

7/11/1950

1. Ministers last considered the position on the Schuman Plan on the 28th July (E.P.C. (50)20th Meeting, Minute 2). Since then the Working Party has kept in touch with developments in Paris. These have not yet reached a definitive stage but the Working Party thought it desirable to prepare an interim report summarising the present position. No immediate decisions are called for from Ministers but the Working Party considered that Departments might like to bring the interim report to the attention of their Ministers.

2. This report covers I (paragraphs 3-5) Outline of the Present General Situation, II (paragraphs 6-18) Main Provisions of the Plan in its latest form, III (paragraphs 19-22) Present Attitude of the Countries negotiating in Paris, IV (paragraphs 23-30) Comparison between present Plan and United Kingdom draft proposals - E.P.C. (50)20th Meeting.

I. Outline of Present General Situation

3. The original French proposal, for placing the French and German coal and steel industries under a common Higher Authority within the framework of an organisation open to the participation of the other countries of Europe, was published on the 9th May, 1950. Technical negotiations began in Paris on the 20th June between delegations of France, Germany, Italy, Holland, Belgium and Luxemburg. The United Kingdom was unable to accept in advance the principle that the Higher Authority should be supra national in character, and has taken no part in these negotiations. The French authorities have from time to time provided the United Kingdom with information about the progress made.

4. The outline of the long-term institutions and provisions has reached a stage at which a draft treaty is being prepared on the basis of a memorandum of which the French Government have given us a copy. Meanwhile negotiations are understood still to be taking place on the interim arrangements for the period before customs barriers and quantitative restrictions on coal and steel are removed within the area to be covered by the Plan and the long-term institutions and provisions come into full operation.

5. As regards the timing of any negotiations with the Six Powers on United Kingdom association with the High Authority, Ministers decided in the Economic Policy Committee on 28th July that we should enter into no commitment on United Kingdom association until whatever international agreement emerged in Paris had been ratified by the French Parliament. This decision did not rule out prior discussion on the question of association, and the Foreign Secretary agreed with a proposal put to him by M. Schuman at the Hague on 1st August that, if duly invited, His Majesty's Government should enter into consultation with the Six Powers, after agreement had been reached between the experts in Paris but before the actual signing of the proposed Treaty, with a view to seeing whether some scheme of association could be worked out. It has since then been made clear to the French that we should naturally wish to have the text of the draft Treaty, and other relevant documents, before being able to define our own attitude. In

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acquiescing in this statement of the position, the French has expressed the hope that, if the texts were presented to us in advance of their being formally approved by Governments, the way might be left open for us to propose such minor adjustments as could facilitate our association. At present therefore await agreement by the participant countries on the text of draft Treaty, and an official invitation to comment upon it before a decision can be taken on the timing and nature of proposals to associate ourselves with the Plan.

II. Main Provisions of Plan in its Latest Form

A. Institutions

6. The proposal is still that there should be an independent supra-national High Authority with extensive (but at present in many respects ill-defined) powers over the operation of coal and steel industries of the participating countries. There is, however, now to be a Committee of Ministers with certain powers particularly on points affecting national economic policies. The general lay-out of the four main institutions now provided for under the Plan is as follows:

The High Authority. To be composed of between six and nine members chosen for their general competence and collectively appointed by, but independent of, Governments. Decisions normally to be taken by simple majority. Precise functions still under discussion, but in general to be the main policy body. For advice it may look to a consultative committee drawn from representatives of producers, consumer and international organisations of workers, and to facilitate its contacts with the industries a number of regional organisations are to be established.

The Common Assembly. To be composed of between 30 and 80 members appointed by national parliaments. Decisions normally to be taken by majority vote in public session. Only agreed function to be to examine the annual report of High Authority which, if the report is censured by a majority to be specified, will have to resign. (Certain delegations would grant additional functions, e.g. in regard to increase in the number of the members of the High Authority, in respect of conciliatory measures following important decisions of the Court of Justice.)

