SECOND ANNUAL REPORT OF THE MEMBER STATES
OF THE EUROPEAN COAL AND STEEL COMMUNITY

Will delegations kindly send their comments and corrections to the Information Office, A-644, by 12.00 noon on Saturday, 22 January.
Second Annual Report of the Member States of the European Coal and Steel Community

Background. In April 1951, Belgium, the Federal Republic of Germany, France, Luxembourg, Italy and the Netherlands concluded a Treaty instituting 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 within the six countries of the Community. The six member States (all of them being contracting parties to the GATT) therefore submitted to the Contracting Parties a request for a release from certain of their obligations under the GATT, in particular the most-favoured-nation clause contained in GATT Article I and the rule of non-discrimination regarding the application of quantitative restrictions in Article XIII.

At the Seventh Session in November 1952 the Contracting Parties granted certain specific waivers, 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 (15 February 1958) the six countries would submit an annual report to the Contracting Parties on the progress towards the full application of the Treaty. The first annual report was submitted at the Eighth Session of the Contracting Parties, and was summarized in press release GATT/145, 23 October 1953.

At the Ninth Session the second annual report of the member States of the European Coal and Steel Community "on measures taken by them towards the full application of the Treaty" was submitted to the Contracting Parties and was examined in a working party where there was a free and frank exchange of views between the representatives of the member States and the observer of the High Authority on the one hand, and the other members of the working party on the other.

1. The working party, under the chairmanship of Mr. Vargas Gomez, Cuba, examined the measures taken by the six countries, pursuant to the waiver
granted on 10 November 1952. The principal measure taken during the period under review was the application of the waiver to special steels on 1 August 1954. As from that date, the common market applies to all coal and steel products covered by the waiver. The working party took note of the measures taken under the waiver and came to the conclusion that actions taken to date are consistent with the terms of the waiver.

2. 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 (a) in the application of export controls on scrap, (b) in the action taken towards the harmonization of customs tariffs and other trade regulations, and (c) in the discharge of the Community's undertaking to ensure that equitable prices are charged by its producers in third markets.

3. As regards the restrictions imposed on the exports of scrap to third countries, the working party heard a statement by the Swedish representative to the effect that during the last two years his Government noticed that the possibilities of their industry to import scrap from the Community, which is their main supplier, had greatly worsened and that, during the last few months, they had the feeling that export licences were forthcoming only to a very limited extent, if at all. The working party noted that the Community had recognized, when the waiver was granted, that it should avoid placing unreasonable barriers upon exports to third countries and generally should take account of the interests of those countries. It noted that specific measures were taken by the member States in August 1953 and March 1954 in order to authorize the export of substantial quantities of scrap for blast furnaces. The working party re-affirmed its conviction that the export controls on scrap should be released as soon as practicable.

4. As regards customs tariffs applicable to imports from third countries, the working party noted that the member States (with the exception of Italy) continued to suspend partly or wholly customs duties on some steel products, on a provisional basis, and some members of the working party were critical of the tariff duties on special steels levied by Italy, France
and Germany. The representatives of the member States and of the High
Authority gave the working party specific assurances as regards future
tariff policies that the Community had no intention of introducing
protective or restrictive policies, that they were determined to harmonize
their tariffs on Treaty products at the end of the transitional period and
that the Community was prepared to expedite this process of harmonization
and reduction of customs tariffs through negotiations with the other
contracting parties concerned.

5. As regards trade controls other than tariffs the working party
noted that the French Government had re-imposed quantitative restrictions on
the import of special steels from third countries and that the application,
in Belgium and Germany, of import controls on coal from dollar sources of
supply had been referred to the Contracting Parties in accordance with this
complaints procedure. This matter has not yet been discussed.

6. In last year's report the working party expressed the hope that the
Community would initiate, as soon as possible, negotiations with other
contracting parties on their economic and trading relations in respect of
coal and steel. Austria was the only country so far with which negotiations
had been initiated. The working party learned with regret that these
negotiations had been suspended, having achieved no results so far and
expressed the hope that they could be resumed without delay and be carried
to a satisfactory result.

7. The working party discussed extensively the question of
export prices. Their report states that although agreements among
producers may not be affecting directly the interests of third countries
when their influence does not extend beyond the common market, it is clear
that the waiver was granted on the understanding that the member States
would ensure the full achievement of the objectives of the Treaty. Further,
there is no doubt that one of those objectives is to prevent restrictive
practices impeding normal competition within the Community so far as they
relate to coal and steel products. Moreover there cannot be any doubt that
all contracting parties are most directly concerned in the existence and
activities of export cartels and other producers' arrangements which may influence the level of prices charged by Community exporters.

