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Foreword

1 The duties of the Auditor to the ECSC were defined in Article 78, paragraph 6 of the Treaty of Paris of 18 April 1951, establishing the European Coal and Steel Community.

Under Article 21 of the Treaty of merger of the Executives dated 8 April 1965, establishing a single Council and a Commission of the European Communities, some of the provisions were amended and adapted to the structure of the single Executive.

The result, briefly, is that the Auditor's responsibilities are now limited to auditing the ECSC's operating expenditure, whilst administrative expenditure is audited exclusively by the Audit Board.

The Auditor is thus required to examine and approve the ECSC's balance sheet and statement of income and expenditure, i.e. to exercise regular and permanent supervision of the Community's own resources (income from the levy, investment of funds and fines and interest on arrears); specific expenditure charged to own resources (incurred by the financing of technical and social research, rehabilitation and industrial structural reorganization), together with all borrowing and lending activities undertaken in fulfilment of the tasks assigned to the ECSC by the Paris Treaty.

2 The Treaty of Paris established a virtually autonomous Community by conferring on the High Authority, now the Commission of the European Communities, both executive and legislative powers in the coal and steel sectors.

In the operating field covered by this report, the Community is authorized to pursue its policies using the financial resources it is able to raise through the twofold channels of its own funds and its ability to borrow funds.

One result of uniting executive and legislative powers in one Institution, which also holds the power of decision regarding both income and expenditure, was inevitably a lack of the detailed regulations which are generally speaking necessary to define limits of competence and relationships within an institution.

The outside Auditor, in assessing the facts and the overall management, must thus base his audit essentially on the criteria of good financial management, without, of course, neglecting to ensure that operations are in accordance with the provisions of the Treaty and materially in order. These criteria are determined, on the one hand, by banking practice (service of borrowings and loans), and, on the other hand, by a sensible administration of public finances (levy and budgetary expenditure).

The outside Auditor thus bases himself on regular and permanent observation of the Institution's day-to-day activities in drawing up his annual report, which is a both descriptive and critical document and which is sent to the Council, the Commission and, via the Commission to the European Parliament.

Although the Treaty contains no provision for examination of the report or a procedure to approve it, the Parliament increasingly discusses in depth the elements and opinions furnished by the Auditor in his annual report. This provides him with the critical guidance and political support which are essential if his work is to be used to maximum advantage.

3 This report contains two major sections, followed by general conclusions and two annexes.

Part one presents the ECSC's balance sheet, statement of income and expenditure, the allocation of the excess of income over expenditure at 31 December 1974, and the relevant analyses and notes. The statistical tables in this part show operations for the year and a breakdown of figures for the balance sheet and management account.

Part two gives details of the ground covered in our audit and our conclusions for some of the ECSC's large sectors of activity. Our observations are intended as constructive criticism and occasionally quote the statistics and comparative data which guided us in our audit. The areas of activity specifically controlled by the ECSC are nine in number: the levy, rehabilitation, research, reduced-interest loans granted under Articles 54 and 56 of the Treaty, assistance to coking coal, administrative expenditure, borrowing, lending and guarantee operations, management and investment of funds and social housing construction.

The *General conclusions* sum up the most typical features of the ECSC's financial activity for the year 1974 and make recommendations prompted by our main critical observations.

This report also comprises two annexes.

Annex I gives a summarized description of the financial mechanisms of the ECSC and the way in which they have evolved since the ECSC was established. We have dealt with this material under eight headings: the levy, rehabilitation assistance, financial aid to technical and social research, borrowing, lending and guarantee operations, management and investment of funds, financial aid to social housing construction, to coking coal and coke, and the ECSC pension fund.

Annex II shows the compensation operations for iron and steel scrap, current settlement of which is handled by the ECSC. As the latter only acts as an intermediary in distributing the compensation resources, operations prompted by this procedure are not shown in the ECSC's balance sheet.

4 All amounts in this Report (tables and text) are expressed in *units of account* (u.a.), rounded up or down to the nearest whole unit.

4.1 The value of this unit of account is still 0.888667088 grams of fine gold, the same value as the unit of account of the European Payments Union and the European Monetary Agreement which were used in turn between 1952 and 31 December 1973. However, the expression of the unit of account in the various currencies of Community or non-member countries is no longer linked, as it was under the two earlier systems, to the official parity announced by the International Monetary Fund.

Within the space of one year the decisions of 19 December 1973, mentioned in our last Report, ⁽¹⁾ have resulted in the setting of four successive parities between the unit of account and the various currencies, as shown in the table below:

(1) 1973 Auditor's report, point 4.

National currencies One u.a. =	Balance sheet at 31. 12. 73	One unit of account in		Balance sheet at 31. 1. 74
		1st half 1974	2nd half 1974	
	(1)	(2)	(3)	(4)
Belgian francs (Bfrs)	48,6572	48,6572	48,6572	48,6572
Danish kroner (Dkr)	7,57831	7,57831	7,57831	7,57831
German marks (DM)	3,21978	3,21978	3,21978	3,21978
French francs (FF)	5,55419	5,55419	6,30504	5,97402
Irish pounds (£Ir)	0,51165	0,527233	0,536880	0,572465
Italian lire (Lit)	727,64	744,406	818,743	872,885
Luxembourg francs (Lfrs)	48,6572	48,6572	48,6572	48,6572
Dutch guilders (Fl)	3,35507	3,35507	3,35507	3,35507
Pounds sterling (£)	0,51165	0,527233	0,536880	0,572465
Swiss francs (Sfrs)	3,85221	3,97758	3,76971	3,37685
US dollars (\$)	1,18643	1,25591	1,29475	1,34286

The figures in the first column show the effect of applying these decisions when preparing the balance sheet at the end of last year. These are the result :

- For currencies within the Community 'snake' of converting the u.a. at the official exchange rate (gold parity or central bank rate) at 30 December 1973 (1).
- For all other currencies, of using a rate fixed by the Commission and based on the average exchange rate against the currency in question of all currencies concerned in the preceding paragraph as recorded on 30 December 1973 (1) on that currency's foreign exchange market (in the case of a Member State's currency) or on the foreign exchange markets of the currencies concerned in the preceding paragraph (in the case of a non-Community currency).

The next two columns concern operations other than the drawing up of the balance sheet. The Institution applies here the same rules as for the balance sheet, but with reference to different dates or periods. For the non-floating currencies, it takes the rate on the last working day of the last month but one before the beginning of the six-month period, i.e. 31 May and 30 November respectively, whilst for the currencies which do float the average value is based on the rates recorded in May and November respectively.

Finally, the balance sheet rate at 31 December 1974 was established in the same way as that of the previous balance sheet, by updating the elements of reference to 30 December 1974 (1).

4.2 Use of a unit of account should only have a real and legally binding effect when the debt in respect of the levy is being determined, since other operations are always in the form of commitments estimated in currency amounts. Except for the case of levy amounts, the function of the u.a. should thus be confined to the assessment of items in the accounts and balance sheets.

Accounting operations themselves are done in currencies, and conversion into u.a. is done only when periodical statements and balance sheets are required. This conversion follows the rules decided on for the balance sheet at 31 December last.

Wishing to reflect this practice and to maintain maximum comparability of the figures, our presentation of the balance sheet (Table 28) and the management account (Table 30) are both based on the u.a. values used in the balance sheet at 31 December 1973. Our notes and tables concerning operations in 1974 are all based on this balance sheet and management account.

Tables 29 and 30 show the official balance sheet and management account in u.a. at the conversion rates obtaining on 31 December 1974.

4.3 But as we have repeatedly pointed out, the general accounting operations conducted by the Directorate-General for Credit and Investments in Luxembourg, which has provided all the information both in currency and in u.a. since the inception of the ECSC, does not keep a detailed record of movements of financial assistance. The subsidiary ledger kept for this purpose is with the Directorate-General for Budgets in Brussels, which has so far used only the u.a. in recording day-to-day assistance transactions. This difference in usage required laborious adjustments and corrections to the figures shown on our interim balance sheet at 30 June 1974. An effort was made at this time to take into account items shown in currency but although this meant that the subsidiary ledger could more easily be checked against the central accounting department, the fact remains that only outstanding balances could be calculated simultaneously in currency and in u.a.

In these circumstances, it was impossible to add up over a number of years, or even since the inception of the ECSC, the component parts of its financial activities, thus providing an overall view by sector of the assistance granted, since the amounts expressed in u.a. covered values in various currencies.

This Report is thus deprived of a statistical element which was one of its most valuable features.

We find this particularly regrettable since we consider that there should be a centralized accounting department which should provide details of commitments and the way in which these are administered in the currency in which they were subscribed.

(1) 30 December was chosen in view of the fact that on the following day, the last working day within the meaning of the Decision, certain exchange markets do not compute rates for the different currencies.

4.4 It would not be appropriate for us to assess the complex system set up by the Institution here.

However, restrictions and changes are necessary to its mode of application to ensure that it remains a source of clarity and accuracy instead of forming an obstacle to the smooth progress of administrative and supervisory operations.

N.B. :

In the interests of clarity, we use the abbreviation ECSC to indicate the Community when it is carrying out its specific tasks under the Treaty of Paris and the terms 'Institution' when referring to the Commission of the European Communities acting for the High Authority as a Community Executive.

PART ONE

PART ONE

Introduction

5 The four tables 28, 29, 30 and 31 at the end of this report constitute a synopsis of the ECSC's financial position, with which the notes of Part One are most particularly concerned.

For easier comparison of the various items and figures shown in these tables (balance sheet in u.a. shown against the old and new exchange rates, management account and allocation of the excess to the various reserves and provisions) the four fold-out tables can be fully extended to the right, so that they are constantly visible to the reader of the report, whatever point he wishes to study.

It must be remembered, as pointed out in the foreword on the value of the unit of account, that Table 29 and the last column of Table 31 are merely translations, into units of account of a different value, of the data shown in Table 28 and the penultimate column of Table 31. Our notes are generally based on these, particularly in the case of references to the preceding year or when they describe changes during the year under consideration.

6 Part One of the report first of all gives notes and an analysis of the assets, liabilities and suspense account items in the ECSC financial statement (balance sheet). The balance sheet total at 31 December 1974 was 2 267 892 164 UA (Table 28) as against 1 631 702 669 u.a. at 31 December 1973).

After the analysis and notes on the assets and liabilities comes Table 12 which shows changes in the balance sheet items from 1973 to 1974.

Secondly, in the order in which the items appear in Table 30, there follow notes on and an analysis of the management account (statement of income and expenditure) and changes affecting the Community's net assets from one financial year to the next. The excess of income over expenditure for 1974 was 66 756 845 u.a. As regards the movements affecting the Community's net assets (Table 31) in particular, notes will be found chiefly in the analysis of the balance sheet items carried as liabilities (changes in the various provisions and reserves).

7 The way in which the balance sheet (Tables 28 and 29) and management account (Table 30) are presented in our report differs somewhat from that of the balance sheet and statement of income and expenditure officially published by the ECSC in the Official Journal of the European Communities. The reason for this is that from 1968 onwards the Institution, in an effort to simplify the procedure, made these two statements less unwieldy by grouping and arranging the earlier headings differently and attaching brief notes in appendix. We for our part, in our desire to provide ease of comparison with previous years and to make the balance sheet and statement of income and expenditure more explicit, have retained the official headings but supplemented them with those used in the earlier presentations.

Notes to the balance sheet

ASSETS

8 I — Disbursed loans

The sum of 1 537 104 843 u.a. represents the total value of all loans granted out of borrowed funds and own funds — including the former ECSC pension fund — which had been paid out at 31 December 1974, net of redemptions already made.

The net increase of 347 700 070 u.a. compared with the position for the preceding year results from disbursements on new loans or current contracts (409 598 273 u.a.) less redemptions for the year (61 898 203 u.a.).

9 A — Loans granted out of borrowed funds

Loans out of borrowed funds granted by the Institution from its inception up to 31 December 1974 total 1 870 461 791 u.a. ⁽¹⁾, or 1 441 524 847 u.a. net of repayments.

Table 1 gives a breakdown, by country and use, of the loans disbursed and still outstanding at 31 December 1974, after redemption or anticipated repayment, together with movements affecting loan operations during the year.

At 31 December 1974 the overall liquid assets included borrowed funds totalling 259 822 131 u.a. which had not yet been disbursed as loans, a loan of 236 978 u.a. called in by the Institution in 1973 due to nonfulfilment by the debtor of his contractual obligations, and the sum of 694 109 u.a. due to a timing discrepancy between disbursement of the loans and receipt of the corresponding borrowing. The greater part of the funds not disbursed, i.e. 255 896 711 u.a., represents issues made in the second half of 1974, the sum of 2 753 960 u.a. relates to issues made in the second half of 1973, and the residue relates to 1973 borrowings (678 214 u.a.) and even 1971 borrowings (493 246 u.a.).

9.0 Total loans granted out of borrowed funds at 31 December 1974 (1 441 524 847 u.a.) break down into the following three types of financing :

9.1 The first and most important (1 180 662 057 u.a.) is the financing of *industrial investment projects* submitted by Community enterprises under Article 54 of the ECSC Treaty. Loans for this purpose were granted to the iron and steel industry (896 768 449 u.a.), coal mines and coking plants (196 203 227 u.a.), iron ore mines (6 561 039 u.a.), power stations (75 691 694 u.a.) and shipyards (5 437 648 u.a.).

Total loans were up by 308 605 282 u.a. from 1973 to 1974 and include 62 new loans granted in 1974 and amounting to 351 598 524 u.a.

9.2 A second category of operations, under Article 56 of the Treaty (237 437 965 u.a.), is the financing of *industrial structural reorganization* in areas particularly affected by closures of

⁽¹⁾ Includes new loans granted out of anticipated repayments of these loans.

TABLE 1

Loans granted out of borrowed funds

Breakdown by use and country
operations in 1974 and sums disbursed and outstanding 31. 12. 1974

Categories Countries	Position at 31. 12. 1973		Operations in 1974		Position at 31. 12. 1974		Position at 31. 12. 1974 (exchange rates at 31. 12. 1974)	
	Sums disbursed	Sums outstanding	Sums loaned	Redemptions, anticipated repayments and accelerated redemptions	Sums disbursed	Sums outstanding	Sums disbursed	Sums outstanding
I. Industrial investments (Article 54 of the Treaty)								
Belgium	69 251 423	52 360 129	—	921 920	69 251 423	51 438 209	69 534 664	53 418 683
Denmark	7 809 738	7 809 738	—	—	7 809 738	7 809 738	7 809 738	7 809 738
Germany	607 188 232	422 245 012	144 025 652	23 700 593	751 213 884	542 570 071	724 979 591	526 193 220
France	292 996 040	242 540 091	85 014 024	6 534 175	378 010 064	321 019 940	357 968 120	306 646 580
Italy	175 088 577	112 308 496	71 323 594	9 795 641	246 412 171	173 836 449	225 654 221	156 726 746
Luxembourg	3 116 312	2 273 447	—	—	3 116 312	2 273 447	3 018 127	2 273 447
Netherlands	36 455 041	32 519 862	—	2 040 913	36 455 041	30 478 949	33 647 470	27 890 586
United Kingdom	—	—	51 235 254	—	51 235 254	51 235 254	46 171 339	46 171 339
Total	1 191 905 363	872 056 775	351 598 524	42 993 242	1 543 503 887	1 180 662 057	1 468 783 270	1 127 130 339
II. Social housing								
Belgium	21 677 162	13 039 328	—	1 124 782	21 677 162	11 914 546	21 677 162	11 914 547
Germany	16 453 748	5 631 331	—	796 135	16 453 748	4 835 196	16 453 748	4 835 196
France	214 109	214 109	214 108	—	428 217	428 217	398 124	398 124
Italy	6 954 403	4 105 052	207 040	401 298	7 161 443	3 910 794	6 011 868	3 260 052
Luxembourg	1 746 915	1 145 281	—	70 584	1 746 915	1 074 697	1 746 915	1 074 697
Netherlands	2 309 937	1 350 195	—	88 820	2 309 937	1 261 375	2 309 937	1 261 375
Total	49 356 274	25 485 296	421 148	2 481 619	49 777 422	23 424 825	48 597 754	22 743 991
III. Structural reorganization (Article 56 of the Treaty)								
Belgium	34 287 613	27 833 877	10 275 971	2 055 160	44 563 584	36 054 688	43 995 259	35 391 505
Germany	87 604 213	80 651 315	13 089 918	3 408 776	100 694 131	90 332 457	101 349 372	91 274 708
France	57 244 933	53 267 183	6 424 613	1 730 500	63 669 546	57 961 296	62 601 303	57 120 802
Italy	25 434 965	15 667 107	652 795	1 978 140	26 087 760	14 341 762	24 024 348	12 749 719
Netherlands	20 887 753	18 588 916	1 849 676	1 118 862	22 737 429	19 319 730	21 142 067	18 189 327
United Kingdom	—	—	19 428 032	—	19 428 032	19 428 032	17 164 857	17 164 857
Total	225 459 477	196 008 398	51 721 005	10 291 438	277 180 482	237 437 985	270 277 206	231 890 918
Sum total	1 466 721 114 (1)	1 093 550 469	403 740 677	55 766 299	1 870 461 791	1 441 524 847	1 787 658 230	1 381 765 248

(1) This total comprises sums received as anticipated repayments and accelerated redemptions and made available as new loans.

steelworks and pits. Compared with the previous year, total loans rose by 41 429 567 u.a. In 1974 there were 14 new loans totalling 51 721 005 u.a.

