GENERAL AGREEMENT ON TARIFFS AND TRADE
Twelfth Session of the Contracting Parties

CONTRACTING PARTIES COMPLETE EXAMINATION OF FIFTH ANNUAL REPORT
OF MEMBER STATES OF EUROPEAN COAL AND STEEL COMMUNITY

BACKGROUND

In April 1951, Belgium, the Federal Republic of Germany, France, Luxemburg, Italy and the Netherlands concluded a Treaty constituting the European Coal and Steel Community and a Convention containing the transitional provisions. The Treaty came into force on 23 July 1952. The establishment of the Common Market involves the abolition as between the six countries of import and export duties and of quantitative restrictions on the movement of coal and steel between the territories of the six countries.

The six Member States (all of them being contracting parties to the GATT) therefore submitted to the Contracting Parties a request for a waiver from certain of their obligations under the GATT, in particular the most-favoured-nation clause contained in Article I and the rule of non-discrimination regarding the application of quantitative restrictions in Article XIII.

In 1952 the Contracting Parties granted a waiver and it was agreed that from the date of the creation of the common market for coal products (10 February 1953) until the end of the transitional period (10 February 1958) the six countries would submit an annual report to the Contracting Parties on the progress towards the full application of the Treaty. At this Session the Fifth Annual Report of the Member States has been examined in a working party.

The Working Party first examined the measures taken towards the complete establishment of the Common Market and noted that, during the period under review:

(a) the Italian tariffs on coke and steel applicable to imports from other Member States have been further lowered;

(b) the Benelux countries continued to maintain tariff quotas for certain iron and steel products. It was noted that while generally the quotas remained unchanged as compared with 1956, there were a few instances in which adjustments were made either upwards or downwards in order to meet the prospective changes in the requirements of Benelux consumers;
(c) the Member States continued to maintain a temporary restriction on exports of scrap. The Working Party noted that under the period under review the shortage of that essential material in the Community had remained critical in the sense of Article XI of the General Agreement;

(d) the Working Party took note of the measures applied by the Member States under the Decision and came to the result that actions taken so far were consistent with the terms of the Waiver.

As regards export restrictions on scrap, the Working Party was informed by the observer of the High Authority that the recent expansion in steel production in the Community, which was not accompanied by a similar rise in the production of pig iron, had led to a parallel increase in the internal scrap requirements of the Community, which had to be met to a large extent by larger imports from third countries. In reply to a question by the representative of Sweden as to when the scrap situation in the Community could be expected to become such as to allow an increase in exports, the observer of the High Authority was not in a position to give any firm assurances, but stated that through various measures, such as larger investments in pig iron production which would lead to a continuing reduction in the ratio of scrap to pig iron used in steel production, it was hoped that the supply situation in the Community would improve from now on and become easier a few years hence. He also stressed the structural character of the present difficulties with regard to the scrap supply in the Community, and stated that the present low level of scrap exports should not be compared with the much larger exports in the first post-war years, when the market situation was abnormal. The Working Party took note of these explanations which seemed to warrant the expectation that the Community in the next few years would be in a position to relax the restrictions, which had been applied for a number of years on scrap exports to third countries, to the extent that it is successful in solving the structural problems involved.

As regards export prices for coal, the representative of Denmark pointed to the fact that some divergencies between export prices and internal prices in the Community had appeared during the period under review for the small quantities purchased by Denmark, but he accepted the explanation given by the observer of the High Authority that the movements in the two sets of prices could not be exactly parallel and that some difference may therefore exist at any given time.

Concerning export prices for coke, the representative of Denmark stated that the situation was essentially the same as a year ago; notwithstanding the fact that the level of export prices had not risen in the past year, the prices paid by Danish importers remained in 1956/57 substantially higher than the internal Common Market prices. He also repeated the observation made last year that Danish importers had to pay a share of the cost of American coking coal imported into the Community, which was out of proportion with the relatively small quantities of coke imported into Denmark from the Community. He admitted
that some improvement had occurred in the last few months for certain supplies, and as regards prices for coke imported from Belgium he was glad to note that there was no marked difference between internal and export prices. However, in the case of Germany, the main supplier, the price difference still remained substantial and the general situation could not yet be said to have righted itself. The representative of Sweden associated himself with these remarks.

The observer of the High Authority pointed out that, during the year under review, the Community has been obliged again to increase imports of coking fines, the price of which remains substantially higher than of coking coal produced in the Community. This circumstance could have led to an increase in the export price of coke. However, this price has not risen since last year, whereas the internal prices have recently gone up. As a result, there is now only a very small margin between the list prices for sales within the Community of coke produced from Community coal and the basic price for exported coke made from the same kind of coal. On the other hand, if account is taken of the charges asked from Community consumers of coke for custom processing of American coking fines, the global price for coke imported by Danish purchasers does not, in the opinion of the observer of the High Authority, represent an excessive amount in relation to what Community consumers as a whole have to bear.

