

Internal note from the British authorities on the economic implications of the Schuman Plan (11 May 1950)

Caption: On 11 May 1950, various British ministries draft a joint note for the attention of the Prime Minister's Cabinet in which they analyse the possible economic repercussions of the implementation of the Schuman Plan and outline the origins of the French proposal.

Source: The National Archives of the United Kingdom, [s.l.], Kew, Richmond, Surrey, TW9 4DU.

<http://www.nationalarchives.gov.uk/>, Prime Minister's Office: Correspondence and Papers, 1945-1951, PREM 8. Parts I-II: Schuman Plan 1950-1951, PREM 8/1428.

Copyright: (c) The National Archives of the United Kingdom

URL:

http://www.cvce.eu/obj/internal_note_from_the_british_authorities_on_the_economic_implications_of_the_schuman_plan_11_may_1950-en-1393c4da-c013-4426-b89d-30422661e5dc.html

Publication date: 18/12/2013

Cabinet
Franco-German Steel and Coal Authority
Economic Implications

11th May, 1950

Note by the Secretary of the Cabinet

I circulate herewith, for consideration at this evening's meeting, a paper on the economic implications of the French proposals prepared by the Treasury, in consultation with the Foreign Office, the Ministry of Labour, the Board of Trade, the Ministry of Fuel and Power, the Ministry of Supply and the Economic Section, Cabinet Office.

2. This paper includes, as section II, a note on the historical background of the proposal which has been contributed by the Foreign Office. This is in place of the separate paper referred to at (i) in my note of 10th May which announced the meeting.

(Signed) NORMAN BROOK

Cabinet Office, S.W. 1.,
11TH MAY, 1950.

**FRENCH PROPOSALS TO ESTABLISH FRANCO-GERMAN COAL AND STEEL
AUTHORITY**

ECONOMIC IMPLICATIONS

I. Introductory

All that we know at the moment about this proposal is contained in a note which was handed to the Foreign Secretary on 9th May by the French Ambassador. Briefly the proposal is that French and German coal and steel production should be placed under a single authority, membership of which should also be open to the other countries of Eastern and Western Europe. The decisions of this Authority would be binding on the steel and coal industries of the countries concerned. Its members would be independent persons chosen by the Governments concerned, and a chairman would be chosen by common agreement between Governments. A summary of the economic aspects is given in Annex 'A'. In the following paragraphs, we set out in the first place the historical background to the proposal. We then give such comments as we have been able to make.

II. Historical Background

2. Ever since the war the French have been extremely anxious to establish a control of German heavy industries centered in the Ruhr. At one time they hoped to detach the Ruhr from Germany or at least give it extra-territorial status. Until the London Conferences of April, 1948, they hoped to obtain agreement on international ownership and control of the Ruhr industries. At the London meetings they accepted somewhat reluctantly in return for agreement to establish a Western German Government the creation of the International Authority for the Ruhr whose functions present (nominal) and prospective (shadowy) were defined in the Ruhr Agreement of December, 1948. The former include making a division of Ruhr coal between internal consumption and export, and guarding against discriminatory practices in the Ruhr area. The latter envisage the possibility of certain industrial controls now exercised by the High Commission over production, investment, management appointments and deconcentration being transferred either to the Ruhr

Authority or the Military Security Board. Shortly before the negotiations opened the French to their dismay learned that the British and American Governments had agreed to leave to a future German Government the decision on the ownership of the coal and iron and steel industries of Western Germany. This decision they have never accepted.

3. Throughout the post-war period the French have also had to agree, again with reluctance, to successive increases in the permitted level of German steel production which now stands at 11,1 million tons per annum though there is a capacity in Germany of nearly 16 million tons.

4. The French have based their case for controlling the German coal and steel industries and for maintaining a ceiling on steel production on security grounds, but it has become increasingly evident that their main concerns of late have been competition from German steel industry, the use by the German steel industry of cut price coal and the development of steel manufacture around Ruhr coal rather than Lorraine ore.

