within days.

Among proponents of gold demonetization here, there is an air of resignation about the Western European move. Given the dropoff of world trade levels. a senior World Bank official said, "The Europeans don't have much other choice. It wouldn't surprise me in the least" if the Western European central banks mobilized their gold reserves, he said.

Steel Reference Price Proposal Masks Rationalization Of World Steel

Judging from comments made by European Economic Community (EEC) Commissioner for External Relations Wilhelm Haferkemp, as well as other knowledgeable European sources, the EEC countries have accepted in principle the U. S. Treasury's recently announced plan to establish a reference pricing system on steel imports.

WORLD TRADE

The most recent move in the "organized free trade" game now unfolding between Western nations, the reference price scheme will only throw a few meager crumbs to Europe's near-bankrupt steel producers, now being forced into major rationalization.

In the short term, the plan will allow the Europeans to continue to dump on the U.S. market, at the expense of the more cost-efficient Japanese producers. In the longer term the Treasury Department's scheme complements the Davignon Plan for European steel rationalization now being pushed through the EEC. The Davignon Plan, premised on the standard Fabian rationale of "more equitable distribution of resources," calls for the destruction of a large percentage of European steel capacity.

Despite the fact that the governments of both French President Giscard d'Estaing and West German Chancellor Helmut Schmidt are pursuing policies of expanded nuclear energy development that can be expected to sharply increase Europe's demand for steel, near-bankrupt European producers are expected to seize the U.S. plan as their only hope.

No Efficiency Please, We're British

The collusion of the U.S. Treasury and the EEC Commission in pushing through a worldwide Davignon Plan was hardly disguised at last week's National Foreign Trade Council meeting in New York. One NFTC spokesman stated bluntly that "we think the steel companies in our organization would welcome rationalization along the lines of the Davignon Plan"; while EEC Special Counselor for External Relations Theodorus C. Hijzen stressed the need to "adopt the capacity of the world steel industry to the real situation of the world market and have international cooperation."

Feigning concern over the possibility of all-out trade war, Haferkamp warned a businessmen's dinner in New York Nov. 10 that failure to take concerted action would mean the return "of dole queues," "soup kitchens" and "banners on the streets and torches in the night" throughout Europe.

As proposed, the Treasury plan embodies the worst aspects of British "muddling-through" at the expense of truly efficient production. The reference prices will be based on production costs at the most efficient Japanese mills, and would include freight, duty, and insurance, plus 8 percent for profit. Any importer caught selling steel at more than 5 percent below this price would be penalized by extra duty charges. This will hit the Japanese most severely since their highly modernized and cost-efficient industry has allowed them to sell at prices well below those of European and American producers. With this advantage eliminated by a floor price, it is expected that Japanese exports will suffer and Japan will lose the high operating ratios it requires to keep its steel industry solvent.

"Unsuitable for Job Creation"

The mad scramble to maintain export competitiveness over foreign producers has forced European producers into a rationalization "auction." So far, Britain's nationalized British Steel Corporation appears to be leading the bidding, offering to lay off 60,000 of its 200,000 workers in an industry-wide shake-up; BSC's chairman, Sir Charlers Villiers, told the press Oct. 28 that "Because steel is a capital-intensive industry it is expensive and unsuitable for job creation." Other European producers are not that far behind. West Germany's current steel workforce of 340,000 is 34,000 under 1974 levels, with 50,000 of those remaining on short time, and France has just announced a rationalization program to lay off 16,000 workers by 1979, with 10,000more to follow.

The European steel collapse is the result of a world-wide recession halting capital investment. In the first nine months of 1977, according to the International Iron and Steel Institute (IISI), steel production has dropped by 4.6 percent in the U.S., 10.1 percent in West Germany, 2.2 percent in France, 5.8 percent in the UK. and 1.7 percent in Japan, compared to the first nine months of 1976.