The observer of the High Authority stressed that the organs of the Community were very much aware of the problem and, as indicated in its January report, the High Authority is following the situation very closely. So far, however, the High Authority was not in a position to take any action since it had not found any evidence that the exporters' agreements had had any disturbing effect on competition within the common market. In view of the importance which they attach to the problem of cartels, the third countries expressed the hope - as they did in the 1953 report - that the High Authority will see its way to make available to contracting parties concerned the results of its examination of producers' agreements, as well as any remedial measures it may decide to take. The conclusion reached by the working party was that the question of export cartels was to be considered, not in isolation, but in relation to the question of prices, which was of major concern to third countries and was the subject of a specific undertaking by the Community under Article 3 of the Treaty.

The working party noted that a certain unification of export prices by destinations has taken place, but that differential prices were applied for supplies to the United States and Canada, to Switzerland, and to other destinations. They also noted that the downward trend which was registered after the establishment of the Community has been followed more recently by a general upward trend in export prices on world markets. The observer of the High Authority pointed out that the undertaking of the Community was to maintain equitable export prices, or - to be more precise - to see that equitable limits were observed in prices charged on external markets. He did not feel that such an undertaking involved the obligation for the Community to see that its exporters maintain any definite set of prices, and, in particular, apply the same prices on the common market. He stated that if the comparison was made with the export prices charged by competing exporters, the Community export prices were generally lower than or equal to those of other exporters, which compete with the Community in the world market.
The working party was not in a position this year to analyze the conditions in which prices were formed on the international markets for steel. It noted, however, that the exports of the Community amounted to about 65 per cent of world exports, that on all steel markets the share of the Community was larger than that of any competing country and that, in the case of the West European steel market, the influence of the Community was predominant. When, as is the case at the present time, the exporters of the Community adopt a common price policy, their influence on the formation of prices on export markets is bound to be substantial, and it was suggested that the existence of such price agreements should be taken into account when the equitable character or otherwise of prices charged by the Community was discussed. The observer of the High Authority made reservations regarding the predominance which the Community's exporters would have on the formation of world prices and added that there was no evidence that export prices of other producers followed the lead of Community prices.

8. The report states that the substantial progress made so far towards the achievement of the objectives of the Treaty in general, which latter include the elimination of all trade obstacles, all discriminatory and restrictive practices and all unfair methods of competition within the Community, will surely be welcomed by all contracting parties. Some members of the working party feel, however, that, with regard to some specific objectives which are of more direct concern to third countries, such as the integration of Italy in the common market and the harmonization of customs tariffs, especially in the case of the Italian duties, advances were not so rapid as might have been expected.

While recognizing that the adjustments required to extend the common market to Italy are of a more fundamental nature than is the case of other member States and that no time-limit was laid down in the waiver for the completion of those processes, the representatives of third countries believe that there is a serious disadvantage in letting preferential arrangements crystallize for any length of time, as they may retard the process of integration and limit the corrective effects of free competition which the Community intends to foster.
9. Finally, the representatives of the third countries wish to stress that when competition becomes more severe on world markets, as is the case today, governments must pay particular attention to the effects which the exercise of special privileges under a waiver may have on the competitive position of their producers and on the prices asked from their consumers. The terms of the waiver involve a disadvantage for their industries and they would fail in their duty if they did not satisfy themselves that the privileges granted are exercised in the same spirit in which they were offered. There is no doubt in their opinion that the setting up of a Community which is the main source of supplies for two of the most essential materials for industrial production can alter the conditions of competition on world markets and that any agreement regarding export prices between the producers of such a Community, especially if it is buttressed by devices reminiscent of the practices of former cartels, may adversely affect the interests of consumers in third countries and is naturally looked upon with suspicion by those consumers, who may fear that their governments, in surrendering important rights, may not have achieved the expansion of production and trade to the benefit of all which justified their action, but have contributed instead to strengthen the discriminatory and restrictive forces which the setting-up of the Community was expected to restrain.

Concluding its report the working party states that it knows that those who are responsible for the application of the Coal and Steel Treaty are keenly conscious of the importance of that question. They expressed their determination to intervene if export prices were to exceed what they consider to be equitable limits, a situation which, in their view, would then give foundation to those fears. In the opinion of the working party, any action which could be taken to show that misgivings regarding the methods of competition of Community exporters are unjustified would facilitate the relations of the Community with other countries and strengthen the hopes entertained when the waiver was granted.

The Contracting Parties took note of the report of the member States and approved certain practical proposals that the legal aspects of some aspects of the terms of the waiver should be examined before the next annual report is submitted. As on previous occasions the delegate of Czechoslovakia maintained his reservation.