9.3 The third category of operations financed (23 424 825 u.a.) is that of *social housing construction projects* in the iron and steel and mining sectors. In this case loans are granted to industrial enterprises or organizations specializing in this field. These projects will be completed under programmes implemented over a number of years in the countries of the Community.

Loans in this category decreased by 2 060 471 u.a. compared with the previous year. In 1974 three new loans were granted, amounting to 421 148 u.a., but it must be borne in mind that these projects are mainly financed by loans granted out of own funds, as described in the next section, 'other loans'.

10 B — Other loans

Other loans granted by the Institution from its inception up to 31 December 1974 total 135 128 276 u.a., or 95 579 996 u.a. net of repayments.

10.0 The total as shown on the balance sheet (95 579 996 u.a.) comprises loans granted out of funds from three sources: from the special reserve to finance social housing (81 040 405 u.a.) and industrial structural reorganization (738 379 u.a.), from the levy to finance rehabilitation (356 921 u.a.) and technical research (2 287 496 u.a.), and the former ECSC pension fund (11 156 795 u.a.) to finance the construction or purchase of housing by officials of the Community.

10.1 Loans granted out of *the special reserve for the financing of social housing construction* covered, on the one hand, seven normal programmes plus one special programme, four of which have been completed and, on the other hand, three experimental building programmes, two of which have also been completed.

During 1974 the sum of 18 120 u.a. was disbursed in Italy, as part of a loan granted under the sixth programme.

For the seventh programme (normal and experimental) the breakdown by country for the 16 disbursements made during the year is as follows:

— for the normal programme :	Denmark	271 829 u.a.
	Germany	561 218 u.a.
	Italy	1 106 798 u.a.
	Luxembourg	411 039 u.a.
	United Kingdom	1 926 766 u.a.
— for the experimental programme :	France	199 993 u.a.

Table 2 gives a breakdown, by use and country, of sums disbursed and balances outstanding on loans granted out of the special reserve between 1 January and 31 December 1974. It will be noted that the new loans granted were intended exclusively for social housing, whereas the granting of loans for industrial structural reorganization has now been replaced by the granting of interest payments.

10.2 *Loans for research and rehabilitation granted out of own funds raised by the levy* totalled 2 644 417 u.a. at 31 December 1974. No new loans were granted or disbursed in these two sectors during the year in question. Assistance in the research and rehabilitation sectors has for some years now been financed exclusively by subsidies (see notes on research and rehabilitation expenditure under Nos 28.2 and 28.3). The only changes to the total were the result of scheduled repayments in the course of the year.

Loans for technical research were in previous years granted exclusively under the second experimental construction programme for social housing. These loans were granted at a rate of interest

TABLE 2

Loans granted out of the special reserve
Breakdown by use and country
Operations in 1974 and sums disbursed and outstanding at 31. 12. 1974

Use and country	Position at 31. 12. 1973		Operations in 1974			Position at 31. 12. 1974		Position at 31. 12. 1974 (exchange rates at 31. 12. 1974)	
	Sums disbursed	Sums outstanding	Sums loaned	Redemptions or repayments	Sums disbursed	Sums outstanding	Sums disbursed	Sums outstanding	
<i>Social housing</i>									
Belgium	4 381 160	2 558 006	—	223 136	4 381 160	2 334 870	4 381 160	2 334 870	2 334 870
Denmark	—	—	271 829	—	271 829	271 829	271 829	271 829	271 829
Germany	62 156 781	48 905 124	561 218	1 931 033	62 717 999	47 535 309	62 717 999	47 535 308	47 535 308
France	24 847 998	17 439 152	199 993	1 174 083	25 047 991	16 465 062	23 287 719	15 307 963	15 307 963
Italy	7 492 716	5 534 698	1 124 918	358 762	8 617 634	6 300 854	7 183 690	5 252 415	5 252 415
Luxembourg	2 063 415	1 480 506	411 039	100 995	2 474 454	1 790 550	2 474 454	1 790 550	1 790 550
Netherlands	6 324 160	4 715 615	—	300 450	6 324 160	4 415 165	6 324 160	4 415 165	4 415 165
United Kingdom	—	—	1 926 766	—	1 926 766	1 926 766	1 926 766	1 722 079	1 722 079
Total social housing	107 266 230	80 633 101	4 495 763	4 088 459	111 761 993	81 040 405	108 363 090	78 630 179	78 630 179
<i>Structural reorganization</i>									
Belgium	62 469	20 042	—	11 731	62 469	8 311	52 074	6 928	6 928
Germany	1 108 817	351 248	—	209 469	1 108 817	141 779	924 313	118 187	118 187
France	316 324	100 363	—	59 743	316 324	40 620	263 689	33 861	33 861
Italy	884 553	234 253	—	139 719	884 553	94 534	737 367	78 804	78 804
Netherlands	3 655 875	1 123 321	—	670 186	3 655 875	453 135	3 047 551	377 735	377 735
Total structural reorganization	6 028 038	1 829 227	—	1 090 848	6 028 038	738 379	5 024 994	615 515	615 515
Sum total	113 294 268	82 462 328	4 495 763	5 179 307	117 790 031	81 778 784	113 388 084	79 245 694	79 245 694

considerably lower than those current on the market at the time, and were for a relatively long term (36 years).

Loans for rehabilitation concern two projects, outstanding from previous years, to finance the rehousing of displaced workers in France.

Table 3 shows the history of these loans granted out of the levy funds — their amounts, countries in which they were made and the security obtained by the Institution.

10.3 *Loans to officials of the European Communities* granted out of the former ECSC pension fund for the purpose of building or purchasing family housing totalled 11 156 795 u.a. The increase as compared with the previous year (514 668 u.a.) is due to disbursements made in 1974 (1 361 832 u.a.), less repayments (847 164 u.a.).

Table 4 outlines operations from one year to the other under the two systems which have successfully governed the granting of these loans.

11 II — Cash and banks

Under this heading (515 204 518 u.a.) the Institution has grouped all the cash assets it holds in current accounts (14 983 236 u.a.) and various fixed deposits (500 221 282 u.a.).

The considerable increase (249 813 083 u.a.) in overall liquid assets as compared with the previous year is primarily due to the following factors: a high yield on investments, an increase in borrowed funds collected in 1974 and not yet reallocated as loans at 31 December, a higher income from the levy and the payment of new contributions by the new Community members.

12 III — Short and medium-term investments

This balance sheet item (26 876 357 u.a.), which shows an increase of 7 393 751 u.a. as compared with the position at 31 December 1973, comprises:

- 4 816 174 u.a.: a number of short and medium-term investments consisting essentially of securities pledged to the ECSC with bank guarantees and kept safe by those banks, and bonds and notes of less than five years, with staggered maturity dates.
- 22 060 183 u.a.: the product of ECSC debenture bonds redeemed by the ECSC before maturity.

The increase in this balance sheet item is due almost entirely to use of the latter procedure.

13 IV — Portfolio

This item is shown on the balance sheet at its acquisition value of 67 512 882 u.a. and is up by 66 819 u.a. compared with the value at 31 December 1973.

In addition to initial, more diversified investments which were managed by banks, the portfolio is composed exclusively of bonds issued for the most part through the public sector and held for safekeeping by the banks which acted as intermediaries in their purchase.

The proportion of total ECSC funds accounted for by the portfolio fell from 17.3% to 11.1% between 1973 and 1974.

TABLE 3

Loans for technical research (second experimental building programme) and rehabilitation
Breakdown by country and type of security obtained
Operations in 1974 and sums disbursed and outstanding at 31. 12. 1974

Country	Total loans disbursed	Loan balances outstanding at 31. 12. 1973	Repayments in 1974	Loan balances outstanding at 31. 12. 1974	Loan balances outstanding at 31. 12. 1974 (exchange rates at 31. 12. 1974)	Type of security obtained
<i>Technical research</i>						
Belgium	462 419	340 131	12 658	327 473	327 473	Government guarantee
Germany	1 608 370	1 220 329	46 081	1 174 248	1 174 248	Mortgage bonds
France	596 631	429 800	15 837	413 963	348 871	Surety
Italy	193 262	138 460	5 153	133 307	111 126	Surety
Luxembourg	77 070	62 625	2 243	60 382	60 382	Government guarantee
Netherlands	258 236	185 009	6 886	178 123	178 123	Surety
Total	3 195 988	2 376 354	88 858	2 287 496	2 236 223	
<i>Rehabilitation</i>						
France	529 816	373 495	16 574	356 921	331 838	Government guarantee and Surety
Sum total	3 725 804	2 749 849	105 432	2 644 417	2 568 061	

TABLE 4
Loans granted out of the former ECSC pension fund
Breakdown by system
Sums disbursed and outstanding between 31. 12. 1973 and 31. 12. 1974

Loan system	Number of loans granted	Position at 31. 12. 1973		Operations in 1974		Position at 31. 12. 1974		Position at 31. 12. 1974 (exchange rates at 31. 12. 1974)	
		Sums disbursed	Sums outstanding	Sums disbursed	Repayments	Sums disbursed	Sums outstanding	Sums disbursed	Sums outstanding
Old system (up to 1968)	277	2 605 760	1 616 066	—	162 440	2 605 760	1 453 626	2 605 760	1 453 626
New system (from 1971)	1 000	9 644 849	9 026 061	1 361 832	684 724	11 006 681	9 703 169	11 006 681	9 703 169
Sum total	1 277	12 250 609	10 642 127	1 361 832	847 164	13 612 441	11 156 795	13 612 441	11 156 795

The token value of 1 u.a. shown under this heading represents the ECSC's title to three properties: two held in co-ownership with the other Executives prior to the merger and another acquired privately in 1971 and rented to the European Communities.

This amount (24 974 138 u.a.) represents costs incurred by the ECSC at the time it borrows funds, less the repayments it makes annually. They are costs such as taking-firm fees, bank fees, redemption charges (discount), printing costs for securities and prospectuses, first listing costs, legal consultants' fees in connection with these operations, etc. They exclude the regular costs of servicing borrowings (interest and fees).

Issuing costs in 1974 were for 13 loans floated in 1974, six in 1973 and, partly, for one loan contracted in 1965. These costs total 12 688 636 u.a. and break down by loan and currency as follows :

	<i>Amount borrowed</i>	<i>Costs</i>
Loans in DM		
floated in 1965	53 730 379 u.a.	12 703 u.a.
floated in 1973	46 587 034 u.a.	70 263 u.a.
floated in 1973	31 058 023 u.a.	41 827 u.a.
floated in 1974	6 211 605 u.a.	94 417 u.a.
floated in 1974	9 317 407 u.a.	140 382 u.a.
floated in 1974	15 529 011 u.a.	232 935 u.a.
floated in 1974	46 587 034 u.a.	757 660 u.a.
Loans in BFr		
floated in 1973	20 551 943 u.a.	33 425 u.a.
Loan in Lit		
floated in 1974	13 743 060 u.a.	618 502 u.a.
Loans in LFr		
floated in 1973	6 165 583 u.a.	1 215 u.a.
floated in 1973	4 110 389 u.a.	958 u.a.
floated in 1973	15 413 957 u.a.	412 954 u.a.
floated in 1974	8 220 777 u.a.	207 660 u.a.
Loan in SFr		
floated in 1974	5 191 825 u.a.	103 837 u.a.
Loans in US \$		
floated in 1974	42 143 236 u.a.	891 759 u.a.
floated in 1974	16 857 295 u.a.	429 896 u.a.
floated in 1974	84 286 473 u.a.	2 528 594 u.a.
floated in 1974	84 286 473 u.a.	1 475 013 u.a.
floated in 1974	168 572 946 u.a.	3 160 743 u.a.
floated in 1974	84 286 473 u.a.	1 473 893 u.a.
	762 850 923 u.a.	12 688 636 u.a.

Since the beginning of its borrowing operations, the Institution has carried on its balance sheet, under assets, a sum for recoverable issuing costs. At 31 December 1974 this was 57 324 889 u.a.

Allowing for sums already recovered (32 350 751 u.a.), including 1 799 717 u.a. for 1974, total issuing costs still to be recovered were 24 974 138 u.a.

16 VII — Sundry debtors

16.0 This item (48 069 307 u.a.) is up by 15% compared with the previous year and comprises, on the one hand, two categories of debtors (in respect of the levy and payments due as loan service) plus, on the other hand, the sum held in deposit to pay coupons and bonds which are due but not yet presented and redemption premiums to be paid.

16.1 *Debtors under the levy* (1 716 406 u.a.) are sums due from the levy, payment of which has been deferred (227 796 u.a.) and sums due from bankrupt enterprises (101 020 u.a.) and enterprises in arrears (1 387 590 u.a.).

The following table shows the changes by country, from 31 December 1973 to 31 December 1974, in deferred levy payments for quantities of hand coal stocked during 1974.

TABLE 5

Changes in deferred levy payments for quantities for hard coal stocked

Country	Deferred payments at 31. 12. 1973	Changes between 1. 1. 1974 and 31. 12. 1974		Deferred payments at 31. 12. 1973	Deferred payments at 31. 12. 1974 (exchange rates as at 31. 12. 1974)
		+	—		
Belgium	237	1 078	836	479	479
Germany	1 025 383	12 046	870 615	166 814	166 814
France	81 196	38 129	71 940	47 385	44 054
Netherlands	11 242	1 616	3 807	9 051	9 051
United Kingdom	39 943	16 445	52 321	4 067	3 635
Community	1 158 001	69 314	999 519	227 796	224 033

16.2 *Financial debtors* (3 079 092 u.a.) showed an overall net increase of 9 525 u.a. These include redemption premiums (2 051 188 u.a.) and are shown both under assets, as a debt to be recovered by the Institution from the loan service account, and under liabilities, where they are added to total borrowings.

The financial debtors also include two debts on loans whose beneficiaries have not made their annual repayments for several years (732 048 u.a.), overdue payments of coupons under portfolios held for the ECSC by a number of financial organizations (42 154 u.a.), advances given to the European Communities out of ECSC own funds to service loans to officials (76 721 u.a.), sums owed by the Iron and Steel Scrap Compensation Office (26 071 u.a.), fines owed by enterprises under the iron and steel scrap compensation system (4 020 u.a.), two overdue loan payments (129 995 u.a.), a debt in respect of rent for the property in Washington for 1972, 1973 and 1974 (13 231 u.a.), an outstanding insurance payment for this property for 1974 (1 833 u.a.) and real estate advances still to be recovered (1 830 u.a.).

16.3 The account '*deposits for coupons and bonds due but not yet presented*' (43 273 809 u.a.) is designed to release the liquid assets accumulated by the Institution in the financial organizations responsible for servicing its coupons and redeemable securities, in order to cover expenditure on these two counts. The rise in this item of nearly 7 600 u.a. compared with the previous

year is the result not only of due dates close to the end of the year, but also of a large number of late presentations of coupons.

17 VIII — Accrued income

17.0 This heading (totalling 48 150 118 u.a.) groups interest and fees accrued but not yet due at 31 December 1974 (42 024 394 u.a.) together with sums declared for the levy (6 125 724 u.a.) for December 1974 but not yet paid (payment becomes due on the 25th of the first month following that of the production on which the amount payable is assessed).

17.1 The former amount (42 024 394 u.a.) follows from the entering as receipts of interest, guarantee fees and assistance payments (under Articles 54 and 56 of the Treaty) which were accrued but not yet collected on 31 December 1974.

17.2 The second amount (6 125 724 u.a.) is not shown among the sundry debtors because it is rather special in nature. Payment of this levy 'debt' is in effect legally due *after* the date of the balance sheet, whilst the amount of this same debt is assessed on coal and steel production for the month of December 1974, the last month of the year.

LIABILITIES

18 I — A — Borrowings

Since its inception the ECSC has contracted numerous loans both internationally and on various national markets to a nominal value of 2 102 837 808 u.a. The balance outstanding at 31 December 1974, net of repayments, was 1 702 278 065 u.a.

Total initial borrowings and balances outstanding at 31 December 1974 are broken down by currency in Table 6. With the exception of loans floated on the international market, the product of the loans was paid in the currency of the country of issue.