The Working Party noted that some improvement had taken place during the year and that the difference between export and internal prices for coke has been reduced in most cases; it took note of the assurances given again this year by the observer of the High Authority that it would see to it that Community exporters would not take advantage of the strained supply situation of coking coal on the world market by pushing prices quoted to traditional customers beyond equitable limits.

On the question of steel prices, the representatives of Czechoslovakia and India informed the Working Party that in their opinion higher prices had been charged for steel imported by their countries from the Community than was the case with respect to buyers in some other countries. The observer of the High Authority, while stressing that, in the fixing of basic minimum export prices there was no discrimination as between various countries of destination, stated that any differences in export prices that might exist were due to purely commercial factors. In this connexion he recalled the explanation he gave last year that if sales were made directly by Community exporters to the user abroad, the Brussels minimum export prices were observed. As regards the particular question concerning extras charged over and above the basic minimum prices, he indicated that in no case were such extras included in the prices fixed by the exporters' convention. The basic minimum export price was the only price element fixed by the convention of Community exporters and they were free to charge extras according to dimensions, qualities, delivery dates and other factors; in general these extras were substantially lower than those applied within the Community.
The representative of Czechoslovakia stated his concern that his country, when importing steel from the Community, had to pay prices fixed by the Brussels Convention at a substantially higher level than prices Czechoslovak exporters were able to obtain when exporting steel of comparable quality from Czechoslovakia to the Community. He felt that this was contrary to the stated aim of the Community to promote trade with third countries and not compatible with an equitable treatment of third countries especially when account was taken of the fact that the export prices fixed by the Brussels Convention were generally above the level of internal prices. He thought, however, that this problem could more suitably be taken up bilaterally and it was agreed that the matter would be discussed between him and the observer of the High Authority.

The Working Party heard a statement by the representative of Denmark regarding steel purchases by Danish importers from the Community. He recalled that his Government had accepted the Waiver on the understanding that prices charged by Community exporters would remain within equitable limits, an essential requirement for the steel transforming industry in his country which depended upon equal access to raw material. In his opinion the only relevant criterion for judging whether export prices in the Community had remained within equitable limits was a comparison between prices paid in effect by importers and the prices obtaining in the Common Market, and it was in this way his Government had understood the term 'equitable limits' when considering the Waiver in 1952. He drew attention to the difficulties encountered by the Danish steel transforming industries which, in the first four months of 1957, had to pay, on the average, substantially higher prices for steel imported from France and Germany than users in the Community. This circumstance had adversely affected the competitive power of Danish steel transforming industries in export markets and was an obstacle to his country's policy towards an extension of import liberalization. He admitted that the discrepancy had somewhat narrowed towards the end of the period under review, but he wanted to stress that this was true only if comparison was made with the first months of 1957, when the differences between the two sets of prices were larger than ever, and that the adjustment, especially as far as German prices are concerned, amounted essentially to a return to the situation which existed a year earlier. No real improvement could therefore be said to have occurred over the period. The Danish representative renewed the expression of concern felt by his Government already last year. He requested the High Authority to give a firm assurance that every effort would be made to prevent exporters from taking unfair advantage of the situation, the more so as the Community's position in the world export market for steel was so important that it could be considered as a price leader with respect to its main steel export items. He expressed his disappointment that the High Authority had not seen its way to intervene more actively to counteract a development of export prices such as took place in the beginning of 1957 and also the concern felt by his country that exporters could have resorted to export quotas without any control being exercised by the Authorities of the Community. If such a practice were to be adopted by the exporters in periods of falling prices, it would nullify the relative price advantages which foreign consumers would derive from the market situation and
The observer of the High Authority recalled that a year ago the Community minimum export prices, with a few exceptions, were lower than the export prices of the United Kingdom and the United States. He stressed that this year, the Community minimum export prices compared more favourably with the export prices of other supplying countries and that even the highest quotations for Community products were lower than the quotations of the other suppliers, with the exception of flat products from the United States. During the period under review, the minimum export prices in general rose less than the internal basis prices. It appeared that at the end of August 1957 the minimum export prices were in several cases (bars, wire rods, plates, cold rolled sheets and strip) almost equal to or even lower than the internal prices of Belgium, the Netherlands and Luxemburg which are still the main suppliers of Denmark.