As the *London Times* of Nov. 16 noted: "the point has been reached where closures and teeth-gritting decisions by unions as well as management have to be taken." The collapse is no mere slowdown. Capacity utilization in Europe is now only 60 percent, with comparable figures for the U.S. and Japan 80 percent and 90 percent, respectively. Besides the expected shutdown of "inefficient" plant, major steel producers have already cut back even essential investment schemes intended to create higher cost-efficiency levels throughout the industry. British Steel's ambitious program to modernize Britain's outdated industry by 1980 was substantially cut after the first-half 1977 financial report (BSC is currently losing approximately $18 million a week) and has now been suspended completely until further notice. While the National Economic Development Office was forecasting steel capacity expenditure at £647 million for 1977, the British Iron and Steel Confederation reported last week that only £41 million is now expected to be spent. West Germany cut its steel investment from 2.1 billion DM in 1976 to 1.8 billion DM in 1977, with most of this to go to rationalization. The French government has already announced its intention to reduce steel capacity 2.2 million tons by 1980 by shutting down a full quarter of "obsolete" units.

Barring some rational policy, such as the U.S. Labor Party's proposals to turn the U.S. Export-Import Bank into a "Hamiltonian Bank" for rechanneling existing Eurodollars into credit for hard commodity exports, the U.S. steel industry will be doomed to the same fate as Europe. A spokesman for the American Iron and Steel Institute (IASI), which supports present Administration policy, confirmed that it would probably mean "less capacity in the years ahead — perhaps a few million tons," as well as the "elimination of peripheral facilitues."

Protectionist Challenge Hits Soviet Merchant Fleet

A months-long campaign against alleged rate-slashing by the Soviet merchant fleet has escalated sharply with a late October report drawn up for the European Economic Community (EEC) transport ministers. The campaign, which had been conducted chiefly in the British press is an important dimension of the international protectionist "antidumping" frenzy. Targetting the Soviet fleet as a dumping culprit has the advantage, for certain forces, of promoting hostility to the Soviet Union at a point when progrowth Western Europeans are oriented towards expanding East-West trade as one route to keep industry alive.

The new report suggested an array of pressure tactics for the EEC to threaten the USSR and other Comecon countries with. These ranged from forcing Soviet adherence to minimum rates and barring new outlets of Comecon shipping organizations from being set up in EEC countries, to pegging rate-reduction restrictions onto EEC export credits to Eastern Europe. After the Ministers received the report, British Department of Trade Parliamentary Under-Secretary Stanley Clinton-Davies declared that he found "strong evidence" that the EEC members would resolve to confront the Comecon nations, according to the *Financial Times* of London.

Clinton-Davis has returned Oct. 23 from Moscow, where he expounded the British view that the Soviet Union should stop expanding their shipping operations.

His visit and the EEC report were the preliminaries to a series of followup threats by Britain's EEC delegation, in line with the attempts of EEC Commissioner Roy Jenkins, William Haferkampf, and Etienne Davignon to swamp the Community in a wave of protectionism. On Nov. 4, Britain issued to her EEC partners a four-month deadline within which to force the Soviet Union to change its policies of expanding its merchant fleet and cheapening freight costs.

Further assaults on East-West trade are promised by press reports that Britain will soon charge France and Italy with granting credits to Comecon nations on overly easy terms, in alleged violation of a "consensus" agreement from last year.

Soviet Expansion

The USSR's alleged misdeeds in shipping stem from the fact that the Soviet shipbuilding plan, which has brought the Soviet merchant fleet to seventh place internationally, is geared to an expectation of expanding Soviet foreign trade and expanding world trade. It is the disintegration of world trade that has provoked the desperation of Western shippers to act against the "Soviet threat."

The British press has built the rate-slashing issue to the present level of threats and pressure tactics, especially over the months since the Soviet Merchant Marine Minister Guzhenko's trip to London last June. The London *Economist*, in a two-page feature at that time, predicted furious battles over shipping in the months to come.