

## Note from the Employers' Federation of the French Steel Industry to the French Government (Paris, 13 December 1950)

**Caption:** In this note to the French Government, the Employers' Federation of the French Steel Industry expresses its concern about the opening-up of the national market to competition from steel products from other Member States of the future European Coal and Steel Community (ECSC).

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At a time when the French Government is being called upon to take important decisions on the Draft Treaty and its annexes, we feel it necessary to draw its urgent attention to the probable impact of the provisions of the Draft on the cost price of steel in the various countries concerned.

Drawing up this assessment will, at the same time, provide a more accurate picture of the scope for expansion offered to each of the producer countries in the single market.

— I —

### Impact of the Schuman Plan on cost prices in the various producer countries

All the calculations are given in the attached note; the table below summarises its conclusions.

The prices given in the table are in French francs and relate to the cost price of the basic product, in other words the basic Bessemer bar. They are the full cost prices, including financing costs but minus any amortisation, since the rules allowed for this vary greatly from one country to another, and its inclusion would distort comparison.

The first column gives today's prices, taking full account of the current costs of raw materials and wages. The next two columns show the increases or reductions resulting from the introduction of the Schuman Plan, and the final column gives the corresponding final price.

#### Table

We can see immediately that, while the situation in Germany and France remains more or less the same, Luxembourg receives a substantial advantage, and Belgium benefits considerably, to the tune of FRF 1 250 to 1 900 depending on the assumptions made.

The relative levels of the production costs change as follows. Between France and Luxembourg, the initial difference of FRF 1 300 in France's favour is almost halved, and the remaining gap might easily be eliminated in sales, merely through the effect of the amortisation margin. For Belgium, the gap of FRF 1 500 in France's favour is cancelled out and may even be reversed. Belgium might therefore very easily be able to charge prices lower than ours.

This preliminary conclusion for the basic Bessemer products will also extend to France's open-hearth products as a result of the new rules on ferrous scrap.

#### Ferrous scrap

Over the last four years, we have succeeded in establishing a relatively satisfactory organisation of the market for this product. The principle has been to give priority to covering the requirements of the domestic market and to apply strict controls to exports to other countries, particularly Belgium and Italy. Prices have thus been kept at a level considerably below the world rate, while still remaining above the rate applied in the United Kingdom.

Including ferrous scrap in the pool ruins this entire, painstakingly constructed arrangement, and we face the threat of a reduction in the tonnage delivered to our factories, as well as a considerable rise in prices. The manufacturing cost for open-hearth steel and electric steel will also be substantially increased.

As we are aware, the draft drawn up by the French delegation provides for certain improvements, including for our Government and the Council of Ministers to be consulted before the quotas of scrap to be supplied

by one country to the other members of the pool are fixed. However, the final decision on tonnages and prices will still remain with the High Authority. A certain uniformity of rules within the single market cannot be avoided, and we shall thus be losing a privileged position in what is, for us, an important sector. Knowing the extremely sensitive nature of the scrap market, we must fear both major losses of tonnage and considerable price increases.

Clearly, we cannot provide any figures, but there will be differences of several hundred francs, perhaps up to FRF 1 000 or 2 000, per tonne of open-hearth products.

These are all extremely worrying findings which entirely overshadow the problem of the scope for expansion offered to each country in the single market.

— II —

### Scope for expansion for each country in the single market

The principle of the single market offers a great deal of hope for countries enclosed within the confines of their trade barriers. The upheaval generated by two world wars justifies the need for new formulae, and the steel industry in western Europe in particular is hoping for a market on a scale comparable to that of the USA. For their part, consumers need to be able to obtain supplies from the most economical production source. For both producers and consumers, a huge single market appears likely to promote full employment.

However, this general view might well be rather superficial; we need to look at the situation more closely and assess the advantages and disadvantages for each of the participating countries.

Let us take Germany, first of all. Its coal and steel production potential is far greater than its own domestic needs, and it will therefore try to offload its surplus capacity on neighbouring countries. For Germany, the establishment of a huge market is of vital interest.

Some qualification is needed here, however. Southern Germany is the natural outlet for much of the production in the Saar, and, even with a customs cordon between the Saar and Germany, the flow has been maintained. It makes too much geographical sense not to be deemed essential, in any event, and it will happen either by direct agreement between the Governments in the form of a trade agreement on raw materials or under pressure from processing plants in southern Germany. The flow will, of course, release a corresponding tonnage of German products, some of which will do their best to find their way onto the rest of the pool market.

The Netherlands has always obtained most of its supplies from steelworks in Germany, Belgium and Luxembourg. The significant increase in its own production, benefiting from its top-quality coal mines and favourable conditions for importing iron ore, will limit the market offered to its powerful neighbours. Opening up the Dutch market will therefore not bring anything new; on the contrary, we must take account of the Netherlands' sizeable production of pig iron, for which it has always been seeking a useful outlet in our country.