The Council of Ministers. To be composed of one Minister nominated by each member government. Not yet decided by what procedure decisions are to be taken; "this depends on a solution of problems concerning representation and of the relative influence within the institutions of participant countries which can only be reached at the end of the conversations". The basic function to be to consult and exchange information with the High Authority and so to facilitate co-ordination between "the general political activities of the states on the one hand and the activities of the High Authority on the other". Certain special functions

NOTE: The proposals vary the powers of the High Authority according to defined circumstances between "decisions" (which are binding in every respect), "recommendations" (which are binding in respect of the aims which they set out but leave to the recipient the choice of means) and "opinions" (which have no binding force).

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and powers in particular fields have now been added, viz. to give the High Authority a mandate to conduct commercial treaty negotiations with non-members, to modify group tariffs against non-members, to co-ordinate group policy on quantitative restrictions, to decide allocation policy in time of shortage and to authorise expenditure on modernisation exceeding the amount of levies collected. In the case of allocations and tariff modifications the suggestion is that the Council's decision must be unanimous.

The Court of Justice. Composition and method of appointment not yet decided. Its functions to be to ensure respect for "the letter and spirit of the treaty" and to guarantee the effective functioning of the other institutions. It may be appealed to by member states, by the other three main institutions and by individual undertakings of the member states. There seems to have been some difference of opinion as to whether the Court should be empowered to pronounce upon the advisability of decisions by the High Authority. This idea has been rejected but it seems that the point behind the idea may be covered by a provision in the treaty whereby an obligation will be imposed on the High Authority "not to provoke fundamental and persistent disturbance with respect to the balance of payments, the maintenance of national income and the level of employment in each State", and that on this basis a case could be laid before the Court.

B. Economic and Social Provisions

7. The discussions in Paris have confirmed the original objectives proposed by the French, viz. the task of the High Authority is to be "to contribute by all means at its disposal to a policy of economic expansion, of full employment and of raising the standard of living of the workers and to avoid the dangers that might suddenly imperil the continuation of that policy. In particular it should:-

- (a) provide for coal and steel to be available on exactly the same conditions on leaving each of the different centres of production;
- (b) see that the internal needs of the member countries and the development of a common export trade to other countries are satisfied in the best economic conditions without distinction or exclusion;
- (c) promote the modernisation of production and the improvement of quality;
- (d) eliminate artificial factors which might distort normal conditions of competition;
- (e) pursue the equalisation, in a progressive spirit, of the living and working conditions of labour in the coal and steel industries;
- (f) take such transitional measures as may be necessary in the execution of its task."

Some measure of agreement has been reached on the permanent provisions at (a) to (e) but the transitional measures referred to at (f) seem to be giving difficulty and we do not know how far the negotiations about them have progressed. The document we have received deals with the permanent provisions under the following heads:-

8. The Single Market and the Equalisation and Reconversion Funds

The intention is to create a single market at a single step with the shortest possible delay by abolishing tariffs, quantitative restrictions and other discriminatory practices between members. By the establishment of a single market it is hoped to bring about a position where the differences between the prices of coal and steel produced in each of the member countries will be no greater than the relevant transport costs. From earlier documents received from the French it appears that in order to soften consequent hardships during the transitional period each country is to raise an equalisation fund (in part from levies on production and in part from Government subsidies) to be used for the purpose of reducing the prices of high-cost producers. These equalisation funds are to taper off steadily year by year so that within a reasonable period only the efficient producers will survive (although there will no doubt be special exceptions to maintain productive capacity essential for defence purposes). If firms are unable to adapt themselves to the competition of the single market (i.e. have to close down or change the nature of their business) the High Authority, on the request of Governments concerned, is to provide aid from a "reconversion fund" (a) for compensating, temporarily maintaining, re-housing and re-training dismissed workers, (b) establishing new and economically sound industries, in particular by the firms which have been badly hit, and (c) subject to certain conditions (not yet agreed upon) for compensating firms required to cease production. Save in exceptional circumstances grants of such non-repayable aid are to be conditional on the payment of an equal contribution by the state concerned. The High Authority's "reconversion fund" is to be raised primarily by levies on the whole coal and steel production of the Group.

9. Production

The High Authority is to superintend generally the supply of coal, steel and raw materials, to contribute to increased production and employment and to act in close co-operation with Governments. It is to draw up estimates of supply and demand, seek to maintain general stability and promote such measures itself or by representations to governments as may seem necessary, including the possibility of regulating production and the forbidding of restrictive or discriminatory agreements in time of over-production. After exhausting indirect measures and after appropriate consultations with Governments, it would have the right to establish obligatory production programmes. In the event of a serious shortage the High Authority will inform the Council of Ministers who will be responsible for remedial action by unanimous decision. Failing agreement the High Authority will have power to impose allocations to member countries.