5. During the past fortnight of official tripartite discussions the French have obtained little real comfort on any of these issues. They have learned that the British and American Governments intend to stand firm on the ownership question and that in all probability the law reorganizing the German coal and steel industries with its preamble on ownership will be promulgated shortly despite French opposition and the risk that this may precipitate a political crisis in France. They have found that while we are as anxious as they in principle that the Ruhr Authority should be given an adequate job to do, neither we nor the Americans consider it desirable in practice to give it any powers which will conflict with the authority of the High Commission, nor practicable to transfer to it any additional powers e.g. over production, investment or management until the coal and steel industries are reorganised in about a year's time. They have also learned that once the Germans come into the Council of Europe there will be pressure from the Americans to raise the ceiling on German steel production. The very fact of Germany joining Western organisations and thus reducing the security risk makes the security arguments, which the French have hitherto used, more difficult to sustain and exposes them to the danger of having to admit that they are also actuated increasingly by commercial considerations.

6. It is easy to see how in these circumstances the present French proposal may appear to provide an escape from their dilemma. They may hope to obtain some American support for the establishment of a new Authority with wider powers than have been contemplated for the Ruhr Authority. They could claim that their proposal is only an extension of a suggestion which the Americans themselves made during the negotiation of the Ruhr Agreement, viz. that the Ruhr Authority should be utilised for the purpose of contributing towards that closer association of the economies of Europe which the signatory governments have set out as one of their objectives and preamble to the Agreement. It should be noted, however, that until yesterday the French have officially always strongly opposed any suggestion that the Ruhr Authority as such with its security implications should be extended to any areas other than the Ruhr. They have now got over this difficulty by proposing the creation of an entirely new body.

7. It is reasonable to assume that in the back of their minds the French hope to achieve three immediate objectives in relation to German heavy industry - objectives to which the Germans themselves are not likely to subscribe when they reflect on the implications of the French proposal. Firstly, they may hope to freeze the German steel production at something like current levels since presumably "pooling" would start on the basis of the status quo. Secondly, they may hope to ensure that no vertical combines or other devices are created which would enable the German steel manufacturers to obtain German coal at price over which the French have no control. Thirdly, they may hope that under the proposed arrangements it would be easier to develop a steel industry round Lorraine ore than round Ruhr coal.

8. It is believed that the French proposal should be viewed primarily in the German context described, and only secondarily in the wider European context of integration which in the past has caused the French Government to advocate a Franco-Italian customs unions and Finebel.

III. Assumptions

9. According to the French proposal, the decisions of the authority would have executive force in France, Germany and other member-countries, though "appropriate measures" would be provided for appeals against decisions of the authority. It would appear that some surrender of sovereignty in the fields covered by the authority must be contemplated. No national Government could give up sovereignty over such essential elements in its economic structure without prejudice to its power of action in almost every other field. Thus the arrangements proposed might eventually result in a political federation of the countries concerned; indeed such federation might be found to be an essential prerequisite for the successful operation of a scheme of this kind. This is probably what the French have in mind as they say: "By pooling basic production and by instituting a new higher authority whose decisions will bind France, Germany and other member-countries, these proposals will build the first concrete foundation of the European federation which is indispensable to the preservation of peace." On the other hand, when it comes to working out the French proposals in detail, it may well be found that the most that can be secured is something in the nature of a cartel in which the component units would be under a greater or less degree of control by their own Governments. If this in fact occurs, many of the constitutional difficulties which we foresee in the more extreme plan would disappear. We have based this paper on the full implementation of the scheme proposed by the French, on the assumption that the constitutional difficulties including the position of nationalised industries can somehow be overcome.

10. We have also assumed that the countries of Eastern Europe would not become members of the authority. We do not believe that it would be politically possible for Russia or any satellite country to agree to alienate any part of its national sovereignty to a new organisation in which the Soviet bloc did not have a clear majority. If they were to have such majority the plan would clearly become unacceptable to its protagonists.