TABLE 6

Borrowings contracted by the ECSC

*Currency in which floated
Initial borrowings and balances outstanding at 31. 12. 1974*

	Initial borrowing (in u.a.)	Balance outstanding at 31. 12. 1974 (in u.a.)	Balance outstanding at 31. 12. 1974 (exchange rates at 31. 12. 1974)
US \$ (US dollars)	821 793 110	651 576 578	575 674 307
DM (German Marks)	514 313 851	395 203 482	395 203 482
Lit. (Italian lire)	171 788 247	152 547 963	127 164 518
Fl (Dutch guilders)	61 921 212	25 940 442	25 940 442
FF (French francs)	127 831 421	117 703 932	109 432 175
Sfrs (Swiss francs)	135 322 321	111 234 850	126 893 407
Lfrs (Luxembourg francs)	122 284 061	113 321 574	113 321 574
Bfrs (Belgian francs)	77 583 585	68 649 244	68 649 244
Units of account ⁽¹⁾	20 000 000	16 100 000	16 100 000
£ (European units of account) ⁽²⁾	50 000 000	50 000 000	56 836 266
Total	2 102 837 808	1 702 278 065	1 615 215 415

⁽¹⁾ The value of this unit of account = DM 4 ; Bfrs 50 ; FF 4.93706 ; Lit 625 ; Lfrs 50 ; Fl 3.62 ; Sfrs 4.37282 ; £ 0.357143 ; Dkr 6.90714 ; US \$ 1.

⁽²⁾ The value of 1 £ = DM 3.66 ; Bfrs 50 ; FF 5.55419 ; Lit 625 ; Lfrs 50 ; Fl 3.62.

During the 1974 financial year the ECSC collected the product of 14 loans in US \$, DM, LFr, Lit and SFr to a total value of 600 647 571 u.a. (compared with 14 loans in 1973 to a value of 289 708 748 u.a.). The main characteristics of each of these loans are set out in Table 7. If allowance is made for these new receipts and for repayments during the year (55 256 516 u.a.), the loan total shown on the balance sheet is up by 545 391 055 u.a. compared to the previous year.

19 I — B — Outstanding redemption premiums (2 051 188 u.a.)

These are total premiums created by the difference between the redemption price of certain loans and their face value at issue.

Thus the total for heading I, including the two subheadings A and B, i.e. 1 704 329 253 u.a., represents the total ECSC debt including all obligations contracted, whatever their payment or maturity dates.

TABLE 7

Borrowings

Individual characteristics of new loans floated in 1974

Nature of loan	Date floated (signature)	Amounts in currency of issue	Amounts in u.a.	Interest per annum	Term (years)
Private loan floated on the international market	23. 1. 1974	\$ 50 000 000	42 143 236	7.75 %	15
Private loan floated on the international market	7. 3. 1974	\$ 20 000 000	16 857 295	8.25 %	5
Private loan contracted in Italy	18. 3. 1974	Lit. 10 000 000 000	13 743 060	7 %	15
Private loan contracted in Germany	27. 5. 1974	\$ 100 000 000	84 286 473	9.25 %	8
Private loan contracted in Germany	5. 6. 1974	\$ 100 000 000	84 286 473	9.50 %	10
Private loan contracted in Germany	29. 7. 1974	DM 20 000 000	6 211 605	10 %	5
Private loan contracted in Germany	9. 8. 1974	DM 30 000 000	9 317 407	10 %	5
Private loan contracted in Germany	23. 8. 1974	DM 50 000 000	15 529 011	10 %	7
Private loan contracted in Switzerland	6. 9. 1974	FS 20 000 000	5 191 825	9.25 %	5
Bond loan floated in Luxembourg	9.10. 1974	Flux 400 000 000	8 220 777	10 %	7
Private loan contracted in Germany	15. 11. 1974	\$ 200 000 000	168 572 946	10 %	10
Public loan floated in USA	19. 11. 1974	\$ 100 000 000	84 286 473	8.75 %	5
Public loan floated in Germany	25. 11. 1974	DM 150 000 000	46 587 034	9.75 %	7

20 II — Reserves

20.0 This heading contains :

20.1 *The guarantee fund* which remained unchanged from 30 June 1956 to 31 December 1972 at 100 million u.a. and was first increased to 112 million u.a. at 31 December 1973 and then to 120 million u.a. at 31 December 1974, thanks to the allocation of part of the contributions paid by the three new member countries. This fund is designed to cover any part of the service of loans contracted by the ECSC which cannot be met out of income on the loans it grants and to cover the extension of its guarantee to loans contracted by enterprises directly.

20.2 *The special reserve* constituted out of receipts other than the levy (income on investments, fines and arrears interest and interest on loans granted out of own funds) which totalled 90 million u.a. at 31 December 1974. Except for the long-standing allocation of aid to industrial structural reorganization, this reserve has been used exclusively for the granting of loans to finance social housing construction programmes since 1970, when sums earmarked for other purposes (interest reductions on loans for structural reorganization, assistance to coking coal, etc.) were withdrawn from it and entered under suitable provisions.

21 III — Provisions

21.0 This balance sheet item comprises two types of provisions :

21.1 *Financial assistance* (174 303 969 u.a.) including :

- *Legally binding commitments* for
 - rehabilitation (127 931 008 u.a.)
 - research (23 888 205 u.a.)
 - interest reductions either on loans for industrial structural reorganization granted under Article 56 of the Treaty (7 862 412 u.a.); or loans intended to finance investments under Article 54 of the Treaty (9 622 344 u.a.).
- *Maximum assistance approved* (5 million u.a.) corresponding to Community aid to coking coal for 1974.

21.2 *Other provisions* (35 013 630 u.a.) including :

- *A reserve* constituted from levy receipts in 1974 to cover research, rehabilitation and interest reduction commitments to be subscribed during the first half of 1975 (17 190 287 u.a.).
- *A provision* to cover sundry risks amounting to 17 823 343 u.a.

TABLE 8

Rehabilitation assistance

Movements in 1974

Country and sector	Number of beneficiaries	New allocations	Financial operations (cancellation of credits, disbursements and repayments)	Change in the provision between 31. 12. 1973 and 31. 12. 1974
<i>Belgium</i>				
Coal	1 062	945 389	274 046	+ 671 343
Steel	2 607	291 838	24 148	+ 267 690
<i>Germany</i>				
Coal	12 135	8 739 883	6 544 760	+ 2 195 123
Steel	483	142 246	912 684	— 770 438
<i>France</i>				
Coal	3 301	7 322 400	3 600 886	+ 3 721 514
Steel	59	83 846	481 892	— 398 046
<i>Italy</i>				
Coal	—	—	331 135	— 331 135
<i>Netherlands</i>				
Coal	—	—	589 033	— 589 033
<i>United Kingdom</i>				
Coal	11 921	12 947 034	—	+ 12 947 034
Steel	7 704	3 928 066	326 981	+ 3 601 085
Total	39 272	34 400 702	13 085 565	+ 21 315 137

TABLE 9

Changes in the provision for rehabilitation between 1. 1. 1974 and 31. 12. 1974

breakdown by country and sector

	Amounts still covered in the provision at 31. 12. 1973	Changes in 1974	Amounts still covered in the provision at 31. 12. 1974	Amounts still covered in the provision at 31. 12. 1974 (exchange rates at 31. 12. 1974)
<i>Belgium</i>				
Article 56				
Steel	874 267	+ 267 690	1 141 957	1 141 957
Coal	7 934 673	+ 671 343	8 606 016	8 606 016
Belgium total	8 808 940	+ 939 033	9 747 973	9 747 973
<i>Germany</i>				
Article 56				
Steel	2 227 370	— 770 438	1 456 932	1 456 932
Coal	49 330 385	+ 2 195 123	51 525 508	51 525 508
Germany total	51 557 755	+ 1 424 685	52 982 440	52 982 440
<i>France</i>				
Article 56				
Steel	6 371 754	— 398 046	5 973 708	5 553 900
Coal	19 373 111	+ 3 721 514	23 094 625	21 471 628
France total	25 744 865	+ 3 323 468	29 068 333	27 025 528
<i>Italy</i>				
Article 56				
Steel	288 188	—	288 188	240 235
Coal	439 874	— 331 135	108 739	90 645
Italy total	728 062	— 331 135	396 927	330 880
<i>Netherlands</i>				
Article 56				
Steel	212 256	—	212 256	212 256
Coal	19 031 086	— 589 033	18 442 053	18 442 053
Netherlands total	19 243 342	— 589 033	18 654 309	18 654 309
<i>United Kingdom</i>				
Article 56				
Coal	—	+ 12 947 034	12 947 034	10 779 384
Steel	532 907	+ 3 601 085	4 133 992	3 694 823
United Kingdom total	532 907	+ 16 548 119	17 081 026	14 474 207
Community	106 615 871	+ 21 315 137	127 931 008	123 215 337

(1) The steel sector also includes iron ore mines and steelworks coking plants. The coal sector also includes colliery coking plants.

21.11 *The provision for the social rehabilitation of workers in the mining and steel industries* (127 931 008 u.a.) shows an increase (21 315 137 u.a.) compared to the situation at 31 December 1973. New commitments approved and recorded during the year totalled 34 400 702 u.a., whilst actual expenditure on this count for the year was 9 524 765 u.a. and credits no longer necessary were cancelled to a value of 3 560 800 u.a.

New decisions to grant aid were taken as follows: Germany 21.2 %, France 17.7 %, Belgium 3 % and the United Kingdom 58.1 %.

Table 8 shows details, by country and sector (coal and steel) of new assistance approved and amounts disbursed during 1974.

Table 9 indicates, by country and sector (coal and steel) the components of sums remaining in the provision at 31 December 1974.

21.12 *The provision for technical research* (23 888 205 u.a.) shows a net increase of 3 310 104 u.a. as compared with the situation at 31 December 1973. This increase is due to three factors: the allocation of 23 609 775 u.a. for new research agreements concluded during the year, expenditure for the year totalling 19 312 834 u.a. (65 % higher than the previous year) and the cancellation of credits still unused on completion of a number of research projects (986 837 u.a.). New contracts during the year were concluded for the steel sector (7 904 746 u.a.), the coal sector (10 890 652 u.a.) and the social sector (4 814 377 u.a.).

Table 10 shows details, by sector, of new assistance approved and amounts disbursed in 1974.

TABLE 10

Technical and social research

Movements in 1974

Sector	New allocations	Financial operations (cancellation of credits, disbursements and repayments)	Changes in the provision between 31. 12. 1973 and 31. 12. 1974
Steel	7 741 389	7 763 549	— 22 160
Coal	10 857 857	8 687 462	+ 2 170 395
Ores	—	298 967	— 298 967
Social	4 814 377	3 255 263	+ 1 559 114
Social housing	—	—	—
Making available of research findings	196 152	294 430	— 98 278
Total	23 609 775	20 299 671	+ 3 310 104

Table 11 gives a breakdown by sector of the components of the provision at 31 December 1974.

21.13 *The provision for assistance to industrial structural reorganization* (Article 56) (7 862 412 u.a.) is designed to reduce the interest on loans, whether they are granted in this field by the ECSC out of borrowings or by third parties with the same aims. Compared with the position at 31 December 1973 the net increase in this provision during the year (135 656 u.a.) is due to the fact the new allocation (3 457 410 u.a.) is greater than the total assistance paid out during the year (3 321 754 u.a.)

TABLE 11

Technical, economic and social research

Changes in the provision between 1. 1. 1974 and 31. 12. 1974

Research sector	Amounts still covered in the provision at 31. 12. 1973	Changes in 1974	Amounts still covered in the provisions at 31. 12. 1974	Amounts still covered in the provision at 31. 12. 1974 (exchange rates at 31. 12. 1974)
Steel	10 862 684	— 22 160	10 840 524	10 422 446
Ores	488 281	— 298 967	189 314	179 720
Coal	5 491 198	+ 2 170 395	7 661 593	7 275 976
Industrial safety, health and medicine	3 451 645	+ 1 559 114	5 010 759	4 763 544
Experimental social housing construction	71 290	—	71 290	71 290
Making available of research findings	213 003	— 98 278	114 725	113 215
Total	20 578 101	+ 3 310 104	23 888 205	22 826 191

21.14 *The provision for assistance to investments* (Article 54) (9 622 344 u.a.) is designed — under the same financial terms as for industrial structural reorganization — to reduce the interest on investment loans granted under Article 54 of the Treaty, subject to the fulfilment of certain requirements.

Compared with the previous year, the increase of 4 282 590 u.a. may be explained by the fact that the new allocation of 6 111 473 u.a. is greater than the assistance disbursed during the year out of the provision in question (1 828 883 u.a.).

21.15 *The provision for assistance to coke* (5 million u.a.) represents the maximum financial allocation approved for 1974. This will enable the ECSC to furnish sales aid amounting to 0.333 u.a. per tonne, thus offsetting the purchase price discount granted to buyers of coking coal.

21.21 *Future commitments* (17 190 287 u.a.) represent a reserve showing the Institution's intention to allocate, within the first six months of 1975, that part of levy resources which was not allocated in 1974 for:

assistance (Article 54)	396 718 u.a.
assistance (Article 56)	4 429 466 u.a.
technical research	13 157 539 u.a.

Sundry provisions (17 823 343 u.a.) include:

21.22 The provision for doubtful debtors in respect of borrowings (1 764 112 u.a.) which concerns, as previously, the total of interest and principal due from three enterprises receiving loans granted out of borrowed funds.

21.23 The provision for depreciation of the securities portfolio (850 000 u.a.). At 31 December 1974 this depreciation was 876 966 u.a. The value of the portfolio securities is calculated in terms of the difference between their acquisition price and current market value.

21.24 The provision for compensation of borrowing costs (8 828 829 u.a.), which is up by 2 828 829 u.a. This has contained:

- since 1972, the sum of 2 million u.a. in order to offset the probable loss, estimated at 3 %⁽¹⁾ on the US \$ loan floated on the international market with a clause of reference to the LFr;
- since 1973, a lump sum which by 31 December 1974 totalled 6 828 829 u.a. designed to meet any short-term exchange risks which might affect the service of loans.

⁽¹⁾ 1971 Auditor's Report, No 114.

21.25 A provision containing the profit on loan service in 1974 (6 380 402 u.a.).

22 IV — Former pension fund (33 949 726 u.a.)

The increase in this fund as compared with its total at 31 December 1973 (26 521 122 u.a.) is due partly to the allocation of interest payments from beneficiaries of loans granted out of the fund (428 604 u.a.) and partly by an allocation of 7 million u.a. from the contribution paid by the new member countries.

23 V — Miscellaneous (43 671 653 u.a.)

This heading includes the sum of 43 272 470 u.a. payable on coupons due and redeemable bonds which are due but not yet presented plus a variety of accounts in credit to a total of 399 183 u.a.

23.1 The first item (43 272 470 u.a.) represents the contra of deposits constituted by the ECSC with banks servicing its loans. The considerations outlined under the assets heading 'deposits for coupons and bonds due but not yet presented', No 16.3, also apply to this item of the liabilities.

23.2 The second item (399 183 u.a.) comprises provisions for fines being recovered (8 015 u.a.), sums deducted for insurance on loans granted to officials to finance their personal housing (15 529 u.a.), banking errors (329 701 u.a.), coupons which have become void (27 u.a.) and a tax refund on an FFr borrowing which was wrongly recorded in the 1973 accounts (45 911 u.a.).

24 VI — Accrued liabilities (49 965 899 u.a.)

This account, which includes the amount of interest and fees accrued but not due at 31 December 1974, increased by 17 731 800 u.a. compared with the previous Year, due to the floating of new loans. Just as accrued income includes the figure resulting from the entering as receipts of interest and guarantee fees due to the ECSC, these accrued liabilities accordingly include the figure resulting from the entering as expenditure of interest and agents' fees payable by the Institution.

25 VII — Unallocated balance

The sum of 16 658 034 u.a. shown under this heading represents all ECSC assets available at 31 December 1974 but not yet allocated. Compared with last year, this balance is up by 16 161 996 u.a.

On the basis of exchange rates obtaining on 31 December 1974 this balance is reduced to 15 817 u.a., whereby the difference of 16 642 217 u.a. is the result of readjusting balances in Lit, £, US\$ (devaluation) and SFr (revaluation).