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10. Prices

The general aim is to be to keep prices stable and as low as is compatible with giving an adequate return on capital and maintaining adequate supplies. Competition is to be ensured "in the full degree permitted by the economic situation" and "artificial practices" and discrimination (by both producers and buyers) are to be eliminated. Export prices are to be "within limits which are as equitable for the buyers as for the producers". While the High Authority is to keep a close watch on price movements and trends it is not clear from the latest document precisely what control it is to exercise. In the first place it apparently intends, in collaboration with Governments, to try to control prices by indirect means (e.g. by regulating the volume of production or by stimulation of demand); if these fail it may on its own initiative go on to fix maximum, minimum or pilot prices. Non-discriminatory price schedules are to be published for each region and buyers within the Group are to have free choice of supplier. This means that dual pricing within the Group will be abolished and that the price paid by a consumer will not be able to exceed the price of supplies at the most convenient source plus the cost of transport. Price conventions between undertakings are to be subject to supervision by the High Authority.

11. Investment

The High Authority is from time to time to draw up for the guidance of firms general directives on modernisation, orientation and expansion of production, and is to examine all important new projects before they are started. If it approves projects they will become eligible for financing by loans made or guaranteed by it, assumed to be possible on favourable terms; if it pronounces unfavourably on projects, they will not be eligible for financing in this way, and Governments may not assist in financing them. These powers are the sole basis of the High Authority's control over new investment. It will not have an absolute veto.

12. Commercial Agreements

The High Authority is to ensure that commercial agreements entered into by member countries should not "upset the conditions of competition between them, both on the common market and on other markets". States are to inform the High Authority of any proposed agreement which concerns coal and steel (and probably raw materials and equipment) and, if it considers the agreement would conflict with the Treaty, it may address "recommendations" to the state concerned.

13. Wages and Labour Conditions

The general aim is laid down as being to avoid the use of wage reductions as a means of economic adjustment or competition, to avoid all forms of competition based on the exploitation of labour and to ensure to workers the highest standard of living compatible with the economic equilibrium of the countries concerned. General adjustments of wage rates in a country are not precluded; the intention is that a firm should not be allowed to escape the consequences of

legitimate competition founded on superior productivity by depressing the standard of life of the workers it employs. The High Authority is to have power to address "recommendations" to firms or governments where wages are low and may equalise competitive conditions by imposing a levy on the low wage firms.

14. Discriminatory Practices

Similarly the High Authority may, in order to equalise competitive conditions, impose a levy on firms which benefit by the existence of discriminatory conditions.

15. Tariffs between the Group and Non-Members

In order that group members may obtain their supplies of coal and steel at lowest prices, the group policy towards non-members is to be non-protectionist and should enable firms outside the group who are able to offer better terms than firms in the group to continue to trade, though the Group may be protected to the extent that costs are inflated by levies and expenses resulting from the activities of the High Authority. A decision is to be taken by the Council of Ministers as to the level of protection required by the Group as a whole and group tariffs harmonised in such a way that steel entering a low tariff country (e.g. Benelux) could not then proceed to a high tariff area (e.g. France) to undersell either local French steel or German steel arriving in France. It is recognised that it will be necessary, after the treaty has been concluded, to seek approval from the General Agreement on Tariffs and Trade (G.A.T.T.) and to enter into negotiations with non-member countries.

16. Quantitative Restrictions between the Group and Non-Members

The intention is that each country shall maintain intact its import licensing arrangements but shall exercise them under the directions of the High Authority, which after examination with the Council of Ministers, will negotiate with non-member countries and with G.A.T.T. on behalf of the Group. Quota policy is to be "as liberal as possible, taking into account for each country the position of its balance of payments and its commercial policy".

17. Dependent Overseas Territories

The intention is that preferential measures enjoyed by member countries in its D.O.T's shall be extended to all member countries, but the products of D.O.T's are not to be submitted to the jurisdiction of the High Authority.