In the case of the other products (sections, broad-flange beams and hot-rolled sheets) export prices were in these countries still higher, but the margin had narrowed during the period under review and had become very small at the end of that period. The observer of the High Authority further recalled that the internal prices in Denmark for merchant bars and plates, the only products for which he had data available, had increased over the whole period since 1 January 1955 in a higher proportion than the minimum export prices, and that the internal prices are now somewhat higher than the minimum export prices. The price data supplied by the Danish authorities show furthermore that the Danish importers had in most instances paid prices which were in fact identical with the minimum export prices. He pointed out that on the whole the fluctuations of export prices had been moderate in the boom period of the last four years as a result of the stabilizing effect of the Common Market on internal prices and of the continuous influence exercised by the High Authority. In this connexion, the fixing of minimum export prices had had a rather attenuating effect on the movement of export prices during the period. For all these reasons, he stated that in the opinion of the High Authority, which had continued to follow carefully and continuously the movements of export prices, the prices charged for export by Community producers had been kept during the period under review within equitable limits. He gave the assurance that the High Authority would continue in the future to have prices under close observation. The Danish representative remarked that in his view the Danish internal prices were without relevance to the Waiver.

The Working Party also considered the effects which the Brussels Convention had on the level of export prices. Members of the Working Party pointed out that the Convention deprived third countries of the benefits which they would enjoy from the common market for coal and steel if price competition existed, as they might reasonably have expected when the Community was established, in exports from the Community. There was a serious risk that the uniform export
The price would be fixed in relation to the highest prices quoted in the Community. They also considered that the establishment of export quotas by agreement among the Community steel producers might intensify for third countries the disadvantageous effects of price agreements among the producers. Because export prices are not competitively determined, any presumption that prices are equitable might not be valid and therefore special vigilance by the High Authority would be in order with regard to the provisions of the Waiver dealing with the equitability of export prices. The observer of the High Authority explained again that the High Authority could not intervene against the system of fixing minimum export prices as such, but its powers allowed it to act if the operation of the system would lead to excesses in prices, or would produce harmful effects in the sense of Article 65 of the Treaty. He pointed out also that the High Authority did not limit its task to the minimum export prices only but that it does also follow prices actually charged by Community exporters in third markets and that the High Authority would not hesitate to intervene, as exemplified by the appeal to producers in the beginning of 1956, to exercise restraint as regards increases in export prices. On the other hand, he stated that the operation of the Brussels Convention so far had not been such as to call for any action by the High Authority under the Article mentioned.

The Working Party noted that there had been rather wide movements in the export prices of the Community suppliers during the period under review but the situation at the end of the period was somewhat different from that considered last year. If the situation in August 1957 is compared with that existing at the end of October 1956 export prices in general had risen less than internal prices and some alignment of these two sets of prices had no doubt occurred in a number of cases and prices for all forms of transactions have come very close to the minimum export prices. On the other hand, export prices, even when they were close to the upper limit of the range of internal prices, remained often substantially above the lower limit of those prices, and the introduction of export quotas, even on a temporary basis, would prevent any further narrowing down of such disparity. It noted the assurance of the observer of the High Authority that all export prices had been carefully followed, and that the High Authority would continue to have such prices under close observation. The Working Party expressed the hope that the High Authority would take note of the particular difficulties which any substantial discrepancy between export and internal prices might have on the interests of foreign users which compete with producers in the Community and would not hesitate to intervene actively against any tendency on the part of Community exporters to apply a price policy which would be inconsistent with the general principles on which the Community was founded and which were referred to in the Waiver granted by the Contracting Parties.

The Working Party took note of the measures taken during the year by the Member States towards the lowering of duties applied on imports of various steel qualities from third countries either by means of temporary suspensions or of reductions of duties, in some instances within the limit of a tariff quota.
As regards the harmonization of duties, the Working Party took note of the assurance given by the representative of the Member States that harmonized external duties will be applied as from 10 February 1958. Members of the Working Party expressed their disappointment at the fact that the Report of the Member States did not contain any indication as to the rate to be applied. The representative of the Member States, while stressing that the Waiver did not contain any obligation to communicate the harmonized tariff before it entered into force and that, moreover, the details had not yet all been worked out, gave some information of a general nature about the progress made in the preparation for harmonization of the tariffs of the six Members.

In conclusion, the Working Party stated that the examination of the Fifth Report has shown that the Member States and the High Authority have taken the necessary steps to complete the establishment of the Common Market on 10 February 1958, as contemplated when the Decision of 10 November 1952 was approved by the Contracting Parties; it should be noted, however, that according to some Members of the Working Party the proposals for the harmonization of the customs tariffs of the Member States do not correspond to what their Governments had understood to be contemplated when the Waiver was granted. The Working Party was of the opinion that this question would have to be discussed when the report on the last period covered by the Waiver is transmitted and examined next year.

As in previous years, the Working Party considered the supply situation of third countries with respect to Community products as well as the prices of these products. While the Working Party was able to conclude that the difficulties which in earlier years had occurred in the supply of coal and coke from the Community had been entirely overcome, it was not in a position to reach unanimous conclusions as regards prices because of the divergent viewpoints concerning the criteria to be applied in comparing the various price series. Note was taken, however, of the fact that the price situation had improved substantially at the end of the period covered by the Report. The exchange of views has enabled the various participants to have a clear idea of the problems involved and to dispel a number of misunderstandings.