26 SUSPENSE ACCOUNTS

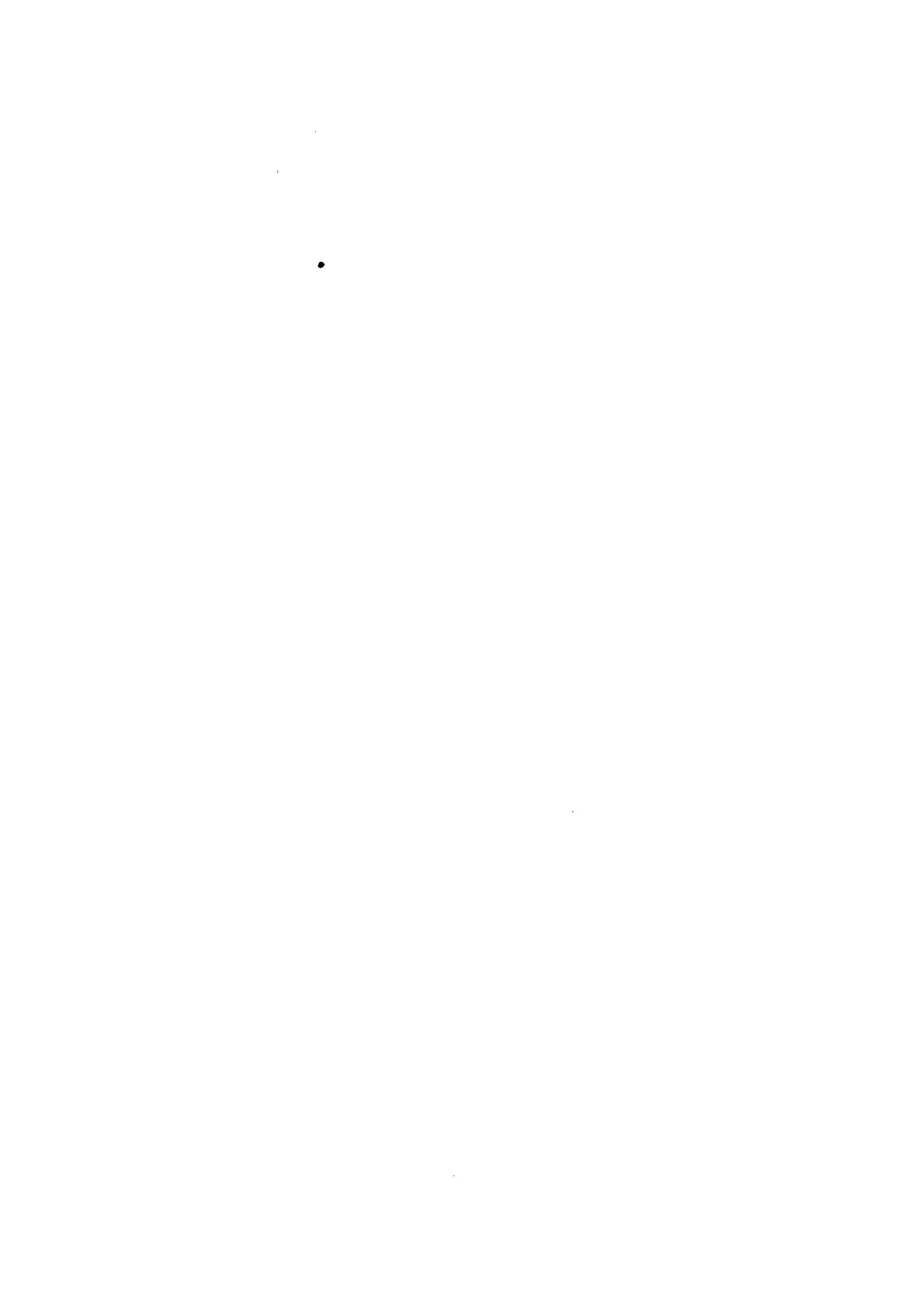
26.0 The suspense accounts shown below the balance sheet at 31 December 1974 totalled 38 010 908 u.a. both for assets and liabilities.

26.1 A sum of 22 517 066 u.a. represents the total of commitments undertaken by the ECSC and the rights of recourse open to it as a result of the securing of loans granted by Community enterprises under Article 51, Paragraph 2 and Article 54 of the Treaty. In the present case,

these were two loans granted to German enterprises. The security obtained by the ECSC in return was a mortgage on the beneficiaries' land and plant.

No new guarantees were given by the ECSC during 1974. Total loans secured by the ECSC decreased by the amount of scheduled repayments (2 717 577 u.a.).

26.2 A second sum (15 493 842 u.a.) represents the final third of the contribution which will be payable by two of the new Member States in 1975.



Notes to the statement of income and expenditure

(Management account)

EXPENDITURE

27 I — Service of borrowings and guarantees (97 017 178 u.a.)

27.1 *Expenditure for the service of borrowings* (97 017 178 u.a.) comprises interest due on the ECSC's borrowings (93 732 919 u.a.), fees to custodians and agent banks (1 197 187 u.a.), miscellaneous expenditure (287 355 u.a.) and repayments of issuing costs for borrowings (1 799 717 u.a.).

Miscellaneous expenditure (287 355 u.a.) includes :

27.11 Exchange differences (58 691 u.a.), arising almost entirely from the US \$ 20 million loan floated in Luxembourg in 1971 with a clause of reference to the LFr (57 989 u.a.).

27.12 The premium on the 1974 scheduled repayment (101 275 u.a.) on a French borrowing (12 % over the nominal value).

27.13 The abandoning (81 299 u.a.), under the terms of an earlier agreement negotiated jointly with all the creditors, of part of the annual repayment on a loan granted out of Dutch guilder borrowings to an industrial enterprise which proved unable to pay. At 31 December 1974 the accrued total of the claim abandoned by the Institution was 1 287 938 u.a.

27.14 A sum of 46 090 u.a., representing almost exclusively direct costs arising from printing, publication and stock exchange quotation.

28 II — 'Budgetary' expenditure (57 189 408 u.a.)

Under this heading we have placed the ECSC's share of the administrative expenditure of the Communities, expenditure on research, rehabilitation and assistance to coking coal, and that incurred by the granting of interest reductions on structural reorganization loans (Article 56 of the Treaty) and investment loans (Article 54 of the Treaty).

28.1 A — *Administrative expenditure* (18 496 749 represents the ECSC's annual flat-rate contribution to the administrative budget of the Commission of the European Communities (18 million u.a.), as fixed on the basis of the exchange rates current at the time of the treaty of merger of the Executives.

28.2 *B — Rehabilitation expenditure* totalled 9 524 765 u.a. The percentage breakdown by country is as follows : Belgium 3 %, Germany 42 %, France 42 %, Italy 4 %, Netherlands 6 % and United Kingdom 3 %.

28.3 *C — Research expenditure* totalled 19 312 834 u.a. and breaks down by sector as follows :

— Technical research, iron and steel	7 585 361 u.a.
— Technical research coal	8 480 349 u.a.
— Research on industrial safety, health and medicine	2 979 971 u.a.
— Expenditure on the dissemination of research findings	267 153 u.a.

28.4 *D — Assistance granted under Article 56*

(3 321 754 u.a.) was largely granted to reduce the interest on ECSC loans for industrial structural reorganization (2 819 630 u.a.) and the rest (502 124 u.a.) was allocated to enterprises to reduce the rate of interest on loans obtained by these from other sources.

Assistance granted to reduce the interest on loans *under Article 54* of the Treaty (1 828 833 u.a.) was used to finance investments fulfilling certain specific requirements in coal and steel enterprises.

This assistance enables the Institution to grant a temporary (5-year) reduction in the rate of interest, in principle standard, on loans granted out of its borrowed funds. The reduced rates were 5.25 % up to 12 July 1974, 6.25 % up to 24 November 1974 and 7 % since then. These reduced rates were obtained by lowering the rates normally applied by the Institution during the year by 3 points.⁽¹⁾ In order to balance the loan service account, the Institution draws the cost of this assistance from own funds (so that it is charged to budgetary assistance) and transfers it to the loan service account, which is thus credited with the full standard rate of interest. Assistance payments for loans granted by other organizations are drawn directly on own funds and disbursed to the beneficiaries.

28.5 *E — Community assistance to coking coal* (4 704 423 u.a.) comprises the balance of the Community contribution earmarked for 1972 (168 896 u.a.) on the basis of Commission Decision No 1/70 plus the full payment for 1973 (4 535 527 u.a.) made on the basis of ECSC Decision No 287/73. No payment has yet been made for 1974. Since Germany was the only country to export part of its coke production (apart from Belgium in 1970), it is the only country to receive this assistance.

29 **III — Other expenditure** (834 491 u.a.)

This other expenditure arises out of the ECSC's financial operations, and comprises :

29.1 Exchange differences resulting from the use of exchange rates decided on by the Institution for the drawing up of its balance sheet at 31 December 1973, whereas transfers from one currency to another are always based on the market rate for the day 800 392 u.a.

29.2 Portfolio management costs 33 557 u.a.

29.3 Sundry banking fees 542 u.a.

⁽¹⁾ No 30. 11.

INCOME

30 I — Service of loans and guarantees

30.1 *A — Revenue from the service of loans granted out of borrowed funds* (103 197 613 u.a.) includes interest levied on loans granted by the ECSC (84 587 576 u.a.), interest credited to the loan service account (12 803 547 u.a.), and sundry revenue (5 806 490 u.a.).

30.11 The first item (84 587 576 u.a.) includes all *interest due from debtors under loans* granted out of borrowed funds. The rate of interest on loans, a standard rate payable annually, is decided by the Institution and is applied to all loans, except in special cases. The interest rate is changed periodically to keep pace with the changing conditions on money markets. Thus the rate applied from 19 December 1972 was 8.25 %, but rose to 9.25 % from 13 July 1974 and to 10 % as from 25 November 1974.

30.12 *Interest credited to the loan service account* (12 803 547 u.a.) includes interest calculated on the basis of the average yield on borrowed funds received but not yet loaned (11 821 038 u.a.) and the yield on investments (982 509 u.a.) received by the loan service account through a variety of operations (receipt of borrowings, balances on interest transactions, opening of bank deposits to service ECSC coupons).

30.13 *Sundry revenue* (5 806 490 u.a.) includes :

— Interest reductions on loans granted by the Institution under Articles 56 (2 771 364 u.a.) and 54 (1 812 545 u.a.) of the Treaty. This assistance offsets, in the loan service account, the decrease in revenue arising from the temporary reduction in the standard rates of interest on these loans. It counts as budgetary expenditure in the same way as that granted for loans from other sources, and is discussed under No 28.4.

— A profit of 1 187 020 u.a. realized by the Institution on redemptions of ECSC debenture bonds.

— An exchange difference of 19 030 u.a. from the servicing of three loans : one of LFr 300 000 000 floated in 1962 with a conversion option (413 u.a.), one of 20 000 000 u.a. dating back to 1966 with reference to an exchange rate fixed every year for the EMA unit of account (5 765 u.a.) and another of £ 50 000 000 floated in 1970 with a conversion option (12 852 u.a.).

— Miscellaneous income amounting to 16 531 u.a. (adjustments, tax refunds, coupons become void, etc).

30.2 *B — Guarantee fees* (116 144 u.a.) are those received by the Institution in return for acting as surety for loans contracted by enterprises of the Community.

31 II — Income from the levy

Income from the levy in 1974 was 69 587 874 u.a. and comprises all sums declared for 1974, including those due for December 1974 but not payable until 25 January 1975.

Income from the levy

*Breakdown by group of products and country
amounts declared and recorded in the accounts in 1974*

Country	Coal		Steel		Levy total per country	
	Amount	%	Amount	%	Amount	%
Belgium	383 017	3.4	5 782 185	9.9	6 165 202	8.9
Denmark	—	—	190 765	0.3	190 765	0.3
Germany	5 016 219	43.9	19 624 435	33.7	24 640 654	35.4
France	1 147 275	10.1	10 179 535	17.5	11 326 810	16.3
Ireland	1 763	—	41 624	0.1	43 387	0.1
Italy	—	—	9 709 318	16.7	9 709 318	13.9
Luxembourg	—	—	2 179 812	3.8	2 179 812	3.1
Netherlands	38 103	0.3	1 960 845	3.4	1 998 948	2.9
United Kingdom	4 845 600	42.4	8 487 378	14.6	13 332 978	19.1
Community Total	11 431 977	100	58 155 897	100	69 587 874	100

Table 13 gives a breakdown, by country and group of products, of levy amounts declared and recorded in 1974 together with the percentage of the whole accounted for by each of the countries for each group of products.

32 III — Other revenue

This heading totals 48 896 291 u.a. and covers interest on bank deposits and portfolio (31 387 962 u.a.), interest on loans granted out of own funds (1 462 238 u.a.), interest on arrears (1 102 u.a.), a further instalment of accession contributions paid in by the new Member States (15 913 156 u.a.) and miscellaneous income (131 833 u.a.).

32.1 *Revenue from bank deposits and portfolio* (31 387 962 u.a.) was 78 % up on the figure for 1973. The annual average yield (1) overall for funds managed by the ECSC was 10.10 % compared with 6.7 % in 1973.

Table 14 shows a breakdown by currency of revenue generated in 1974 by the ECSC's investments. This includes income from bank accounts and portfolio securities, together with the product of redemptions and sales of ECSC bonds.

In the case of revenue from bank accounts and investments maintained by the ECSC :

- The interest amounts shown include, as well as receipts during 1974, from which must be deducted the interest accrued at 31 December 1973, the accrued total pro rata at 31 December 1974 on fixed deposits and portfolio securities.
- The revenues shown in Table 14 are gross. Costs incurred by the ECSC's banking operations and the constitution and management of its portfolio (particularly in respect of the buying and selling of securities) are recorded separately under the heading 'financial costs'.

32.2 *Interest from loans granted out of own funds* (1 462 238 u.a.). These loans are generally made at a very low rate of interest (1 %) for a fairly long term.

(1) Based on the relationship between interest generated by funds not loaned and the arithmetical average of the ECSC's financial assets during the year.

TABLE 14

Interest yields and income on investments

Breakdown by currency and type of income during 1974

Currency	Bank interest (current accounts and fixed deposits)		Income from various portfolio securities		Total per currency	
	Amount	%	Amount	%	Amount	%
German marks	6 077 655	24.6	4 290 118	64.0	10 367 773	33.0
Belgian francs	617 686	2.5	349 218	5.2	966 904	3.1
French francs	4 774 312	19.3	611 447	9.1	5 385 759	17.2
Italian lire	5 796 377	23.5	250 254	3.7	6 046 631	19.3
Luxembourg francs	296 802	1.2	15 485	0.2	312 287	1.0
Dutch guilders	951 586	3.8	159 292	2.4	1 110 878	3.5
Swiss francs	212 411	0.9	21 109	0.3	233 520	0.7
Pounds sterling	5 109 421	20.7	—	—	5 109 421	16.3
Units of account	—43 128	—0.1	20 075	0.3	—23 053	—0.1
US dollars	833 479	3.4	992 390	14.8	1 825 869	5.8
Danish kroner	51 973	0.2	—	—	51 973	0.2
Totals	24 678 574	100	6 709 388	100	31 387 962	100

32.3 *Increases for arrears* (1 102 u.a.) concern five payments ranging from 33 u.a. to 462 u.a.

32.4 *Contributions from the new Member States* (15 913 156 u.a.) represent the second instalment, i.e. one third, of the accession contributions paid by the United Kingdom and Ireland, and the last two instalments for Denmark.

32.5 *Miscellaneous income* (131 833 u.a.) comes essentially from large-scale exchange differences (86 517 u.a.) which have to be compared against the item 'other expenditure' (800 392 u.a., No 29.1). These differences arise from the use of fixed exchange rates decided on by the Institution when drawing up the balance sheet at 31 December 1973, whilst transfers from one currency to another are made at the market rate for the day. This item also includes the amount of the 1974 rent for the property in Washington (35 401 u.a.) and an adjustment on this same count for 1973 and 1974 (9 915 u.a.).

33 IV — Excess of income over expenditure

As shown in Table 30 ('Management Account'), the excess of income over expenditure in 1974 totalled 66 756 845 u.a. (compared with 61 504 605 u.a. for 1973). This surplus, which is reduced to 42 101 277 u.a. when the exchange rates obtaining at 31 December 1974 are applied, was allocated to the various provisions, and the relevant notes are given in the analysis of the balance sheet liabilities.

Table 31 shows changes in the allocation of overall assets managed by the ECSC from 31 December 1973 to 31 December 1974. The figures give a synoptic picture of the way in which income is allocated to all the various provisions and reserves at 31 December 1974 and gives details of the transfers affecting these provisions and reserves during 1974.

In addition to showing the allocation of the year's receipts and payments, these movements show the transfers which resulted in the cancellation of certain earlier provisions for reserves (negative figure in column 2).

