'European common market in coal' from the Süddeutsche Zeitung (10 February 1953)

Caption: On 10 February 1953, the German daily newspaper Süddeutsche Zeitung outlines the issues arising from the establishment of a common European market in coal, paying particular attention to the issue of prices.

Source: Süddeutsche Zeitung. Münchner Neueste Nachrichten aus Politik, Kultur, Wirtschaft und Sport. Hrsg. FRIEDMANN, Werner; GOLDSCHAGG, Edmund; SCHÖNINGH, Dr. Franz Josef; SCHWINGENSTEIN, August. 10.02.1953, n° 33; 9. Jg. München: Süddeutscher Verlag. "Gemeinsamer europaïscher Markt für Kohle", auteur:Huffschmid, Bernd , p. 7.

URL:
http://www.cvce.eu/obj/european_common_market_in_coal_from_the_suddeutsche_zeitung_10_february_1953-en-c2d599e2-c7d1-4b52-a4dc-15f9e1f484f2.html

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European common market in coal

Difficulties of creating uniform launch conditions / The problems of pricing

by Bernd Huffschmid (Düsseldorf)

(SZ) The Vice-Chairman of the Market Committee of the European Coal and Steel Community, Dr Preusker, MdB 1, announced in Luxembourg that the High Authority would be basing the target prices for coal, to be introduced with effect from 1 March, on the prices currently applicable. In West Germany's case, this means that there will be no need to reduce the German price from its recently increased level of DM 60 per tonne — that price will continue to apply throughout the European Common Market. The procedure used to set the coal and steel tax will also be applied to determine the perequation payments to be made to the unprofitable Belgian and Italian pits. The amount and payment date have not yet been decided. The issue of allowing for the varying tax burdens in the individual participating countries will be resolved by an interim decision of the High Authority, valid until 10 April, after consultation with the Market Committee and the Consultative Committee representing consumers, workers and producers.

In private discussions, when the difficulties confronting the single market in coal were mentioned, a Member of the High Authority in Luxembourg said: 'We are only too well aware that the situation on 10 February, when the common market in coal is established in the six Member States of the European Coal and Steel Community, will still be very far from ideal.' This perceptiveness at the highest level is encouraging, implying as it does that every possible effort will be made to come as close as possible to the 'ideal situation'. The West German Government, too, is ready to face the challenge. It has abolished the much-criticised dual price system for domestic and exported coal. Even so, arrangements in West Germany for the introduction of the Common Market are far from complete. In the other ECSC countries, too, there are still many anomalies. Coal prices are distorted everywhere, with extremely high national prices that have been fixed for reasons of political expediency or economic policy. In many cases, the State is paying direct or indirect subsidies to the pits. Nowhere can genuine price comparisons be made across national frontiers.

The aims of the European Coal and Steel Community in the case of coal (and, indeed, of the other raw materials covered by the Schuman Plan) can be achieved only gradually. Many detours and sidetracks will have to be followed, but it is important to ensure that we never lose sight of the ultimate goal. That goal is to create a common market for all coal consumers within the European Coal and Steel Community: in other words, every colliery will supply coal to every customer on the same pithead terms. It is not the aim of the Community to ensure that individual producers always charge the same price in all circumstances, but the cost price on which producer prices are based must be an undistorted one. Production costs must be as uniform as possible, so as to ensure the creation of a genuinely competitive market. The cost price must provide the basis for the development of a manipulated price (which must take due account of the relatively unprofitable pits), which can be achieved by means of a perequation levy. The target for the third stage is the free market price, meaning a price that is as low as possible; the main focus of production will be shifted to wherever the maximum effect can be achieved at the lowest comparative cost.

