

## **The ECSC regulatory regime**

1. The ECSC was established in 1952 by the Treaty of Paris. This Treaty, which expires in 2002, establishes a direct relationship between the Community authorities and individual steel and coal companies in areas defined in the Treaty. It gives the Commission a more interventionist role in the business of the coal and steel industries than does the subsequent Treaty of Rome establishing the general EEC. The steel products covered by the Treaty are listed in its Annex 1 (shown at Appendix 2.3). We describe below the main areas in which the Treaty has recently affected the EC steel market.

### **Production**

2. In 1980 following the declaration under the ECSC of a 'manifest crisis' in the steel industry a quota system was introduced to limit production of steel products. Quotas were set quarterly, applied to individual producers and backed up with fines for production in excess of quota. The phasing-out of the quota system began in January 1985 and was completed in July 1988. The Commission continues to monitor market developments and publishes quarterly forecasts for EC steel demand and production.

### **Investment**

3. The Commission sets general objectives for 'modernisation, long-term planning of manufacture and expansion of productive capacity'. Since the manifest crisis declaration of 1980 the Commission has been encouraging the elimination of excess steel-producing capacity in the EC. All investment proposals over 10 million ECUs or involving capacity increases of more than 50,000 tonnes must be notified to the Commission. If such proposals are considered inconsistent with the general objectives, EC finance will not be made available for the project. Moreover, where the Commission finds that an investment would involve state aids, subsidies, protection or discrimination, the Commission can prohibit the producer from drawing on external sources of finance.

### **State aids**

4. After the declaration of the manifest crisis in 1980, the member states drew up an exceptional measure, known as the State Aids Code, designed to eliminate state subsidies to steel companies. A capacity reduction target (the elimination of 30/35 million tonnes of hot-rolling capacity by 1985) was agreed. By 1985, closures equivalent to over 30 million tonnes of hot-rolling capacity had been secured. The State Aids Code was extended for three years in 1985, in a substantially revised form. A three-year extension, without amendments, was agreed from January 1989. The current Code bans subsidies, payment of losses and investments except for certain cases involving research and development, environmental measures or social costs. All such derogations must be authorised by the Commission in advance.

### **Prices**

5. Two principles underlie the ECSC price rules:
- (a) companies are free to set their own price levels; and
  - (b) there should be no price discrimination between different customers for the same type of order.

To conform with (b) companies must publish price lists and transport tariffs. Rebates may be given (eg linked to volume of purchases) but must be notified to the Commission. Producers can also deviate from their published prices if they 'align' on prices offered by other producers. Prices for 'non-comparable' transactions need not be published. This can apply to certain individual projects, certain major customers and intra-industry transfers. Details must be given to the Commission on request.

6. During the crisis period the Commission imposed mandatory minimum prices on certain steel production, backed up by inspection at offices of producers and fines for breaches of the minimum prices. Minimum prices have now all lapsed.

### **Import restraints**

7. The member states operate a number of measures against third country imports of ECSC products into the EC.

### **Voluntary restraint agreements**

8. The Commission negotiates annually with certain third countries (after authorisation by the Council) a series of voluntary import restraint agreements (VRAs). The third countries undertake to limit to agreed levels their exports both to the EC in total, and (with the exception of South Korea) to individual member states. They further agree not to undercut EC producers' prices by more than 6 per cent (4 per cent in the case of special steels). In return, the third country producers are granted immunity from anti-dumping and countervailing actions. The countries covered by VRAs in 1989 were:

- Bulgaria
- Czechoslovakia
- Hungary
- Poland
- Romania
- Brazil
- Venezuela
- South Korea

9. The coverage proposed for 1990 has not yet been agreed. However, it is likely that the scope will be reduced, and the tonnage increased in line with the Community's commitment to eliminate all VRAs by 31 March 1992 (made in the joint 'Consensus' on steel trade signed recently by the EC and USA).

10. A number of member states, in consultation with the Commission, also maintain a few autonomous measures against third countries. In the case of the United Kingdom, there are import quotas on certain ECSC products applied against the USSR, GDR and North Korea. Additionally, all member states have imposed an embargo on steel imports from South Africa.

### **Surveillance licensing**

11. Third country imports into the ECSC are subject to surveillance licensing. Licences must be applied for in advance of importation; but, equally, national authorities must grant import licences. The purpose is to provide the Commission with advance information on import developments in the steel market, and to assist in the administration of the VRAs.

### **Import reference prices**

12. Import reference prices are published (and regularly updated) by the Commission in the context of the anti-dumping regulations. The prices are calculated on the basis of the production costs

of the world's most efficient producers. Where imports are made at prices below these reference levels it is considered prima facie evidence of dumping. Once a case has been filed, the industry's allegations must be submitted to a full, normal Commission investigation; and the third country producer(s) in question are given the opportunity to present evidence. (Anti-dumping cases may not, of course, be brought against VRA countries.)