From this Table it is apparent that the difference between income and expenditure for the period, i.e. the increase in ECSC assets (66 756 845 u.a.), was apportioned to the reserves and provisions as follows :

<i>Net increases</i>	<i>70 843 318 u.a.</i>
— in the guarantee fund	8 000 000 u.a.
— in the provision for rehabilitation	21 315 137 u.a.
— in the provision for research	3 310 104 u.a.
— in the provision for assistance to loans (Article 56)	135 656 u.a.
— in the provision for assistance to loans (Article 54)	4 282 590 u.a.
— in the provision for assistance to coke	1 000 000 u.a.
— in the provision for compensation of borrowing costs	2 828 829 u.a.
— in the provision for loan service	6 380 402 u.a.
— in the former ECSC pension fund	7 428 604 u.a.
— in the unallocated balance	16 161 996 u.a.
 <i>Net decreases</i>	 <i>4 086 473 u.a.</i>
— in the provision for future commitments	1 176 346 u.a.
— in the provision for portfolio depreciation	500 000 u.a.
— in the provision for doubtful debtors under the levy	500 000 u.a.
— in the provision for doubtful debtors in respect of borrowings	81 299 u.a.
— in the provision for guarantee fees	1 828 828 u.a.
	<hr/>
	66 756 845 u.a.

The net result is thus an increase of 66 756 845 u.a., representing the difference between the two middle columns of Table 31.

PART TWO

PART TWO

REMARKS PROMPTED BY OUR 1974 AUDITING OPERATIONS

Introduction

34 In all sectors of the ECSC's financial activity which are subject to our supervision we carried out either full or sample checks during and at the end of the year of audit.

During the year we followed the financial activities of the European Coal and Steel Community closely, receiving and checking the documents and vouchers which were sent to us regularly. We should like first of all to express our satisfaction at the considerable progress which has been achieved since October 1974 when the Secretariat-General of the Commission asked that all decisions proposed and taken by the Institution, together with explanatory notes on them, should be systematically forwarded to us. Furthermore, these regular operations enabled us to exchange opinions with the competent bodies in the financial and authorizing sectors which in turn enabled us to make the critical and analytical observations outlined in the following chapters.

At the end of the financial year and in accordance with normal auditing procedure, we checked the balances in the general ledger against the figures of the balance sheet and management account and we satisfied ourselves that all assets and liabilities items shown in the financial statement were true and correct. We had previously satisfied ourselves, by the same method, of the correctness of the interim financial statement as at 30 June 1974.

We also checked that the ECSC's income, expenditure and other financial operations were in order, correctly charged and in accordance with the provisions of the Treaty and decisions by competent bodies and, in the absence of express provisions, with the normal rules of financial management.

In this part of the report we indicate, for all categories of operations analysed and commented on, the nature and extent of the checks carried out by us during and at the end of the year, together with the remarks prompted by these checks.

35 Continuing the task to which we had given particular attention since the previous year, we further pursued and extended our examination of the technical and social research financed by the ECSC. We hope, in this way, to have carried out the wishes of the European Parliament which, in its resolution of 11 December 1973 'asked the Auditor to make a special effort with regard to audits in the research field and to make particular reference to this in his report for the financial year 1973' (1).

(1) Point 11 of the Resolution on the ECSC Auditor's Reports for 1971 and 1972, OJ C 2 of 9. 1. 1974.

Income from the levy

36 Extent of our audit

For income from the levy, which is the ECSC's largest single source of revenue, we conducted :

- Checks on the vouchers annexed to the day-to-day bank statements, ascertaining the correctness of bookkeeping entries for these funds. Since the documents are centralized at the accounting department, we were able to ensure that they tallied with the monthly returns submitted to the Levy Office.
- Challenges of the balances owing from the individual enterprises, by comparing the figures kept by the Levy Office with those provided from the computer listings of the overall accounts department. The same comparisons are made regularly by the Levy Office.

We also satisfied ourselves :

- That supervisory operations required under Articles 49 and 50 of the ECSC Treaty were in fact conducted and that on-the-spot inspection reports — of which we duly took note — had been compiled by the appropriate departments during 1974.
- That the Institution had taken due note of the auditors' findings in respect of corrections to incorrect or incomplete returns.

Finally, we gave particular attention to the position with regard to disputes between the ECSC and the various enterprises concerning the levy and such solutions as were found.

37 Remarks

37.1 The *rate of the levy* for 1974 remained at 0.29 % of the values taken as the assessment basis, as determined by a decision taken by the Institution (No 3543/73/ECSC) on 19 December 1973. ⁽¹⁾

Under this decision of 19 December 1973 (No 3543/73/ECSC), the *average value* of the products on which the levies are assessed and which had been in force since 1 January 1973 ⁽²⁾ was amended as follows from 1 January 1974 :

Products	Average value per tonne in u.a.
Brown coal briquettes and semi-coke derived from brown coal	13.63
Hard coal of all categories	18.51
Pig iron other than that used for making ingots	70.80
Basic Bessemer steel in ingots	87.92
Steel in ingots other than Basic Bessemer steel	105.13
Finished products and end products	171.27

⁽¹⁾ OJ No L 361 of 29. 12. 1973.

⁽²⁾ OJ No L 297 (Decision No 2821/72/ECSC of 22. 12. 1972).

This same decision consequently modifies the final net scale which takes into account a weighting of the different values, depending on the relative importance of the products of a particular category both nationally and at Community level.

Thus, and as from 1 January 1973, (1) the Institution recalculates the average value for each of the chargeable products every year, as it is obliged to do. However, in order to avoid over-abrupt changes in the levy amount payable, the Institution has exercised its right to limit changes made to the scale to 15 %.

Table 15 traces, for the six categories of chargeable products, changes since 1962 in the rate of the levy and the net scale per tonne.

TABLE 15

Rate of the levy and net per tonne scale in u.a. from 1953 to 1974 for each category of chargeable products

Period	Rate %	Brown-coal briquettes and semi-coke derived from brown-coal	Hard-coal	Pig-iron other than in ingots	Basic bessemer steel in ingots	Steel other than basic bessemer steel in ingots	Finished and end-products of iron and steel
1. 1. 1953	0-30	0-0141	0-0372	0-1422	0-1398	0-1884	0-0735
1. 3. 1953	0-50	0-0235	0-0620	0-2370	0-2330	0-3140	0-1225
1. 5. 1953	0-70	0-0329	0-0868	0-3318	0-3262	0-4396	0-1715
1. 7. 1953	0-90	0-0423	0-1116	0-4266	0-4194	0-5652	0-2205
1. 7. 1955	0-70	0-0329	0-0868	0-3318	0-3262	0-4396	0-1715
1. 1. 1956	0-45	0-0212	0-0558	0-2133	0-2097	0-2826	0-1103
1. 7. 1957	0-35	0-0220	0-0448	0-1870	0-1738	0-2925	0-1003
1. 7. 1959	0-35	0-0277	0-0448	0-1870	0-1738	0-2925	0-1003
1. 7. 1961	0-30	0-0237	0-0384	0-1603	0-1490	0-2507	0-0860
1. 7. 1962	0-20	0-0158	0-0256	0-1068	0-0993	0-1672	0-0573
1. 7. 1964	0-20	0-0180	0-0256	0-1068	0-0993	0-1672	0-0573
1. 7. 1965	0-25	0-0225	0-0360	0-1071	0-1337	0-2117	0-0717
1. 7. 1966	0-25	0-0225	0-0360	0-1071	0-1337	0-2117	0-0717
1. 7. 1967	0-30	0-0297	0-0432	0-1286	0-1604	0-2540	0-0860
1. 1. 1972	0-29	0-0287	0-0548	0-1640	0-1814	0-2865	0-1043
1. 1. 1973	0-29	0-0339	0-0526	0-1617	0-1931	0-2667	0-1010
1. 1. 1974	0-29	0-0395	0-0537	0-1615	0-2111	0-2870	0-1093

37.2 As from 1 January 1959 coal-mining enterprises were authorized to defer, without arrears interest or penalty, payments of sums due under the levy in respect of a part of their production stocks not greater than that held on 31 December 1957. It was at this time that marketing difficulties had become widespread and had led, in all Community coalfields, to exceptionally large stockpiling of coal, coke derived from hard coal and patent fuels.

In order to adapt this system to the requirements of the enlarged Community, new decisions were taken. (2) Under the first, all coal stocks in excess of 3 % of the monthly production are eligible for temporary deferment of payment of the levy. This 'blanket' system means equal treatment for enterprises in all nine countries and spares those in the new Member States the need to take as their basis a 1957 figure, whereby they would have been paying levy amounts on production prior to their accession. The second new decision governed the transition between the old system and the new one applicable from 1 January 1973, by providing that successive reductions in the stocks of enterprises still benefiting at 31 December 1972 from temporary deferments will

(1) OJ No L 286 of 23. 12. 1972 (Decision No 2691/72 of 18. 12. 1972).

(2) OJ No L 299 of 31. 12. 1972 (Decision No 2853/72/ECSC and No 2854/72/ECSC of 29. 12. 1972).

be charged, until the stocks are exhausted, on the stocks for which these deferments were granted, so that the payments in respect of these stock reductions will thus become due.

37.3 Levy receipts for 1974 totalled 69 587 874 u.a., 11.3% higher than those for 1973.

Table 16 shows that they rose in each country by between 9.2 and 51.9%, except in the Netherlands and Germany where they decreased by 13 and 1.3% respectively.

TABLE 16

Income from the levy

Changes (overall and percentage) by group of products and country in sums declared and recorded in the accounts for 1973 and 1974

Country	Currency	Coal		Steel		Total levy	
		Amount of change	% change	Amount of change	% change	Amount of change	% change
Belgium	BFr	— 1 831 215	— 8.9	+ 27 048 982	+ 10.6	+ 25 217 767	+ 9.2
Denmark	Dkr	—	—	+ 320 488	+ 28.5	+ 320 488	+ 28.5
Germany	DM	— 2 004 096	— 11.0	+ 977 615	+ 1.6	— 1 026 481	— 1.3
France	FF	— 231 632	— 3.5	+ 10 385 547	+ 22.5	+ 10 153 915	+ 19.2
Ireland	£Ir	+ 345	+ 61.9	+ 5 026	+ 30.9	+ 5 371	+ 31.9
Italy	Lit	— 50 150	— 100.0	+ 2 413 840 650	+ 51.9	+ 2 413 790 500	+ 51.9
Luxembourg	Lfr	—	—	+ 16 143 300	+ 18.0	+ 16 143 300	+ 18.0
Netherlands	Fl	— 178 139	— 58.2	+ 443 576	— 6.3	— 621 715	— 8.5
United Kingdom	£	+ 209 984	+ 9.3	+ 575 273	+ 15.3	+ 785 257	+ 13.0

The difference between 1973 and 1974 in the percentage of total levy receipts paid by each of the Member States appears as follows :

	1973	1974
Belgium	8.7 %	8.9 %
Denmark	0.2 %	0.3 %
Germany	34.9 %	35.4 %
France	15.1 %	16.3 %
Ireland	0.1 %	0.1 %
Italy	11.9 %	13.9 %
Luxembourg	2.9 %	3.1 %
Netherlands	3.2 %	2.9 %
United Kingdom	23.0 %	19.1 %

Since the coal crisis of 1958 the contribution of the steel industry towards total levy receipts has continued to increase. In 1974 there was a marked increase everywhere (between 6 and 51.9%), except in the Netherlands, whilst the proportion of receipts from the coal mining industry is declining in all the countries (except Ireland and the United Kingdom).

37.4 It can be seen from Table 17 that the percentage of total levy receipts contributed by the *steel industry* increased from 80.8 to 83.5% between 1973 and 1974, whilst that contributed by the *coal mining industry* fell from 19.2 to 16.5%.

Within the steel industry, considerable shifts are also discernible as a result of changes affecting the products subject to the levy. Thus the contribution of Basic Bessemer ingots which, up to 1961-62, had accounted for over 28% of total income from the levy on steel, fell to their present share of 4.22% whilst that of other ingots produced by more modern methods, particularly the basic oxygen process, has increased over the same period.

This change is due to the fact that in the main steel-producing countries of the Community, plant for the Basic Bessemer process has largely been replaced by plants for the basic oxygen process. An amendment of the conditions of assessment and collection of the levy, creating a single category for the charging of ingots, whether or not manufactured by the Basic Bessemer process, is currently being studied with a view to its introduction on 1 January 1976.

As for *finished products*, their share in the total levy income from steel has remained relatively constant since 1952. The anomalies pointed out in our previous report, ⁽¹⁾ to the effect that the Treaty does not allow for technical progress in the concept of a finished product, still continue but might also be solved by the changes which are proposed.

Table 18 shows the changes in the proportions of total receipts from the levy on steel accounted for by the *four categories of chargeable steel products* from inception of the ECSC up to 1974. The contribution of each product is expressed as a percentage for each year of the annual product of the levy on steel.

37.5 *Allocation of income from the levy* must be in accordance with the explicit terms and restrictions of the Paris Treaty (Article 50) and used to cover:

- The administrative expenditure provided for in Article 78 ;
- Assistance to rehabilitation provided for in Article 56 ;
- Assistance to technical and economic research provided for in Article 55, Paragraph 2 ;
- Only after first drawing on the reserve fund, any deficit in the loan service account and any extension of the Institution's guarantee to loans contracted by enterprises directly.

Since the ECSC was established, the funds raised by the levy (excluding all other revenues such as interest on levy income invested) have totalled some 804 million u.a. Of this sum, 100 million u.a. are tied up in a guarantee fund ⁽²⁾ on which the ECSC's credit-raising capacity on money markets is based. 253 million u.a. have been channelled into the rehabilitation of workers and 159 million u.a. into research. Operating expenses were covered out of the balance ⁽³⁾. The Institution has thus financed its other initiatives (loans to investments, structural reorganization and social housing, interest reductions on loans for structural reorganization and investments, assistance to coking coal, etc.) out of resources other than levy income (borrowings, interest on investments).

37.6 *Late payments*, which were fewer in number and for a smaller amount in 1974 than in 1973, were largely due to chance factors (strikes by post office and bank employees in Italy and an accident in a German steelworks). Others were attributable to the more or less permanent liquidity problems experienced by small enterprises which produce and declare relatively small tonnages. For these, strict application of the procedures laid down (including, in the first place, formal notice) would create timing difficulties both for the decision to be taken by the Institution and the expenditure this procedure would entail when compared with the size of the amounts due.

We found that the Institution collected *arrears increases* totalling 1 102 u.a. in 1974 without having to serve the formal notice provided for in Article 36 of the Treaty, a procedure which was last used in 1970.

Sums demanded as increases on arrears are recorded by the Institution separately from the accounts and then entered as part of income as and when received.

37.7 We also checked that the *total product of the levy* was correctly collected.

As regards the regularly updated survey of enterprises subject to the levy, and particularly those in the United Kingdom, it is not yet certain that all the smaller coal and steel enterprises — which do not form part of the British Steel Corporation and the National Coal Board — or which are not affiliated to a national federation have been covered by the survey. At the end of 1973, the Institution's list comprised 691 enterprises (867 works and pits), of which 246 were concerned with coal and 445 with steel.

Together with the responsible officials of the Levy Office we compared the tonnages declared and paid on under the levy in 1973 with the production figures collected for the same year by the

⁽¹⁾ 1973 Auditor's Report, point 37.3.

⁽²⁾ This was 120 million u.a. at 31 December 1974 as a result of the allocation of 20 million u.a. (12 million in 1973 and 8 million in 1974) collected in accession contributions.

⁽³⁾ This expenditure totalled 323.5 million u.a. at 31 December 1974.