18. Definition of Coal and Steel

It is proposed (subject to certain reservations by various delegations) that the Plan should cover not only coal, coke and the main types of steel (crude, semis, hot and cold finished) but also pig and foundry iron, spiegel, ferro-manganese, iron ore, ferrous scrap and manganese ore.

III. PRESENT ATTITUDE OF COUNTRIES NEGOTIATING IN PARIS

19. It is evident that a number of obstacles to reaching agreement in Paris have yet to be overcome, and indeed that economic (as opposed to political) difficulties have slowed up progress over recent weeks. This applies in particular to questions of production and price-fixing policy, more especially in the interim period before the single market for coal and steel becomes fully operative. As was to be expected, these difficulties come mainly from the German side. In Germany the Plan was originally welcomed on political grounds because it was felt (even by the Ruhr industrialists who were from the outset aware of the technical disadvantages of the Plan) that it offered the best promise of shaking off existing controls and of restoring Germany to a position of equality in Western Europe. Whatever the effect of more recent events, notably the need for rearmament, on the Schuman negotiations, it seems that purely economic considerations are beginning to loom larger in the view of the German delegation as a whole (not merely the industrial experts). German objections are directed primarily against the French proposals for an elaborate scheme of "equalisation" in the interim period, which is aimed at facilitating the transition to a single market, and at protecting weaker industries against those in a stronger competitive position, and which entails, in effect, the subsidisation by the more efficient German coal and steel industries of the less efficient industries of other participating countries. These French proposals are being resisted in toto by the German Delegation, and it is at present uncertain how the problem will be solved, if indeed it is solved at all at the present stage of the Paris negotiations. Linked with the equalisation problem is that of the high price of Belgian coal. The German Delegation have insisted that this problem should be treated specially and separately and should not be allowed to determine the basic price structure of the whole Group: and it appears that this view has now won general acceptance. There are likewise misgivings in Germany about the desire of the French to capture the South German market for steel, and the readjustment that would be involved if the Ruhr had to switch its purchases of iron ore from Sweden to Lorraine. At the same time, whilst no attempt is being made to disguise German pre-occupation up to the highest level with some of the economic aspects of the Plan, official spokesmen like the Chancellor, Dr. Adenauer, and the Head of the German Delegation in Paris Dr. Hallstein, have been at pains to emphasise Germany's continuing desire for the success of the Paris negotiations. What can be said with some definiteness is that the Federal Government will have to take due account of the views of German industrialists on the economic issues still in dispute.

20. If the Germans have lately concentrated on the economic rather than the political aspects of the Schuman Plan, the French Government has given fresh proof of the overriding political significance which it sees in the Plan by making its recent proposal for a unified European armed force, with German participation, dependent on the prior conclusion of the Paris negotiations. (It is understood that when M. Plevin made this proposal in his speech of 24th October, he had in mind the initialling of the draft treaty by the Delegations in Paris and not its ratification by Governments). It is difficult at the present stage to judge how far the French are likely to insist on this condition but it is one feature of the Plevin proposals which has been particularly criticised in Germany as constituting a further gratuitous affront to German prestige.

Whether there is anything more substantial in this criticism and whether it will be used by the Germans as a bargaining counter to secure the acceptance of some of their economic demands in Paris remains to be seen.

21. Italy, like Belgium, is also faced with a problem by reason of the very high costs of her steel production, and her poor natural resources; and some form of special protection for the Italian steel industry may have to be sought. One point on which the Italians lay special stress is that the iron ore production of French North Africa should be brought within the scope of the single market, since assured and cheap supplies from this source are vital to their steel industry. So far, however, the French have resisted this demand, on the ground that, as a general principle, imports from dependent overseas territories should not be covered by the Plan.

22. Despite these difficulties (which concern mainly the interim period rather than the long term arrangements under the Schuman Plan), the French appear still to be optimistic as to the likelihood of agreement being reached, and a Treaty signed, in the near future.

IV. COMPARISON BETWEEN PRESENT PLAN AND UNITED KINGDOM DRAFT PROPOSALS

23. On the 28th July, Ministers approved draft proposals for co-ordinating the coal and steel industries of Western Europe on lines on which the United Kingdom might participate. These proposals have not, for the reasons given in paragraph 5, been put to the Six Powers, but we have made a comparison between the present "Paris Plan" as summarised in paragraphs 6 to 18 above, and the essential features of the "British Plan".

