the year, he stated that both export prices and internal prices in some Community countries had gone up again. He expressed his concern over the fact that, while the internal prices of the countries of the Community showed substantial variations, any competitive advantage which the third countries might derive from these price differentials was nullified by the agreement among producers to apply uniform prices for exports and to fix the level of such prices in relation to the prices prevailing in the country of the Community where the price level was highest. Internal prices in Belgium and Luxemburg had thus been rising much more than those of France and Germany, although these prices were at about the same level in the four countries in May 1953. He did not feel that the fact that the level of export prices in Belgium and Luxemburg was high because of the level of internal prices, was enough to justify the adoption by the other Community countries of equally high prices for the exports of their steel. In the opinion of the representatives of Denmark and the United States this lack of competition, which was disadvantageous to third countries, might very well be attributable to a large extent to the restrictive influence of the Brussels Convention.

27. After having recalled the statements made at earlier sessions of the CONTRACTING PARTIES concerning the very limited circumstances in which the High Authority may intervene in the activities of export cartels - and which have not occurred so far - the observer of the High Authority pointed out that prices always fluctuated more, and more rapidly both upwards and downwards, in the export markets than in the internal markets, and this was particularly true for the Community in view of the stabilizing effect of the Common Market rules on internal prices. The High Authority (as was indicated in the Statement by the President which has been quoted in paragraph 22 above) followed carefully the trend in export prices and whenever necessary appealed to producers to exercise restraint with regard to increases in export prices. He maintained that the third countries had benefited from a greater degree of price stability since the inception of the Common Market as compared with the earlier wide fluctuations. In the present boom conditions which were comparable with the situation prevailing at the time of the Korean War, prices had not been driven to abnormal levels as had been the case before. In those circumstances, the High Authority, while admitting that there was a certain spread between the domestic and export prices, did not consider that, in view of the abnormally high demand for steel products, these differentials went beyond the equitable limits provided for in the Community Treaty.

28. While recognizing that a higher degree of stability had been achieved in recent years, the representative of Denmark questioned the validity of comparisons with earlier postwar years, as in his opinion, the present conditions on steel markets were not comparable to those which existed at the time of the Korean War. Moreover, the representative of Denmark pointed out that, in considering whether export prices were equitable, it was appropriate to consider, not only the relation between such export prices and internal prices, but also to take into account the absolute level of those prices. He doubted that recent increases in internal prices of the Community were in all cases fully justified by the increases in the costs of materials and labour. This, in his view, was a point of major importance, as the share of exports to third countries in the total supply of the Community was so small that prices in the export markets were determined by the development in the Community markets, and that the importers of third countries should not be required to bear more than their share in the price increases. The observer of the High Authority agreed that the Working Party was at liberty to compare the export prices with internal prices, but that it did not appear appropriate for the Working Party to ask the Community to give a justification of the prices prevailing within the Community. This view was shared by another member of the Working Party who at the same time expressed the view that the most important consideration for the purposes of the Working Party was the relationship between internal prices in the Community and prices charged for Community exports, rather than the comparison of Community export prices with those of other exporting countries. The Danish representative regretted that the Working Party was not in a position to discuss this point and stated that the replies he had received on the price question, both as regards coke and steel, would hardly alleviate the concern felt by his Government.

29. The Working Party considered that there was no definite method for assessing whether export prices remained within equitable limits or not. It noted that there has been some degree of stability in steel export prices in recent years, but that on the whole increases in the export markets have been more rapid than in the Community market, and that export prices for steel were substantially higher than internal prices in Germany and France. It noted with satisfaction that the High Authority was aware of the need for restraint on the part of its exporters and that it had taken action in line herewith during the period under review. It expressed the hope that the High Authority will continue to take into account the interests of third countries and to intervene actively against any tendency for exporters to avail themselves of the favourable conditions in the export markets and to charge prices which would disregard the general principles, cited in the waiver granted by the CONTRACTING PARTIES, on which the Community was founded.

30. The Working Party took note of the progress made during the year towards the lowering of duties applied on imports of various steel qualities from third countries. Concessions were granted as a result of the recent tariff negotiations under the auspices of the GATT between the Community countries on the one hand, and Austria and the United States on the other. In many cases, these concessions were granted for imports within a tariff quota. In addition, several temporary reductions were introduced unilaterally, either in order to meet an increased demand within the Community, or to facilitate the harmonization of duties foreseen in the Convention Containing the Transitional Provisions. In this connexion, the Working Party was informed that the six countries agree to expedite the study on tariff harmonization. Duties will be harmonized at a level considerably below the one prevailing at present; but it was not yet certain that the rates in all the Community countries would correspond to the Benelux duties plus two points.

31. The representative of Austria expressed his satisfaction over the tariff agreement concluded with the Community. As regards the tariff quotas under that agreement, the Working Party was informed that the Austrian Government has raised various problems of application with the Italian Government whose reply will be communicated shortly. These problems relate to the desirability of giving to one single customs office the control of imports under the tariff quotas, to the possibility of an upward adjustment of certain quotas and of a corresponding reduction of other quotas to take account of the discrepancies between the Austrian and Italian delivery statistics, and to the question of temporary importation in Italy.

IV. Other Questions

32. The Working Party noted the arrangements made for the publication in the International Trade News Bulletin of official information on changes made in tariffs and other regulations. It recommends that this publication should

be continued and that the Community should agree to furnish also the official texts relating to tariff changes or to changes made in other trade regulations.

33. Finally, the Working Party recommends that the note of the Executive Secretary be prepared along the same lines as this year, and 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.

V. Conclusions

34. The Working Party is of the opinion that the exchange of views which took place between its members and the representatives of the Community has enabled them to engage in a "tour d'horizon" which has contributed to clarify several points of common interest. The examination of the Fourth Report showed the substantial improvement which the 1956 tariff negotiations brought to trade between the Community and third countries; the Working Party expressed the hope that the next report of the member States would show continuous progress in the harmonization of customs tariffs. The discussion in the Working Party was focussed on the price question. Although the conflicting views on this matter could not in all cases be reconciled, the discussion, thanks to the valuable information supplied by the Community, resulted in a better understanding of underlying facts. The Working Party noted with satisfaction that the Community Authorities have taken steps to influence the price policy of their exporters and it is of the opinion that this annual exchange of views contributes to a better understanding of the problems which may arise in the relations between the Community and third countries and facilitates a solution of outstanding differences.