Italy, with its rapidly growing population of 45 million, is an area for expansion which is accessible to other groups, although we must take account of its plans to increase its own production (to between 3 and 3.5 million tonnes, compared with 2.2 million tonnes before the war). This increase by about half seriously restricts the scope offered to foreign steel. However, problems in obtaining supplies of raw materials and, perhaps, also the difficult manufacturing conditions might, admittedly, limit production to a lower figure, thus creating a fairly useful outlet. Should not this area for expansion largely fall to France because of its position as the almost exclusive supplier of ore and scrap and its geographical location and in view of the current plans for the creation of a Customs Union? We can do no better here than to refer to the draft agreement between the steel producers in the two countries, negotiations on which were suspended following the announcement of the Schuman Plan. We shall soon be forced to give up the privileged position which seemed certain to fall to us and to share the market in Italy with our neighbours Germany,

Belgium and Luxembourg.

Luxembourg is one big production plant, but it has no domestic market. Belgium is also a small country, and the industrial valleys of the Sambre and the Meuse are, to all appearances, still the province of the powerful local steel industry. For the rest, and particularly for the region around Brussels and the ports, with their inland waterway links to the Charleroi and Liège coalfields, do we really think that France and Germany can establish a lasting position for themselves there, especially given the sizeable reduction in costs which the Belgian steel industry is about to enjoy?

Lastly, there is France, a huge market supplied by a powerful steel industry, but one which is located on its northern and eastern borders. In actual fact, the Franco-Saar steel industry forms a bloc with Belgium and Luxembourg, which, as we have seen, are going to be in a position to charge ex-works and delivery prices which are equivalent to or even lower than those in France. Luxembourg will therefore claim its place on our market on exactly the same basis as the Longwy coalfield that is its neighbour. As far as Belgium is concerned, we should also stress that Belgian steel famously has the benefit of being able to use both sea and inland waterways to access the Paris region and the English Channel and Atlantic coasts.

All in all, the three Belgian, Franco-Saar and Luxembourg steel industries together could regard the whole of France as their natural market. This being the case, can we really talk about an extended market? Would not the term overloaded be more accurate? At all events, if there is any advantage, it appears to go to our two neighbours which, starting from nothing, have everything to gain; there is no advantage for France, which can only lose, since what it will have in Belgium cannot really be called compensation.

It is, therefore, easy to understand why Belgium and Luxembourg are so impatiently awaiting the opening of the customs border. The absence or limited size of their domestic markets has been their great weakness up to now. With one stroke of the pen, however, the Treaty is giving them what they have never dared to ask for before, and it will be theirs at the expense of France's steel industry.

Two years ago, when the Saar was reintegrated economically, we already had to absorb a production surplus of 1 600 000 tonnes, which the reopening of the Neunkirchen plant has now increased to 2 500 000 tonnes; if we take account of domestic consumption in the Saar and the natural outlet expected in southern Germany, this figure is actually reduced to 1 or 1½ million tonnes. The burden that this represents has been largely offset by having access to a major coalfield, which is of incalculable value for France; our steel industry has also benefited from a new source of coke and coking coal, which is already enormously useful and will become even more so in future. Luxembourg and Belgium, on the other hand, are threatening us with an additional several million tonnes, but this time without taking anything in return.

All will be well as long as demand, both domestic and for export, is high, but if demand on the world market shrinks even slightly, Belgium and Luxembourg will fall back on the new area now open to them: France. Of course, we shall hit back, because we feel equal to the fight. But we must be very clear in our minds about the inevitable outcome: when the slightest crisis arises, the creation of the single market, extended for some, but overloaded for us, will unleash frantic and ruinous competition, which is far from what was intended at the outset. It is not enough to put down on paper that the High Authority will maintain order and restore normal trade patterns; the economy has its demands which are far stronger than any regulations.

Conclusion

The report above may be summarised as follows:

When the Schuman Plan comes into force, because of the compensation measures planned, the relative cost prices for Bessemer products will be considerably changed at France's expense and in Belgium's and Luxembourg's favour. The gap between France's and Luxembourg's costs will be substantially reduced, while the gap with Belgium will be cancelled out and may even be reversed in Belgium's favour. The effects of the new rules on ferrous scrap will only serve to exacerbate this reversal in our situation to the detriment of France's open-hearth steel.

The creation of the single market, so earnestly desired by Belgium and Luxembourg, neither of which has a large domestic market, will give these steel producers a considerable advantage solely at France's expense.

If we add to this the fact that the Plan removes the constraints which inter-Allied controls have applied to Germany's economy and that it gives Italy guaranteed access to the raw materials it so obviously lacks, we must conclude that, in the final analysis, as far as the relative cost prices and the creation of a single market are concerned, France appears to be the only loser.

In this note, we have not looked at other aspects of the problem, particularly ideological issues concerning the ultra-interventionist powers of the High Authority and the rules planned for the production and product distribution system.

However, there is one vital point that we must make concerning the assessment of France's overall position. We have faced, and still face, problems in the allocation of coke and coking coal from the Ruhr. The High Authority appears to be a body which is likely to ensure that these resources are allocated fairly.

We have two comments on this:

(1) The very composition of the High Authority and the fact that its decisions are taken by a majority, with the President having a casting vote, have to be a matter of grave concern to France.

(2) If we consider the major assets which our country possesses, with its mines in North Africa, Lorraine and the west, its phosphate resources and its agricultural products of all kinds, we have every right to maintain that direct negotiations between the two countries, supplemented by trade agreements, are more likely to prove satisfactory than an official allocation made by a High Authority with as yet unknown sympathies.