TABLE 17

Changes by sector (coal-steel) in levy income from 1953 to 1974
(expressed as a percentage of the annual product of the levy)

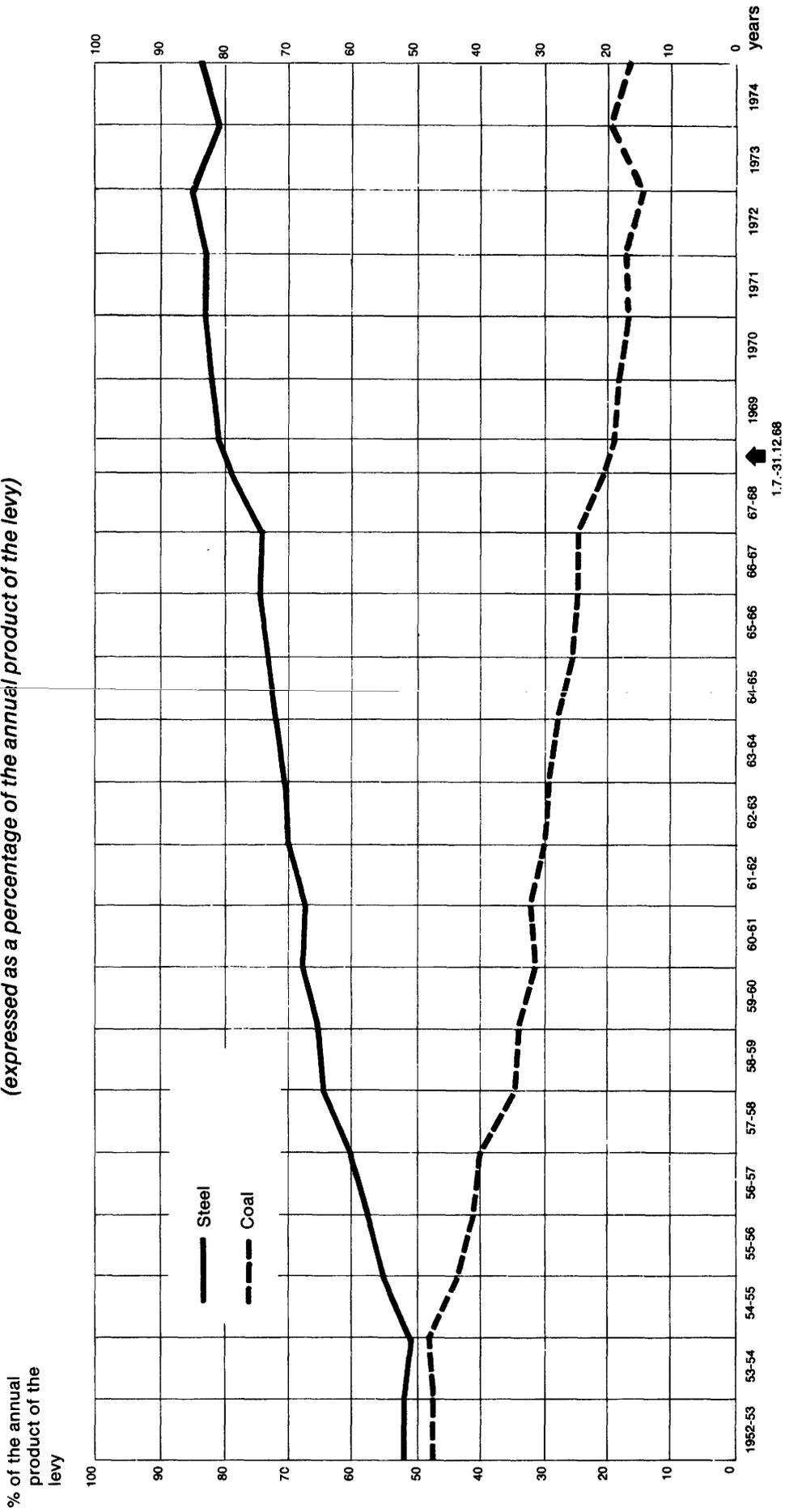


TABLE 18
Changes in levy income for the four categories of steel products from 1953 to 1974
(expressed as a percentage of the annual product of the levy on steel)

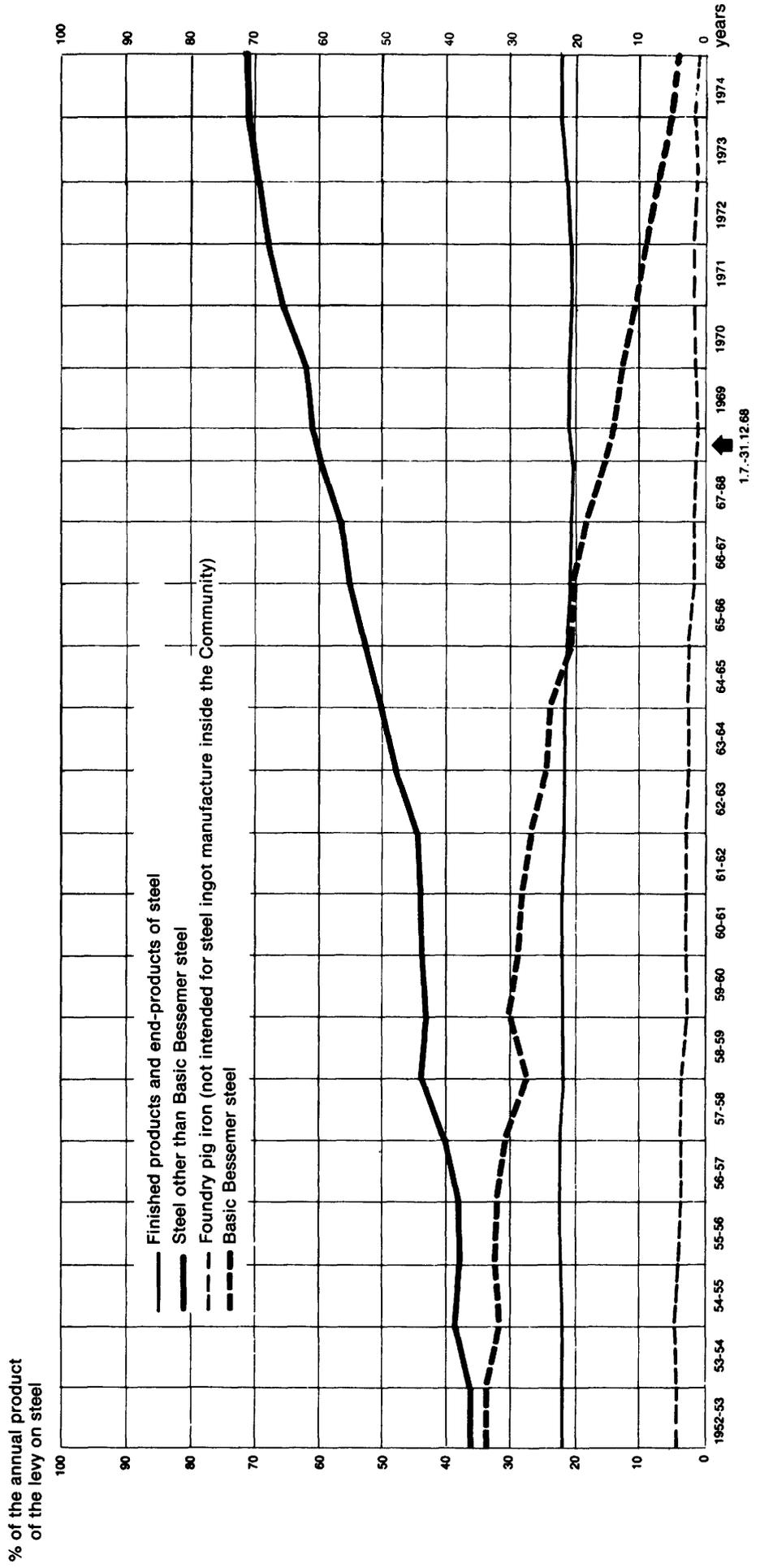


TABLE 19

Overall comparison of five categories of production declared and paid on under the levy with the figures of the Statistical Office of the European Community for 1973 (tonnages)

Category of chargeable products	Production according to SOEC statistics (in thousand tonnes)	Production declared and paid on under the ECSC levy (in thousand tonnes)	Remarks
Coal	250 130 — 30 016 (12 % for inplant consumption) <hr/> 220 114	225 359 + 1 150 (for stocks of coal granted 'temporary deferment of payment') <hr/> 226 509	Our figure 6 395 000 tonnes higher for production declared for the levy, not counting non-chargeable declarations for : — production by enterprises falling below the monthly declarable minimum of 100 u.a. — 18 % flat-rate reductions on production by enterprises which have no washing plant of their own
Brown coal briquettes	6 487 — 195 (3 % for inplant consumption) <hr/> 6 292	6 292	
Pig iron	5 778 broken down into : (a) phosphorus 385 (b) non-phosphorus 3-964 (c) spiegel and ferromanganese 1-127 (d) special pig irons 302	5 662	Our figure 116 000 tonnes lower for production declared for the levy since : (a) ferromanganese containing more than 30 % manganese is not subject to the levy (b) non-integrated small and medium-sized foundries producing their pig iron in cupola furnaces are exempt from the levy.
Steel in ingots	150 073 including : Basic Bessemer steels : 13 479 Other steels : 136 594 — 1 903 (liquid steels for casting) <hr/> 134 691	148 416 Basic Bessemer steels : 13 476 Other steels : 134 940	Our figure 246 000 tonnes higher for production declared for the levy.
Finished products	111 453 — 92 (for coldrolled sheets over 3 mm) <hr/> 111 361	111 455	Our figure 94 000 tonnes higher for production declared for the levy.

Statistical Office of the European Communities. This comparison — which clearly can only be made after an interval of one year — covered five categories of chargeable products which lent themselves to comparison using the necessary correctives. For these five categories (hard coal, brown coal briquettes, pig iron, steel in ingots and finished products) and taking into account in-plant consumption, production by non-chargeable enterprises or non-chargeable finished products, we arrived at production tonnages declared and paid on for 1973 which were in general higher than those stated in the official statistics.

A summary of these findings is given in Table 19.

37.8 We acquainted ourselves with the *inspection reports* compiled after on-the-spot inspections by officials of the Inspectorate.

In 1974 the levy Office carried out particularly thorough checks, on the one hand of enterprises showing some reticence in their levy returns and, on the other hand, of those which had not been inspected for some time.

Twelve checks (as opposed to 21 in 1973) were carried out on enterprises subject to the levy (two in Germany, one in France, three in Belgium and six in Italy). Most of these concerned production declared in 1973, and most of them were acted on as indicated in the inspection reports. Six inspection reports compiled in 1973 for returns submitted in 1971 and 1972 were finally dealt with in 1974.

Subsequent to these 18 inspections in 1973 and 1974, nine enterprises sent in additional returns and paid the levy on the difference involved. Two of these were arbitrarily charged for production amounts calculated from the information collected by the inspectors. All additional amounts calculated in this manner were paid by the enterprises. Eight cases called for no special comment, as the checks proved that the amounts declared were correct. In the case of one enterprise checked, further details are still pending as regards anomalies in its electricity consumption as compared with its declared production.

37.9 In our view the most significant fact this year is that the number of checks made, already deemed inadequate last year, decreased by fifty per cent.

Of the 17 reports examined and completed in 1974, ten yielded additional receipts of 55 993 u.a.

Measured in this year's terms, the work done by the inspectors amounts, for two of them, to about two weeks' work per year.

It is important to remember in this connection that the Institution must not only follow up failures to submit statements of output, but must also make sure that the enterprises submitting returns have understood their instructions correctly: in this way a number of further corrections were made this year regarding head cropping in continuous casting.

Expenditure for rehabilitation

38 Extent of our audit

In this sector, our audit was concerned with checking :

- The correctness of all payments made during 1974 for rehabilitation, ensuring that the vouchers existed and that entries were made correctly in the accounts and in accordance with the official decisions taken.
- New decisions for assistance earmarked in 1974 and the entering of their total value in the provision.

We checked operations principally with the Directorate-General for Financial Control, using the vouchers (various decisions and documents) and computer listings of accounting records for credits approved, disbursements and repayments for each category of assistance.

Since December 1974 we have received details of decisions to grant assistance, as and when these are taken, from the Secretariat-General of the Commission of the European Communities.

Finally, we compared notes with the Directorate-General for Social Affairs, which authorizes this expenditure, to satisfy ourselves that the mechanisms governing financial assistance to rehabilitation had been efficiently checked. This year we cooperated with officials of this Directorate-General in three audits of regional organizations which act as clearing houses for assistance to rehabilitation.

39 Remarks

39.1 The number of new commitments subscribed by the Community for rehabilitation in 1974 was again high (41.9 million u.a. against 42.9 million in 1973). They were subscribed primarily for the coal sector and were principally towards the United Kingdom (24.3 million u.a.), Germany (8.9 million u.a.), France (7.4 million u.a.) and Belgium (1.3 million u.a.).

The provision for rehabilitation shown on the balance sheet at 31 December 1974 (127 931 008 u.a.) represents a net amount, arrived at by deducting assistance already disbursed, any repayments made and commitments current at the beginning of the year plus those specifically approved in 1974.

Tables 8 and 9 in the first part of this report show details, by type, country and sector, of new assistance granted during the year and sums still held in the provision at 31 December 1974.

Assistance disbursed during the year totalled 9 524 765 u.a. and cancellations of previous commitments for assistance no longer required totalled 3 560 800 u.a. The latter are calculated in an annual review of assistance estimates made jointly by the Directorate-General for Social Affairs and the departments responsible in each country. However, the aid amount set aside since 1965 for an Italian enterprise, which is the object of long-standing discussion, is still shown in the provision at 31 December 1974 as 439 875 u.a. (this corresponds to the earlier amount of 512 512 u.a., modified by applying the new balance sheet parities at 31 December 1973). However, the last

outstanding payments are scheduled for 1975, which should mean that this dispute can at last be solved.

Loans or advances granted to rehouse redundant workers or for the deferred financing of hard coal stocks, though concerned with rehabilitation, are no longer dealt with in these notes and tables.

39.2 All expenditure subjected to our audit related exclusively to Article 56, Paragraph 2 of the ECSC Treaty.

Disbursements were well up on the preceding year, increasing from 5 081 991 u.a. in 1973 to 9 524 765 u.a. in 1974.

39.3 During 1974 two changes were made to the agreements concluded with the Belgian and French governments. In the former case, assistance by the Institution was restricted to 80 % of the difference between the old and new wage in the case of workers transferred to a new job within the same enterprise. In the second case, the changes concern certain measures made necessary by changes in the economic and social situation and by adapting adult vocational training programmes to keep pace with changes in production methods. The tideover allowances, wage loss compensation allowances and weekly training allowances were thus increased. Provision is also made for the automatic annual review, as from 1 January 1975, of the salary scales on which the various allowances are based and for extension of the maximum length of training periods taken into consideration (maximum 11 months, whatever the training level, including any pre-training periods).

39.4 Eleven applications were made in 1974 under the agreement negotiated in 1973 with the United Kingdom for assistance to workers in the iron and steel industry, provided for in Article 56, Paragraph 2.

39.5 Negotiations begun in 1973 on an agreement for assistance to coal workers in the United Kingdom under Article 56, Paragraph 5 of the Treaty continued into 1974 and culminated at the end of the year in an agreement to be announced by the Institution at the beginning of 1975.

39.6 In accordance with a financial policy which has been strictly applied since 1961, sums set aside in the provisions are sums in respect of which a decision has been reached by the Institution and accepted by the Governments: this agreement between the two parties creates the legally binding commitment. On 20 December 1974 the Institution decided to grant assistance of 20 404 573 u.a. to the work force affected by pit closures in the United Kingdom in 1973 and 1974. The balance sheet entry corresponding to this decision was the sum of 12 954 577 u.a. set aside in the provision, a sum which appears not to have been determined by any criteria at all, unless it is the absence of liquid funds. We consider that whatever the liquidity position the balance sheet liabilities should indicate binding debts, whatever the methods of payment may be. Furthermore, the general notes resulting from analysis of the balance sheet assets and liabilities show that there are still funds which have not yet been allocated, whether these are balances on borrowing and lending operations, future commitments or provisions for debtors in respect of borrowings above the amount at issue, or unjustified depreciation items which in reality constitute hidden reserves. At all events, correct analysis of the ECSC's assets and liabilities at the balance sheet date requires us to consider all its commitments, however these may be covered.

39.7 The disagreement referred to in our previous report (No 39.2) regarding the inclusion in ECSC assistance payments of funds to finance early retirement pensions, for which the Institution had suspended payment of advances in 1973, was solved in 1974.

It was the Institution's view which finally prevailed in this affair. In the case of an early retirement pension, only that part which is actually drawn and which corresponds to the tideover allowance plus the flat-rate severance grant of 750 u.a. can qualify, up to a maximum of 50 %, for ECSC financial assistance, under Article 56 of the Treaty.

39.8 In 1974 the Institution organized several series of audits in France and Belgium.

39.81 In Belgium two audits were conducted with the Office National de l'Emploi. These were prepared in advance, since the computer system used provides the Institution with listings which indicate the material errors detected by the computer in operations during the year.

To some extent this system relieves the auditors who are thus better able to concentrate on checking that the terms of the agreements have been properly applied.

39.82 In France, three series of audits were held, in the Nord and Pas-de-Calais, in Lorraine, and in the Massif Central. Five collieries were contacted, plus 7 senior officials of the relevant administrative 'départements'.

We ourselves took part in the last series of audits.

These visits are organized in such a way that one can visit, without excessive travel, a series of collieries and administrative centres all of which hold vouchers concerning grants for retraining and assistance payments to vocational training, on the one hand, and tideover or travel allowances, on the other hand.

The method used is that of a spot check carefully prepared from the computer listings received by the Commission. When similar data are compared, any differences revealed are investigated on the spot.

Generally speaking, there were no basic problems. Corrections made were usually to the advantage of beneficiaries and any errors were the result of the strictness with which the national departments implement the instructions received from their governments. The assistance granted by the ECSC basically finances measures by the Member States at national level, approval of which within a general pattern of common objectives is leading towards a degree of alignment in the relevant national legislation. Hence, the fact that an official of the central government takes part in these regional audits also means that circulars are sent round to ensure that national measures are uniformly applied by the decentralized departments.