11. We have considered the implications of the proposal on the following alternative bases:-

- (a) That France and Germany alone are members;
- (b) That the other Western European countries notably Benelux are also members; and,
- (c) That the authority includes the United Kingdom as well as the countries of Western Europe.

IV. Steel

12. Assumption (a) - that only France and Germany participate. It is thought that the United Kingdom would, in the short term, have little to fear in either our home or export markets for steel. The evidence is that our production costs compare favourably with those of our competitors; we have fairly stable markets for our exports in the Commonwealth and we are helped by the fact that we can offer types of steel which are still in fairly short supply. On the other hand, in the long run the united Franco-German industry (with the aid of the united Franco-German coal industry and strengthened by specialised marketing and increased efficiency resulting from integration) would in due course be in a stronger position to attack our export (and probably even our domestic) markets. This danger would be increased if Germany were released from the present limit of 11.1 million tons per annum placed on her production of crude steel.

13. Assumption (b) - that all O.E.E.C. countries except the United Kingdom participated. The position as set out in para. 12 above would not be materially changed in principle, although the addition of the Benelux production of approximately 6 million tons per annum crude steel would naturally give further opportunities for increased efficiency flowing from integration and specialisation. However, if Sweden joined (although this is thought to be unlikely at any rate without the United Kingdom) there is the possible danger that the United Kingdom might lose access to at least part of her supplies of Swedish rich iron ore even to a point at which we might be forced to join the Authority on disadvantageous terms.

14. Assumption (c) - the United Kingdom participating in the scheme along with all other O.E.E.C. steel producing countries. If there were a general shortage of steel the effect of pooling arrangements would not be appreciable. The object of all countries would be to produce as much steel as possible.

15. We must, however, assume that the future position will be one of surplus European production. If the pooling arrangements and the equalization of prices were to involve the purchase by the Central Authority of steel from all member countries in proportion to their respective total capacity we should have a situation very much like the pre-war cartel. The results would be beneficial for the United Kingdom insofar as our steel industry would be protected against dumping and price cutting, provided of course the arrangements were such as to defend the market covered by the Authority countries against a break in by Czechoslovakia; (as was proved by pre-war experience in the case of iron and steel pipes and tubes Czechoslovakia could exert a very important influence if it were to be outside any cartel or pseudo-cartel arrangements covering the rest of Europe.)

16. For the purpose of this study, however, we must assume that the Authority will arrange for steel to be made by the most efficient producer and that the ultimate result will therefore be complete economic integration of the European steel industries. In those circumstances it is by no means certain that the United Kingdom would gain. In the short term the efficiency and recent modernisation of the United Kingdom steel industry would operate in our favour. The initial effect of giving free entry into the United Kingdom market to continental steel would be limited; marginal inefficiency in the United Kingdom would tend to disappear, but otherwise there would probably be no marked effects. In the longer term, however, the logical fulfillment of the process of economic integration (leaving aside French desiderata for the moment) might be a large measure of concentration of European steel production in the Ruhr-Saar-Luxembourg area, where the presence of more easily worked coal coupled with iron ore deposits and water transport might give an advantage in costs over the United Kingdom. If this happened the effect would necessarily be a shrinkage of the United Kingdom steel industry which would be particularly serious in view of the high capitalisation of steel production and the consequent rigidity of overhead costs. The social and strategic consequences of such a weakening would be serious. The economic consequences might also be unfortunate if the effect were to put in other hands the control over the supply of steel which is, after all, the basic material for the United Kingdom engineering industry.

V. Coal

17. The effect of the French proposals can be most clearly envisaged on the assumption that the new authority is confined to France and Germany. On this hypothesis it seems probable that the strengthening of the economic links between the French and German coal industries would lead to a tendency for France to rely more on German coal imports to the detriment of coal imports from the United Kingdom. Price equalization arrangements would tend to bring down more quickly the level of German export prices which are at present competitive with United Kingdom export prices and in some cases slightly lower. Thus, German coal exports would become more competitive, not only in France but in other European countries. This might not have a very serious effect on the short term future because the improvement of miners' wages in Germany would, in the immediate future, probably slow down the rate of increase in German coal production, while some of the French coal production now being carried out on an uneconomic basis, would also tend to disappear. It is doubtful therefore whether these proposals would in the short term result in a flood of cheap German coal for the European market.

