

## 'The Community: three years on' from La Voix Fédéraliste (1956)

**Caption:** In 1956, La Voix Fédéraliste, a magazine published by the European Movement, offers an initial assessment of the establishment of the sectoral Common Market and of the activities of the High Authority of the ECSC.

**Source:** La voix fédéraliste. Organe de l'Organisation Luxembourgeoise du Mouvement Européen. ; Réd. Chef HOFFMANN, Fernand. 1956, n° 2; 6e année. Luxembourg: Organisation Luxembourgeoise du Mouvement Européen. "Trois ans après l'institution de la Communauté", auteur:Rollmann, T. , p. 38-46.

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## The Community: three years on

### Steel sector policy

by T. Rollmann

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### Scale of the Community steel industry

The Community produces one-fifth of total world steel output. Per capita raw steel production, which stood at 330 kg in 1955 is lower than that of the United States (650 kg) and the United Kingdom (380 kg) but outstrips that of other industrialised countries, in particular, the USSR (210 kg). Steel production is fairly unequally spread among the various Member States. Luxembourg produces over 10 tonnes per capita, which is by far the world record, whereas Italy produces just a little over 100 kg per capita.

Community steel output is growing rapidly, posting a 20 % increase between 1954 and 1955.

While most of the steel produced by the Community is consumed by the Member States of the Community, in 1955, over 18 % was exported to non-member countries, particularly overseas. The Community accounts for three-quarters of world steel exports and, as such, makes a valuable contribution to the economic life and development of the whole world.

### Features of the steel industry and market

The steel industry, which, in terms of turnover, is one of the most important of all the industrial sectors, has specific features, which make its output and steel product market unique.

Firstly, the investment to output value ratio in setting up a steel factory is extremely high. Based on today's steel prices, the setting-up of a plant with a production capacity of 250 000 tonnes of raw steel a fairly small-scale operation would require investment of BEF 5 billion, whereas the plant's turnover would be less than BEF 1 billion.

Investment requirements and cost prices drop in proportion to the size of the production unit. Mechanisation of manufacturing processes can only yield substantial productivity gains, especially in terms of sheet products such as sheet steel, tinplate etc., if production units are large, with an output, for example, of over half a million tonnes.

Iron and steel industry products, such as cast iron and all types of steel, are essential for the manufacture of almost all the goods required for the development and operation of modern economies. This is particularly true of capital goods, such as machinery and transport equipment, which are, for the most part, made basically of cast iron and steel.

The steel industry's heavy reliance on the manufacture of capital goods makes it extremely sensitive to fluctuations in the economic climate. When times are good, new companies are set up, there is substantial investment and an ever-increasing demand for steel. In a slump, demand for steel falls sharply. Steel plants are, of course, able to adapt their output to cope with such fluctuations. However, the industry's heavy investment burden has a severe knock-on effect on cost prices in both boom and bust scenarios.

Steel manufacture requires delivery to the factories of huge quantities of heavy raw materials, such as iron ore, coal and limestone. The cost of steel products is closely linked to the cost of transporting both these raw materials and the actual steel products themselves.

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### **Community policy**

In May 1953, the six Community Member States set up a common market in raw materials and steel products.

1. Firstly, the creation of this market led to the elimination of all barriers to the free movement of raw materials, such as iron ore, scrap iron, coke and coal, as well as of finished products, such as cast iron and all types of rolled steel products. It also eliminated government controls on production and pricing policy.

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Indeed, since 1 May 1953, consumers of steel products have been able to purchase from plants, which because of their location, organisation or pricing policy, were best able to meet customer needs in terms of the products they required. No customs barriers, trade restrictions, exchange rate system or taxation-related barriers now exist to prevent large numbers of steel-product consumers from buying from the cheapest suppliers. The reverse of the situation is that the various suppliers, now in competition with one another, are no longer protected by artificial market partitioning and are thus forced either to cut their prices to an appropriate level or to face losing their customers. However, the advantage of this situation is that suppliers now have access to a larger market for their steel products, thus ensuring greater stability. They are also in a position, provided they cut their costs, to sell much more steel, thus allowing them to mechanise and modernise their plants and cut production costs further. Equal access to a large open market for both manufacturers and consumers ensures consistent development of output as well as a corresponding increase in living standards.