The main result of these on-the-spot audits is thus a valuable cooperation between the national and Community departments which administer the cases qualifying for ECSC financial assistance.

This is a considerable achievement even though, as was the case, no major difficulty was found which might affect the amount of assistance paid by the ECSC. One concludes that the relevant texts are being interpreted correctly and that they may ultimately be applied in a uniform manner.

Important though these audits may be, however, we believe that fuller consideration should be given to them. Those who cooperated with us are prepared to provide opinions or to answer questions concerning the results obtained either by studying representative cases or even by studying the economic context in which they arise.

This is increasingly essential at a time when economic upsets have radically altered the position and prospects of the coal mining industry.

Efforts should be made to ensure that funds are used in the most judicious manner possible, and these on-the-spot audits provide an opportunity of looking beyond the accounting data and giving greater consideration to the particular features and true significance of the assistance given. Thus, to take an example which came to mind during discussions with senior officials in the collieries we visited, one wonders whether, instead of retraining the remaining underground workers with ECSC assistance, it might not be better to replace this assistance forthwith by funds to finance the transfer of these miners to pits which have been reopened or kept open and which, very often, recruit new labour. Is it not rather uneconomical to subsidize measures which themselves entail fresh expenditure on training, if one then has to recruit foreign manpower in the sector?

The financial assistance given by the ECSC is the tangible reflection of the part it plays in general policy in the coal mining sector and it thus has a responsibility to increase the selective nature of its grants by adapting and diversifying them to accommodate new trends in policy dictated by

circumstances. The terms of the agreements concluded with the Governments should permit the Community to do this.

39.83 No on-the-spot audits were conducted in the other Community countries. As regards assistance payments to the Netherlands, these audits are impeded by the fact that the annual computer listings need to be modified. Despite repeated requests by the Institution, this has not yet been done and it has not yet been possible to audit 1973 operations properly as a result.

39.9 As stated in our last report (No 39.9), we should appreciate it if we were automatically sent the audit schedules and, furthermore, if the reports and results of inspections in which we are not always able to take part were forwarded to us systematically, as this kind of information is of great value to the independent Auditor.

Expenditure for technical and social research

40 Extent of our audit

In the sector of technical research (steel, coal, iron ore) and social research (occupational health, safety and medicine) financed by the ECSC, we checked :

- That the amounts of all disbursements during the year were correct, that they were correctly recorded in the accounts and that they were made in accordance with the agreements governing them.
- The existence and validity of research agreements, and that the amounts legally committed under them tallied with the sums held in the corresponding balance sheet provisions.
- The inspection reports compiled by officials of the Directorate-General for Budgets either during projects (interim reports) or on their completion (final reports).
- The progress of current research work conducted by the technical directorates (coal, steel, industrial health, safety and medicine, social housing construction) attached to three directorates-general (Energy, Industrial Affairs and Social Affairs).

We conducted this part of our audit primarily at the Directorate-General for Budgets, which is responsible for preparing estimates of research expenditure, keeping the books for commitments and payments under each project and conducting financial inspections of subsidy beneficiaries together with officials of the authorizing technical departments.

As in 1973, we again paid particular attention to this field in order to add to our earlier conclusions.

Essentially, we did this :

- By analysing the register of research projects which the Institution drew up at our request at the end of 1973.
- By taking part in nine on-the-spot investigations of research projects conducted by the Institution.
- By contacting the competent officials of the Directorate-General for Scientific and Technical Information and Information Management, who are responsible for coordinating the dissemination of information obtained as a result of administering the various research projects.

41 Remarks

Table 19 shows changes in the provision between 31 December 1973 and 31 December 1974 for research projects overall and individually.

The amount still covered in the provision at 31 December 1974 represents the value of research agreements duly signed, less expenditure and any credits cancelled or repaid. It breaks down by sector as follows :

— Steel	10 937 254 u.a.	
— Coal	7 679 588 u.a.	
— Iron ore	189 314 u.a.	
— Social	5 082 049 u.a.,	which comprises 5 010 759 u.a. for industrial safety, health and medicine
		and 71 290 u.a. for the second experimental social housing programme.

42 In the *coal sector*, 49 new contracts and three riders were signed in 1974 (eight in 1973) to a total value of 10 887 857 u.a. A further sum of 32 795 u.a. was allocated to cover the related costs (publication and dissemination of reports and experts' travel expenses).

42.1 There is still a very long time lag between the beneficiary's application and the Institution's final decision. The interval is 8 to 13 months, whilst the contracts are generally signed 1 to 6 months after the date of the Institution's decision.

42.2 Most of the contracts (36) were signed 2 to 10 months after the proposed starting date for the work.

42.3 Total expenditure for the year (8 617 781 u.a.) included 158 022 u.a. for related costs entailed by the making available of research findings.

42.4 We established from the register that for all projects due to end by 31 December 1973 at the latest a final check had been made, followed by a final report or, where the completion date of the contract had to be put back, riders had been added. For the coal sector, the current position is thus fully in order and up to date.

42.5 We took part in 5 on-the-spot audits of 8 projects which had reached completion and 20 final reports. Apart from our comments in the section common to all the research sectors (Nos 46 to 46.7), we have only a few remarks to make.

42.6 Determination of the residual value of equipment purchased for research projects subsidized is still the main, if not the only constant point at issue when the final on-the-spot inspection takes place. In all such cases which we observed, the beneficiaries generally accepted the solutions put forward by the officials of the Institution even when these were unfavourable to them. The stand taken by the Institution on this point is somewhat strict.

42.7 For one project on wave propagation underground, the agreement for which was signed in 1969, an extension was applied for and granted without officially consulting the competent technical officials of the Institution. The situation was corrected after the event by the addition of a rider. One cannot, however, be sure that the additional work is absolutely necessary, since those required to decide on the matter were faced with a *fait accompli*.

43 In the *steel sector*, 96 new contracts and two riders were signed in 1974 to a total value of 7 741 389 u.a. plus 163 357 u.a. to cover the dissemination of research findings and related costs.

43.1 There are still considerable time lags of 4 to 32 months between the beneficiary's application and the Institution's decision.

43.2 We also found that in virtually all cases the date of signature was 3 to 12 months later than the proposed starting date for the work and, in many cases, that the Institution's decision was taken 1 to 7 months after the starting date.

TABLE 20

Technical, economic and social research

Changes, by sector and project, in the provision between 1. 1. 1974 and 31. 12. 1974

Description of research	Sums still covered in the provision at 31. 12. 1973	Changes in 1974	Sums still covered in the provision at 31. 12. 1974	Sums still covered in the provision at 31. 12. 1974 (exchange rates at 31. 12. 1974)
<i>Steel</i>				
Flame radiation IV and V	168 522	—	168 522	168 522
Technical literature from eastern Europe	51 466	— 49 495	1 971	1 971
Calculation and construction method	257 533	— 158 396	99 137	99 137
Low shaft blast furnace VI	269 436	+ 200 127	469 563	469 563
Automation of reversing mills	351 150	— 244 897	106 253	98 786
Gas analysis in steel and pig iron	124 262	— 124 262	—	—
Steel ingot structure	6 739	— 1 827	4 912	4 820
Joint programme on measurement in the steel industry	104 417	— 58 141	46 276	44 252
Continuous pig refining	1 010 620	— 840 699	169 921	161 575
Acceleration of refining in the electric furnace	23 879	— 23 879	—	—
Joint programme on the properties of steel in use	118 915	— 90 379	28 536	28 536
Joint programme on metal physics	4 223	—	4 223	3 925
Purofer direct reduction	229 053	—	229 053	229 053
Reversing mill for medium and heavy plate	15 203	—	15 203	15 203
Fire resistance of metal structures	67 318	—	67 318	63 412
Joint programme on BF automation	47 655	—	47 655	47 655
Ausforming	35 668	— 14 462	21 206	21 206
Cold forming	42 607	—	42 607	41 816
Structure of sinter	9 248	—	9 248	9 248
Green pellets	6 461	— 6 461	—	—
Cast iron	5 048	—	5 048	4 890
Gamma-ray inspection	9 410	— 3 008	6 402	5 713
Rotover	22 332	— 22 332	—	—
Thermomechanical treatment	13 228	—	13 228	11 027
High energy forming	17 706	— 7 399	10 307	8 592
Weldability	44 523	— 32 395	12 128	10 591
Corrosion	47 641	— 1 251	46 390	42 102
Drawability	12 751	— 10 800	1 951	1 951
Machinability	6 858	— 838	6 020	5 896
Fatigue and standard construction	43 003	+ 139 268	182 271	177 634
Brittle fracture	30 072	+ 383 209	413 281	390 488
Steel for high-temperature uses	11 963	— 3 082	8 881	8 023
Steel for heat treatment	14 775	+ 101 874	116 649	112 920
Metal physics	47 393	+ 147 013	194 406	185 914
Casting and solidifying of steel	55 790	+ 521 425	577 215	559 798
Turn-over rolling of slabs	96 255	— 96 255	—	—
Measurement techniques II	454 180	— 237 174	217 006	206 776
Wide strip hot rolling mill	575 633	— 233 184	342 449	339 738
Cooling of wire rod	18 635	—	18 635	18 635
S.E.P. III — drawability	46 814	— 41 590	5 224	4 795
S.E.P. III — weldability	44 516	— 23 046	21 470	20 135
S.E.P. III — corrosion	25 886	— 24 671	1 215	1 173
S.E.P. III — electrical sheet	2 474	+ 16 313	18 787	15 661
S.E.P. III — fracture mechanics	77 488	— 26 043	51 445	48 669
S.E.P. III — creep	18 952	18 952	17 755	—
S.E.P. III fatigue and standard construction	19 254	— 2 662	16 592	16 389
Continuous electric melting shop	192 488	— 111 370	81 118	79 776
Hot compacting of iron ore	400 763	—	400 763	400 763
Automation of oxygen melting shop	202 087	— 91 908	110 179	110 179
Documentation for architects	22 672	— 15 684	6 988	6 988
Measurement techniques III	623 631	+ 165 711	789 342	749 230
Metal physics — thermomechanical treatment	5 388	—	5 388	5 009

TABLE 20 (contd 1)

Description of research	Sums still covered in the provision at 31. 12 1973	Changes in 1974	Sums still covered in the provision at 31. 12 1974	Sums still covered in the provision at 31. 12. 1974 (exchange rates at 31. 12. 1974)
Metal physics — quantitative metallography	49 157	— 4 371	44 786	39 948
Metal physics — metallography atlas	35 056	— 25 290	9 766	9 598
Metal physics — structural mechanisms	38 112	—	38 112	37 649
Dispersoids	139 153	— 13 590	125 563	115 743
BF automation	111 510	+ 41 985	153 495	129 484
Surface defects, semis	236 625	— 166 375	70 250	70 250
Automation of tandem cold rolling mill	372 572	— 178 273	194 299	194 299
BF gas injection	145 730	— 145 730	—	—
Water-cooled steel supp.	49 693	— 13 355	36 338	36 338
Industrialized building	372 747	— 106 802	265 945	252 793
Measurement of heat transfer	17 469	— 14 694	2 775	2 775
Physical metallurgy — quantitative analysis	16 384	— 8 822	7 562	7 030
Physical metallurgy — order — disorder	5 783	—	5 783	5 783
Physical metallurgy — grain boundaries	48 788	— 48 788	—	—
Physical metallurgy — iron lattice vacancy	24 463	— 24 463	—	—
Physical metallurgy — Auger spectrometry	34 116	— 25 895	8 221	8 221
Physical metallurgy — precipitation phenomena	41 648	— 28 463	13 185	13 185
Counterbending of the rolls	48 612	— 37 989	10 623	9 876
Element transfer	24 306	— 18 473	5 833	5 424
Radiant arch-roof furnace	29 887	— 23 405	6 482	6 026
Management of enterprises	358 338	— 211 654	146 684	142 225
Ladle steels	318 396	+ 146 747	465 143	421 232
Ore prereduction, fluidization	48 588	— 38 637	9 951	8 816
Drawability	84 101	— 35 989	48 112	46 166
Sampling mechanisms	39 254	— 32 883	6 371	6 371
Organization of slabbing mill soaking pits	177 587	— 21 066	156 521	149 385
Cold-forming	233 080	— 82 050	151 030	139 483
Calculator process control	452 155	— 92 929	359 226	356 220
Thermomechanical treatment	314 064	— 154 483	159 581	157 378
BF tuyeres	15 840	— 12 299	3 541	3 541
Structural mechanisms	111 118	— 76 811	34 307	32 372
Creep in welded joints	325 903	— 2 230	323 673	310 192
Cold forming of steels	80 753	— 49 951	30 802	30 224
Cast iron	76 109	— 29 638	46 471	45 924
Creep	—	+ 8 589	8 589	7 160
Corrosion	—	+ 259 104	259 104	239 869
Sampling	—	+ 44 111	44 111	42 731
Electronic monitoring	162 181	+ 44 813	206 994	191 215
Electric arc	69 422	+ 184 116	253 538	241 373
Blast furnace	—	+ 238 403	238 403	238 403
Melting shop	—	+ 126 164	126 164	126 164
Measurements	—	+ 59 782	59 782	49 835
S.E.P. — corrosion	—	+ 93 545	93 545	83 883
S.E.P. — fatigue	—	+ 140 076	140 076	124 458
S.E.P. — brittle fracture	—	+ 208 562	208 562	197 720
S.E.P. — creep	—	+ 52 407	52 407	52 407
S.E.P. — heat treatment	—	+ 83 235	83 235	83 235
Physical metallurgy	—	+ 238 911	238 911	238 911
Quantitative metallurgy	—	+ 338 405	338 405	316 721
Uses of steel	—	+ 7 215	7 215	6 015
Technical literature from eastern Europe II	—	+ 308 279	308 279	308 279
Adjustment to the balance sheet exchange rates (see No 4.3)	—	+ 1 439	1 439	4 223
Total steel	10 862 684	— 22 160	10 840 524	10 422 446

TABLE 20 (contd 2)

Description of research	Sums still covered in the provision at 31. 12. 1973	Changes in 1974	Sums still covered in the provision at 31. 12. 1974	Sums still covered in the provision at 31. 12. 1974 (exchange rates at 31. 12. 1974)
<i>Coal</i>				
Firedamp and dust	33 911	— 33 911	—	—
Outbursts of firedamp	32 408	—	32 408	30 130
Control of firedamp outbursts	255 064	— 194 392	60 672	60 672
Coking blend	20 378	— 20 378	—	—
Technical literature from eastern Europe II	57 521	— 13 158	44 363	44 363
Production and efficiency in workings	455 614	+ 256 716	712 330	679 978
Coke manufacture	905 716	— 538 259	367 457	345 528
Physics and chemistry of coal II	37 332	— 37 332	—	—
Physics and chemistry of coal III	11 956	— 11 956	—	—
Cold shotfiring	52 760	— 52 760	—	—
Hydromechanical winning	37 270	— 37 270	—	—
Remote control II	8 097	— 8 097	—	—
Automated plough	11 150	— 11 150	—	—
Mechanized sinking and drivage operations	11 119	— 2 898	8 221	8 221
Ventilation improvement	37 518	— 9 317	28 201	28 201
Special cokes	42 487	— 42 487	—	—
Remote control and monitoring	139 775	— 131 673	8 102	7 533
Rock mechanics	20 038	— 20 038	—	—
Roadway drivage	207 969	— 73 484	134 485	133 093
Physical and chemical upgrading of coal and coke	569 442	— 19 772	549 670	499 246
Thick seams	182 000	— 34 785	147 215	147 215
Winning operations	349 599	— 230 184	59 415	55 239
Telecommunications, automation	55 244	— 38 700	16 544	16 544
Coking of coal	74 260	— 74 260	—	—
Coke oven yields	279 522	— 198 150	81 372	81 372
Upgrading of coal	362 477	— 292 097	70 380	68 697
Pan trains	284 293	— 175 770	108 523	106 789
High-output face	86 292	— 54 986	31 306	31 307
Formed coke	32 228	—	32 228	29 963
Coal-getting equipment	65 222	— 40 686	24 536	24 536
Deformation of mine workings	184 698	— 174 216	10 482	10 482
Sintering and coking of coal	407 792	— 119 574	288 218	288 218
Rope and cable reliability	180 046	— 59 320	120 726	120 726
Method of preparatory work	—	+ 651 277	651 277	625 303
Winning methods	—	+ 1 381 003	1 381 003	1 351 955
Coal improvement and coking	—	+ 758 967	758 967	688 743
General services underground	—	+ 542 054	542 054	505 722
Upgrading of coal and coke	—	+ 1 116 767	1 116 767	1 034 587
Winning and drivage methods	—	+ 275 320	275 320	251 879
Adjustment to the balance sheet exchange rates (see No 4.3)	—	— 649	649	266
Total coal	5 491 198	+ 2 170 395	7 661 593	7 275 976
<i>Iron ore</i>				
Iron ore mining techniques	112 214	—	112 214	104 328
Iron ore mining, Bassin Est, France	81 020	— 56 714	24 306	22 598
Iron ore winning, semi-hard	93 174	— 77 645	15 529	15 529
Difficult mining	201 873	— 164 608	37 265	37 265
Total iron ore	448 281	— 298 967	189 314	179 720