18. If the Benelux countries were associated with the proposed new arrangements, the coal picture from the point of view of the United Kingdom would not be very different from that outlined above. We do not export to Luxemburg and our market in Belgium is very small. Holland is a convenient geographical market where we can probably hold our position more easily than in some of the more distant parts of Western Europe, though this might be affected by whatever interpretation is placed on the proposed modifications of existing systems of transport charges.

19. The proposed new arrangements might have more serious repercussions on our coke export trade (notably to Scandinavia).

20. In the long term, the new arrangements would make it more difficult for the United Kingdom coal industry to regain as much of its pre-war foothold in European coal markets as would otherwise be the case. But availability in the United Kingdom is already having that effect.

21. The possible association of the United Kingdom in the new arrangements may not involve any material new factors so far as the export position is concerned, since the forward prospects are more likely to be governed by availability than by demand. It hardly seems likely that the equalization of prices would prejudice the position of home produced coal in the United Kingdom inland market, since such coal would still be competitive with coal produced on the continent. But having regard to the social implications of pooling industrial resources and equalizing wages, the issues mentioned in Section III above in connection with national sovereignty are of particular significance in relation to coal.

VI. Tariffs

22. The proposal explicitly provides for the removal of customs tariffs on coal and steel as between France and Germany and any other countries that join the scheme. Any such removal of tariffs within a group would cut right across the most-favoured-nation clause of commercial treaties including, notably, the General Agreement on Tariffs and Trade.

23. The point is of some importance, since the Authority could hardly operate if it had to cope with existing high duties on steel moving across frontiers within its jurisdiction, while an open breach of the most-favoured-nation clause might be strongly resisted by third countries, especially as, in this instance, it would prejudice, not only their export trade in iron and steel, but also in engineering products for which iron and steel are basic materials.

24. It is probably true to say, therefore, that the whole proposal would prove impracticable unless the United States Government was prepared, when concrete proposals had been elaborated - and we were prepared to agree - to accept a revision of the General Agreement on Tariffs and Trade and any other relevant treaties, so as to provide for what would, in effect, be a new form of customs union limited to the materials and products within the jurisdiction of the new Authority.

VII. Equalization of Wages and Conditions

25. The French proposals include, as one of their objectives, "the equalisation as well as the improvement of living conditions of workers in those industries". As regards improvement of living conditions, it is clearly desirable that the lower wages should be raised to the levels of wages in the countries where higher wages are paid. It is probable that the National Union of Mineworkers, for example, would support such a policy in theory, both on general trade union grounds and in order to improve the competitive power of the United Kingdom industry. Nevertheless, equalization of conditions cannot be regarded as a necessary part of the project and it would certainly involve very great practical difficulties. In particular it would appear to carry two important implications:-

(1) that the influence, or even the direction, of the Authority would so operate as to control the free operation of existing national arrangements for the determination of wages and conditions of employment. This would cause special difficulty in countries such as the United Kingdom where wages and conditions are fixed, not by the Government, but through collective bargaining between employers and workers;

(2) that, in the course of the Authority's operations under (1), funds which would have otherwise been available for increasing the wages, or improving the conditions of employment, of the workers in one country, would be diverted to improve the wages and conditions of workers in another country. It is open to very serious doubt whether, at least in present circumstances, any such arrangements which operated to the detriment of workers in this country, would be acceptable to them or to the trade unions concerned.

26. The National Confederation of Free Trade Unions, with the strong support of the American Confederation of Labour, are also known to be in favour of something in the nature of the French proposals,

perhaps in the form of an extension of the functions of the Ruhr Authority. The Confederation is holding a meeting at Düsseldorf on 22nd and 23rd May when proposals on these lines will be discussed.