24. The explicit general economic objectives of both are, and always have been, the same. The "British Plan" puts them tersely: "to stimulate the demand for coal and steel and generally to contribute to a policy of economic expansion of full employment and of raising the standards of living of the workers in the coal and steel industries of Europe."

25. The institutional framework of the "Paris Plan" has moved to some extent from the original conception towards the British plan. The communique of the 9th May provided primarily for an Authority, together with what were cryptically called "appropriate measures.... for means of appeal" against its decisions. In the French working document of June this was expanded to consist of an Authority, a Common Assembly of a Parliamentary kind, and an "ad hoc Arbitration Court". These three remain in the latest version, the third now becoming a "Court of Justice", but there has been added a Council of Ministers. In the British Plan such a Council was of course the key body controlling the Authority, and the Court and Parliament were omitted. But the Paris scheme still gives the Authority the final power subject only (a) to the Common Assembly which can dismiss its members by a majority vote, and (b) to appeal to the Court of Justice which would explicitly have to deal not only with the letter and the spirit of the Treaty but also with cases in which the Authority's decisions could be represented as provoking fundamental and persistent disturbances to the "balance of payments, the maintenance of the national revenue and the level of employment" in any State. The Council of Ministers would in the Paris Plan have the same authority, though it would have to be

26. Both schemes envisage as a necessary means of carrying out the general economic objectives the eventual creation of a single market within the frontiers of the member countries, free from tariffs and quantitative restrictions. The Paris Plan provides for this to be created at one blow at the time of the Plan's adoption, the adjustments necessary being made through (a) transitional arrangements with levies and quotas limited in duration, and (b) reconversion funds of a permanent nature. The British Plan provided for its creation by stages to be decided by the Executive Council, tariffs and quantitative restrictions being eliminated pari passu with the gradual removal of existing subsidies, discriminatory practices etc. The distinction between the two approaches is one of technique rather than of objective. In both schemes States are left with the permanent power of restricting imports in the case of balance of payments difficulties. The French proposal for a single previously-agreed scheme to govern practically the whole of the complex transition from the present state of the two industries to the single market has the potential attractions of clarity, speed and finality: but the practical problems are so great that they have so far failed entirely to produce even a comprehensible sketch of how it would work.

27. In regard to the control of output and prices, in both plans the Authority is charged with making reviews and forecasts, encouraging research and so on, but both go beyond this. In the Paris Plan the Authority may fix production programmes and prices, but only (i) after consultation with Governments (presumably in the Ministerial Council), regional groups, consultative committees etc., and (ii) failing indirect and persuasive methods, and (iii) subject to the liberal objectives of the whole scheme. In the British Plan the execution of these powers rests with Governments acting after the Authority has failed to reach voluntary agreements along lines approved by the Ministerial Council. It is also provided in the Paris scheme that the Authority can, failing unanimous agreement in the Ministerial Council, impose international allocations, leaving internal allocations to individual Governments. In the British scheme all authority in this matter is left by implication to the Council, so that failing unanimity presumably no action could be taken.

28. In both schemes the Authority is empowered to obtain, and required to state its views on, investment plans. But in neither has it a veto on new investment. The Paris Plan, however, provides (a) that projects not approved must not benefit from financing facilities granted by Governments and (b) that approved projects may be helped by direct loans or guarantees from the Authority.

29. Both the British and the Paris Plans provide the Authority with a veto over private agreements between producers. The British qualifies this by giving the Ministerial Council power to reinstate them, though the rule of unanimity presumably implies that this would not often happen.

30. The Paris Plan is so obscure and unfinished in its treatment of overseas trade that it is difficult to tell whether there is anything left of the original French proposal for the "development in common of export to other countries". It is also not evident from the present texts whether import policy from the rest of the world will be protectionist: it is envisaged that tariffs should be low, but that there should be provision against dumping. The Authority is also empowered to recommend the amendment of trade agreements contrary to the articles of the Treaty, and to give opinion on any trade agreement affecting coal and steel. The British Plan excluded prices of exports from a member country to non-member countries and individual trade agreements with member countries from the Authority's supervision.

Cabinet Office, S.W.1.

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