2. However, simply opening up the market and eliminating obvious barriers was not sufficient. Action was also needed to balance the twin aspects of competition and the freedom of the common market in steel.

One crucial task for the High Authority – in cooperation with the other Community institutions, such as the Council of Ministers and the Common Assembly – has been to regulate the operation of the market so as to provide users with the requisite information so that they might select for themselves the cheapest suppliers, as the Common Market was designed to allow them do. This undertaking was to be achieved in compliance with the provisions of the Treaty and under the watchful eye of the Court of Justice. To this end, a table of reference, drawn up under the aegis of the High Authority and based on specific, detailed and uniform rules, was published. Regulatory measures were implemented to ensure the publication of quotation procedures (an extremely complex issue in the steel industry) and anti-discrimination rules between manufacturers and consumers.

In an attempt to ensure compliance with the principles set out in the Treaty governing relations between manufacturers and consumers from the various Member States, the High Authority has implemented measures which have resulted in the creation of a more structured steel market than existed in the individual countries at the time when the Treaty establishing the Community came into force. These measures were instrumental in creating stability and consistency in the market that did not exist in any country before the Common Market was founded.

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5. Evidently, the elimination of the national protectionist measures which existed in the various Member

States and the development of direct competition among all Community steel producers has, in some cases, forced a small number of poorly located or badly equipped companies, which relied on these protective measures to stay in business, either to close or to change their product lines. The High Authority, in consultation with the Member States, has agreed that the Community should bear the cost of compensating the workers in those companies and of retraining them in a more economically viable trade either on site, in a different industry or in different regions in the steel industry.

### **Impact of High Authority policy**

A good benchmark for assessment of the impact of the various measures discussed above are trends in steel prices since the inception of the Common Market.

#### [The development of the list price index for industry-grade rolled steel in the Community and the United States](#)

In spite of the current unprecedented boom in the steel industry, unregulated prices on Community markets are characterised by a remarkable stability, a stability that exceeds that of the large United States market. Current prices are, on the whole, only slightly higher than they were when the Common Market was created.

Whereas, during the last major surge in the steel industry, before the entry into force of the Treaty, which took place during the Korean War, export prices (which were freely set, while domestic prices were automatically regulated by governments) almost tripled between June 1950 and June 1951, steel prices, which are entirely unregulated in the Community, currently fluctuate only slightly.

Undoubtedly, this remarkable stability, never before experienced in free-pricing systems preceding the Common Market, in large part, results from the very existence of that market. Allowing manufacturers to tap into a market of 160 million consumers and providing consumers with an extremely wide choice of manufacturers has created greater competition. This, in turn, has greatly reduced the violent fluctuations of the past caused by the exploitation of potential disparities between the various Member States, which are now offset by the sheer number of producers and consumers. By maintaining stable steel prices or even reducing them, despite current upward pressures, the Community has fulfilled one of its main mandates: a better standard of living for the citizens of its Member States.

Remarkably, this regulatory role had to be played to the extent recorded without a disproportionate increase in trade in steel products between Member States. Indeed, trade in steel products between 1952 and 1955 increased by only 164 % (in tonnage) and still accounts for no more than 12 % of total Community steel output. Production relocation and supplier and consumer replacement have not been as extensive as might have been expected. This has had a positive effect on employment stability and the use of existing investment. It also indicates that the Common Market could be productive and successful without breaking into many new foreign markets. Simply creating the appropriate framework was enough to stabilise prices at a level reflecting the production and consumption capacity of the Community as a whole. The psychological impact of the creation of the Common Market, the elimination of market partitioning and the publication and market regulation measures referred to above have had a major, positive impact and have also been instrumental in creating a balance in the steel market, which is vital if the steel industry and the economies of the Member States are to develop smoothly.

In addition to the policies and systems put in place for the creation of the Common Market, the close working relationship between the Community institutions, in particular, the High Authority and the various groups, such as producers, consumers and steel industry employees, committed to the existence and operation of the Common Market, was a major factor in achieving the results we see today. We should not underestimate the importance of the permanent relationship which developed quite naturally within the Consultative Committee on which representatives from all these groups sit which is now being developed in a more flexible and even closer manner in the daily work of the Community institutions. To a large extent, the results achieved to date are the fruit of effective cooperation. This remains the most reliable

pledge of the success of many current and future undertakings.