This process is less cumbersome than it sounds. But it would be asking the impossible of the ECSC, and especially of the High Authority, to expect them to achieve their long-term aims in a matter of a few short years. After all, the ECSC Treaty has been concluded for a fifty-year term. Europe will have taken a great step forward if, at the end of that period, the ambitious aim of a single market at the lowest possible prices for all has been achieved. The first stage is to determine the true cost price applicable to each coalfield. From that price, the individual pits must receive at least the revenue they need to sustain production and continue operations. The analysis of the individual cost factors and their comparability is extremely difficult. Costs of materials and personnel overheads, depreciation rates and servicing of capital — all these factors differ in ways that are in many cases not determined by the natural advantages or disadvantages of geographical location or by the run of the coal seams. The differing prices that have to be paid in the six states of the Community for such essentials as shoring timber and work clothing, hoisting cables and hauling engines, impose differing burdens on the pits. The same is true of wages, which account for a percentage of total costs that differs from coalfield to coalfield, and often even from pit to pit. A comparison of materials costs makes it especially clear that the aim of a uniform starting point for the coal and steel market will not be fully achieved while the rest of the market is still governed by conditions of inequality.

One area in which there is potential for adjustment is depreciation. Depreciation rates are currently determined differently by the financial authorities in the various countries. Differences arise especially as a result of the depreciation methods used, France, for example, favouring the reducing balance method while depreciation in West Germany follows an approximately straight line method. But capital expenditures, and hence modernisation, are very largely dependent on the way depreciation is handled. For example, if reducing balance depreciation over a short term were to be permitted in all six countries, this would be a first step towards the establishment of a uniform starting point. Similar considerations apply to the servicing of capital and to the interest paid on equity. Here again, different quotas are used at present in the various coalfields for purposes of prime cost calculation, and these play an important part in cost accounting as assumed expenses.

A point worthy of particular attention is comparability of wages. Miners' wages virtually everywhere are in the highest bracket. National wage structures are not different, however, because living standards in the individual countries, again, are not directly comparable. It should also be borne in mind that cost comparisons can at present be undertaken only on the basis of the official exchange rates: a method that does not permit genuine comparisons of purchasing power. The absence of monetary union, which should really have preceded the establishment of a coal and steel community, is particularly significant in the case of wages, because wage costs are directly converted to purchasing power.

Once the comparable cost price has been determined, the next step would have to be to determine the manipulated price of coal within the Community. A transitional solution here unavoidably requires a degree of planning. The President of the High Authority, Jean Monnet, acknowledged this fact when he said that the Common Market could not be completely liberalised for the time being. The reason is that all pits in the Community are likely to have to continue being used to meet demand for the foreseeable future. (At present, the ECSC is still having to import large quantities of coal.) Any attempt to make the principles of the market economy immediately applicable would mean that the pits where costs are highest would determine the supply from all other coalfields. As these marginal costs could not be recognised for political and economic reasons, however, price manipulation is necessary and will take the form of the perequation payments made by the more profitable pits to mines that are less well placed. This, however, should not be regarded as an immutable element of the Coal and Steel Community. The aim, after all, is to produce 250 million tonnes of coal in the Community at the lowest possible price. The flexible allocation of investment resources to the coalfields that seem likely to produce the most coal at the lowest price in the long term thus remains an objective that must not be pushed aside by the perequation payments.

The possibility that unprofitable pits in the major Community coalfields, such as Belgium or the southern Ruhr, may one day have to be shut down to make way for large, modern, efficient mines is one of the secondary problems that the European Coal and Steel Community will certainly not have to confront over the next five years. Not until production has been established on the most advantageous economic footing possible will completely free pricing become possible. Only then will the pits, with their cost factors as comparable as possible, be able to embark successfully upon competition. The reason is that free pricing means differential pricing, taking full account of factors such as geographical location and 'coal seam intelligence'. Modern pits, operating on a comparatively good coal base, should make greater profits than less favourably placed companies within the Community, just as they do outside it. The European Coal and Steel Community must not be allowed to become egalitarian and must not impose constraints on the natural dynamic in the form of arbitrary pricing.

The achievement of these objectives is, of course, still a remote prospect today. For the moment, the High Authority in Luxembourg will be fully occupied with analysing the internal breakdown of the various cost prices and bringing them into line as far as possible. If it is able to achieve this in the near future, and if common conditions can be established for all pits, that in itself will be a notable initial success.

1. MdB: *Mitglied des Bundestages* , Member of the Lower House of the German Parliament.