VIII. Conclusions

1. The difficulties involved in the full implementation of the French proposal would be very great, not only in the narrow field of the steel and coal industries themselves, but because of the wider consequences of the measure of surrender of sovereignty which would be involved in the whole economic field. If, however, the French and Germans were nevertheless so determined to succeed in their endeavour that they were able to overcome these very great difficulties, the result would be a major transformation of the economy of Western Europe, which would call for major adjustments from the United Kingdom economy.

2. The French proposals could take a number of different forms. Very broadly the alternatives are either:-

(i) An authority with the objective and duty of complete integration of the iron and steel industries covered by it and with executive powers such as to require some surrender of sovereignty in its field by the national Governments concerned. This field covers such essential elements in the economic structure of the Governments concerned that their power of action in every other field might be prejudiced. A political federation of the countries concerned might result and indeed might be found an essential prerequisite.

(ii) A less ambitious arrangement in the nature of a cartel in which the component units would be under a greater or less degree of control by their own Governments.

(3) Our broad conclusions are that the effects on the economy of the United Kingdom of the establishment of a Franco/German coal and steel Authority would, in the short term, be negligible. In the longer term, however, the consequences would be disadvantageous. The competitive position of our steel industry would suffer because of the natural advantages of the Ruhr/Saar/Luxembourg area. We think that even the alternative to a Franco/German Authority, which is the ultimate resurgence of unbridled German competition would have less serious effects. As regards the coal industry, there would be some limiting effect on our exports to Europe, but the extent of this would be much affected by the general wage levels and conditions reached in the continental coal industry as a result of integration.

(4) Successful implementation would seem to require a revision of the G.A.T.T. and any other relevant treaties. We could probably put obstacles in the way of any such arrangements, therefore, by refusing to accept the necessary revision of the tariff though, without American support, it would be politically difficult for us to take this line, even if we desired to do so.

(5) As regards wages and conditions, the French contemplate as one of the objectives of the Authority the equalisation as well as the improvement of the living conditions of workers in these industries. This would involve very great practical difficulties. It is likely that the proposal will be favoured by organised labour in the United Kingdom and also in the U.S.A. Nevertheless, full implementation of the French proposals would seem to involve interference with collective bargaining.

(6) Apart from the possibility mentioned at (4) above, the United Kingdom would not appear to have any technically legitimate ground for objecting to a proposal which was agreed between the French and German Governments. Such agreement may however prove difficult.

(7) In the time available we have not had time to consider what the attitude of the United Kingdom should be towards entering or staying out of such an authority were it established.

ANNEX 'A'

FRANCO/GERMAN COAL AND STEEL CONTROLSummary of Economic Aspects

1. Franco/German coal and steel production to be placed under a higher authority within framework of an organisation open to other European countries.
2. Pooling of coal and steel production will provide foundation for economic development as a step towards Federation of Europe.
3. War between France and Germany becomes impossible.
4. All member countries to be served on equal terms thus laying foundation for economic unification.
5. This production to be offered to world as a whole "without distinction or exception", with a view to contributing to raising living standards.
6. Europe will be provided with new means to realize essential task of development of African continent.
7. To realise objectives, French Government ready to open negotiations on following basis:
 - (a) common high authority to secure in shortest time, modernization of production and improvement of quality;
 - (b) supply of coal and steel on identical terms to French, German and other member markets;
 - (c) development in common of export to other countries;
 - (d) equalization and improvement of living conditions of workers in these industries.
8. To achieve this objectives, certain transitional measures are proposed, e.g.
 - (i) drawing up of production and investment schemes;
 - (ii) compensating machinery for equalization of prices;
 - (iii) amortization fund to assist rationalization of production.
9. Movement of coal and steel between member countries to be at once freed of customs duties. No differential transport rates to be permitted.
10. Proposed organization, unlike international cartels which tend to restrictive practices on distribution and production and high profits "will ensure the fusion of markets and expansion of production".
11. Institution of higher authority not to prejudge methods of ownership.
12. Higher authority to take into account powers conferred upon Ruhr authority.