TABLE 20 (contd 3)

Description of research	Sums still covered in the provision at 31. 12. 1973	Changes in 1974	Sums still covered in the provision at 31. 12. 1974	Sums still covered in the provision at 31. 12. 1974 (exchange rates at 31. 12. 1974)
<i>Industrial safety, health and medicine</i>				
Rescue by means of boreholes	—	+ 123 330	123 330	114 663
Stone-dust barriers	26 606	+ 251 302	277 908	266 830
Mine fires	210 068	— 138 266	71 802	67 804
Occupational safety and medicine	8 081	+ 64 985	73 066	73 066
Physiopathology and clinical studies I	162 260	— 52 391	109 869	99 821
Traumatology	142 164	— 27 999	114 165	108 084
Human factors — Ergonomics	417 447	— 226 138	191 309	181 435
Burns therapy and rehabilitation	94 013	— 10 642	83 371	77 604
Physiopathology and clinical studies II	994 622	+ 179 949	1 174 571	1 079 949
Dust in mines	338 690	— 276 303	112 387	110 147
Steelworks dust	1 007 591	+ 314 688	1 322 279	1 272 945
Health in mines	—	+ 972 610	972 610	926 250
Occupational health and medicine II	103	— 103	—	—
Pollution control in the iron and steel industry	—	+ 385 168	385 168	385 168
Adjustment to the balance sheet exchange rates (see No 4.3)	—	— 1 076	1 076	222
Total industrial safety, health and medicine	3 451 645	+ 1 559 114	5 010 759	4 763 544
<i>Social housing</i>				
Second experimental programme	71 290	—	71 290	71 290
Total social housing	71 290	—	71 290	71 290
<i>Making available of research findings</i>				
Steel	91 025	+ 6 578	97 603	94 788
Coal	121 978	— 103 983	17 995	17 995
Adjustment to the balance sheet exchange rates (see No 4.3)	—	— 873	873	432
Total, making available of research findings	213 003	— 98 278	114 725	113 215
Sum total	20 578 101	+ 3 310 104	23 888 205	22 826 191

43.3 Expenditure for the year (7 416 470 u.a.) included 130 346 u.a. for related costs.

43.4 We ascertained from the register that :

43.41 55 projects were completed in 1974 and the balances paid out after final on-the-spot checks by inspectors of the Institution.

43.42 23 projects, work on which was scheduled under the contract to end between 31 December 1969 and 31 December 1973, had not yet been completed nor had a final scientific report, or a final financial report or sometimes neither been compiled by 31 December 1974, whereas these two phases are supposed to be completed not later than 6 months after the research project ends.

43.5 On reading the new contracts we noted that in one case the heading 'unspecified costs', generally set at 30 % of staff costs, had been limited to 27.5 % of these costs.

43.6 In the sector parallel to steel, the *iron ore sector*, no new contracts were signed during 1974. For one of the two research projects, originally supposed to end on 30 June 1968, a final report had been compiled and this file was thus finally closed.

In this sector, we took part in an inspection designed to terminate another matter of long standing which should originally have been settled on 30 June 1968. It proved impossible to find any substantiating documents at the headquarters of the company which was formed as the result of a merger of two other firms, one of which was the true beneficiary of the research subsidy. Work on the project, which should have ended on 30 June 1968 under the terms of the contract was extended until 31 December 1969 without the Institution's consent. It was thus impossible to distinguish between expenditure incurred during the period covered by the contract and that which was incurred after the contract ended and should thus in principle be refused. A letter dated 15 July 1968 which asked for an extension was subsequently discovered by the Institution, which took no action on it. This matter is still pending.

44 In the *sector of industrial safety, health and medicine* provisions for 1974 totalled 4 814 377 u.a., comprising credits committed under contracts duly signed under a number of general programmes or as part of special initiatives :

— Occupational health and medicine	(2nd programme) 2 856 000 u.a.)
— Mine fires	(621 669 u.a.)
— Occupational safety	(3 067 000 u.a.)
— Physiopathology	(1st programme 3 000 000 u.a.)
— Physiopathology	(2nd programme 3 500 000 u.a.)
— Traumatology	(1 800 000 u.a.)
— Human factors — Ergonomics	(3 200 000 u.a.)
— Burns	(1 500 000 u.a.)
— Dust in mines	(6 000 000 u.a.)
— Steelworks dust	(4 000 000 u.a.)
— Health in mines	(3rd programme 6 000 000 u.a.)
— Stone-dust barriers	(678 882 u.a.)
— Pollution control in the iron and steel industry	(10 000 000 u.a.)
— Ergonomics and rehabilitation	(9 000 000 u.a.)
— Rescue by means of boreholes	(218 299 u.a.)

In 1974, 61 contracts and 15 riders were signed. Most of the riders granted an extension of the research period, whilst some of them contained amendments to the financing schedule (rearrangement of the categories of expenditure).

In 1974, two programmes were signed, one for pollution control in the steel industry, the other for ergonomics and rehabilitation with a view to improving the safety and well-being of coal and steel workers during the next five years.

44.1 Note must be taken of the time lag between the beneficiary's application and the Institution's decision, and allowance must be made, if appropriate, for the date on which the overall programme of which the project forms part was approved.

In 1974, these time lags vary between a few months and 17 months for projects not attached to a programme. For projects which do form part of programmes, the time lags are up to 20 months but are never more than 10 months for programmes which have already been approved.

44.2 About 45 contracts were signed 2 to 13 months after the starting date for the work. In one case, the rider extending the period of research was signed three months after the end of the extension which had been requested.

44.3 Expenditure for the year (2 979 971 u.a.) included 61 885 u.a. for related costs (publication costs and experts' travel expenses). In addition to these related costs, the social sector also has credits charged under item 252/1 of the single administrative budget (160 000 u.a. in 1974).

44.4 We ascertained from the register that :

44.41 18 projects were completed in 1974 and the balances paid out. In 12 of these cases, one or both of the two reports required under the terms of the contract were not submitted.

44.42 For 31 projects which should have ended not later than 31 December 1973, no final check was made, or the financial or technical report, or both, had not been received.

44.5 We analysed 20 or so reports forwarded by the relevant departments and we took part in three on-the-spot checks of ten research projects. These operations prompted a number of comments.

44.51 The final check on the research project 'specific aptitude tests for crane drivers', due to end on 30 April 1968 was conducted on 6 April 1973. The work began in 1966 but was extended to 31 January 1970, after the researcher had received permission in the form of a simple letter from the head of the authorizing department. This procedure departs from the terms of the contract which stipulate that any extension requires the signature of the parties to the contract.

44.52 The final check on the research project 'organization and safety in the mining and steel industries' states that it was not possible to provide documentary proof of the salaries paid to a number of researchers who are paid out of government funds (Ministry of Education, for example) since documents evidencing expenditure are retained by the accountant who is answerable to the Audit Office. In a large number of similar cases checking operations were carried out on the charging of a part of the researcher's salary to the project accounts in proportion to the amount of time he spent on the project.

44.53 In two cases, new national legislation prevented proper use of the Community subsidy and even made it impossible to continue the project which had already begun over a year late for the same reason. Under this new legislation research workers may not receive any money other than their university salary — even for work over and above their official duties — and no new staff may be recruited, which means that these researchers can no longer seek assistance for their work, which is only partly covered by the university budget. At our request, the Institution collected documentation on this, and the Legal Department has been instructed to study it and give an opinion. This matter must be followed up — and we shall do so — particularly since the establishments concerned had previously made a considerable contribution in a field where the amount of assistance and cooperation possible is necessarily restricted by the fact that intensive specialization and high qualifications are required.

45 As regards the dissemination of information, 1974 was devoted to the preparation of a new body of measures. These will be supervised by the Directorate-General for Scientific and Technical Information and Information Management, together with the competent technical officials, and the result will be a regular publication giving essential information on programmes approved or proposed, contracts concluded, progress in current projects and results obtained.

This information will be published regularly in the periodical 'Euroabstracts', in an edition entitled 'Section II — Coal and Steel' with four broad subdivisions :

- Research programmes, giving details of the decisions by the Institution which launched them.
- Research agreements, giving a summary of the findings of each project currently in progress and quoting the contract numbers and names of the subsidy beneficiaries.
- Scientific and technical publications, in the form either of excerpts from final reports or summaries of symposia and seminars. The relevant information will be given, viz. author, contract number, beneficiary, name of periodical or conference paper, price of the document and how to obtain it.
- Patents granted during research work subsidized by the ECSC. These are identified by country, number and date filed, holder and reference to the official publication of allowance.

The devising of this system required sustained cooperation between the various departments responsible for its implementation.

The first step is the joint drafting of texts, taking account of the new requirements of the appendix to the contract which defines the obligations of subsidy beneficiaries with regard to the safeguarding and dissemination of research findings. The Directorate-General for Scientific and Technical Information and Information Management systematically collects the elements necessary for its regular publications, which it receives from the competent technical officials in the various sectors.

In addition to these recurrent activities, which ensure that information is disseminated on a regular basis, similar cooperation is practised in the organization of study sessions, symposia or seminars. This covers initiatives in the field such as problems of practical implementation and collection of results.

If this new aid is to function properly, however, there will have to be stricter surveillance in future of beneficiaries' obligations as regards their submission of the technical reports required under the terms of the contracts.

Financially speaking, apart from funds already set aside for the research projects themselves and the additional amounts already charged to the operating budget of the European Communities, operations by the Directorate-General for Scientific and Technical Information and Information Management will depend on the amount of credits available in this budget for publications.

45.1 The ECSC pays part of the costs of filing, protecting and keeping patents taken out as a result of research projects, in a proportion equal to its financial contribution to the work. In return, it is entitled to the same proportion of any royalties received by the beneficiary if he grants operating licences.

In 1974 the Institution paid part of the costs of filing, protecting and holding 32 patents in the coal sector to a total value of 11 154.86 u.a. and for 12 patents in the steel sector to a total value of 1208.47 It did not collect any royalties during the year.

In 1974 the Institution compiled a full list of patents lodged in connection with research work in the coal sector which received financial assistance from the Community. This list was to be published early in 1975 in 'Euroabstracts — Coal and Steel' issued by the Directorate-General for Scientific and Technical Information and Information Management. Considerable progress had also been made in listing the patents taken out as a result of research work in the steel sector.

46 The dossiers we checked were all for existing contracts. These were essentially closed files, which are sent to us regularly, and those nearing completion and undergoing final on-the-spot checks in which we took part. In these cases, it was thus not to be expected that the imperfections or omissions mentioned in our previous report would be corrected. Our findings, which we shall not repeat here since they were described last year bore out the conclusions which we outline briefly at the end of this particular study.

46.1 Greater consideration must be given to methods and procedures when preparing a dossier. But experience has shown that account must always be taken of the technical consultations essential when processing the application and a serious study to decide whether or not it should be granted, on the one hand, and the requirements of the Treaty when following a complex procedure, on the other (Annex I, No 81). It is clearly difficult for the external Auditor to assess how far procedures could be speeded up or improved, since to do this he would have to put himself in the place of the competent officials of the various institutions and bodies concerned.

46.2 The legal instrument enacting the agreement between the Community and the beneficiary is the contract signed by the two parties. In financial matters, an instrument of this kind is indispensable and must be adhered to. It is perfectly normal that this should reflect the various changes decided on during the period of the project and riders must thus be drawn up promptly as and when required.

For the external Auditor, the contract is of paramount importance since he is not equipped to decide on the expediency of this or that matter, but must refer to bases which are solid and beyond question. This does not impede the administrative flexibility required provided this respects the broad lines of the contract and makes the factual corrections which no contract can claim to cover entirely.

As we stated earlier, the form of contract has been markedly improved by the addition of appendices which, depending on the case in question, deal with the elements peculiar to the individual loan contract or state in a standardized manner the general terms attaching to each contract.

The main requirement, obviously, is that elements used in determining financial assistance should be as clear as possible and that one must be able, when assessing questions which usually cause disagreement at the time of the final check, to use established criteria, whether these are arbitrary or designed to provide elements for a precise and detailed calculation.

46.3 As regards the executory phase of research work, it should be pointed out that the present system is inadequate in that it is not possible to follow the financial and technical operations closely. Advances are paid on the basis of information submitted by the beneficiaries but these elements do not necessarily serve their purpose, i.e. fair remuneration for the work done, since they are viewed more as an assurance that the work is continuing and do not always indicate exactly the actual state of progress reached. Meetings of management committees or committees of experts, held at periodic but not necessarily regular intervals, might remedy this inadequacy, but in our view the question can only be fully solved in conjunction with constant surveillance of the kind described below.

46.4 On completion of the work, the beneficiary's obligations under the contract require him to submit a financial and a technical report within six months of completing the work. In reply to our comments on the late submission of these reports the Institution, without disputing this obligation, has always argued that both these reports are simply restatements of information previously submitted whilst the work was actually proceeding. In the past, however, it is this late submission of the reports which has delayed the final settling of accounts, an operation which, as of last year, has been speeded up as a result of the data contained in the register compiled at our instigation.

Whatever may happen as a result of remedying this state of affairs, it must in any event be borne in mind that the obligations imposed by the Institution must be respected if they are not to lose all significance. The solution is not to decide whether or not this should be done but rather to alter the exact terms under which it is done.

At all events, having paid for the work, the Community has an undisputed right to receive a technical and financial account of the work it has subsidized, in the most appropriate form and as promptly as possible. On this depends not so much the closing of the file as the results expected from this Community activity, viz. dissemination of the knowledge acquired and the cost of the investment.

46.5 Under the present system the final on-the-spot check which generally precedes payment of the balance due has hitherto provided the main, if not the only opportunity for cooperation between the competent financial and technical officials during execution and administration of the project. Unfortunately, these exchanges of views are held so long after actual completion of the work that they are no longer meaningful. The above remarks, plus those made in greater detail last year, underline the inefficacy of a check which is not able to base itself on recent documents and which is very often totally unable to give any explanation for any omissions detected. It would in fact be hard to do so since the time it takes to organize these checks, sometimes very long, means that the beneficiary, who is not always the one at fault, is faced with consequences which in all good faith he cannot always foresee or record on the basis of very old documents which cannot always be found and which no longer have any very clear significance. These checks can only be meaningful if they are related directly to the current administration of the project. After taking part in several inspection visits in the various sectors we are fully convinced that this is an absolute necessity.

46.6 With regard to the dissemination of research findings, we noted that the empirical methods used in previous years have given way to a more systematic organization of the opera-

tions proposed. We shall not presume here to give an opinion on a system which is yet to prove itself. Nevertheless it seems to us to have the features we suggested last year, i.e. it provides a constant flow of information in a form concise enough to overcome the problems of language and volume which, as the number of operations increased, came to be more and more of a burden to the older methods and authorizing departments, whose essential task is still to prepare programmes and administer research work.

46.7 In conclusion we would say that a new sharing of administrative work is necessary, in the form of a constant surveillance, whereby the competent technical and financial officials can compare notes regularly on progress reached in research projects, on questions concerning the reasons for discrepancies between costs and estimates, on the need to update contracts and on the many kinds of difficulties which are regularly encountered in this kind of work. Using this new approach it should be possible to find a method which will settle questions as and when they arise and will at the same time be sufficiently flexible. In this way the external Auditor will be able to find substantiation, in the files themselves, of points which are subsequently sometimes inexplicable, since there is generally very little record of agreements reached at technical or other meetings and since these agreements are only assessed a very long time after they were given.

Expenditure incurred by the granting of reduced-interest loans for structural reorganization (Article 56) and industrial investments (Article 54)

47 Extent of our audit

Our audit is required to check :

- The existence of official decisions relating to the granting of the loan, its actual conclusion and the amount of the interest reduction granted.
- The calculation of the reduction as updated during its five-year period and the fact that it is covered adequately in the provision.
- The correctness of transfers out of the provision to the sundry revenue heading of the loan service account as and when interest on the loans granted falls due.

These checks were carried out with the Directorate-General for Credit and Investments.

48 Remarks

As a result of our criticism ⁽¹⁾, the Institution decided as from 1974 to bring its method of assessing the provision earmarked to reduce its debts in respect of interest reduction payments into line with the practice it follows in other fields. In these other fields the allocation to the provision is made at the time when the loan agreement (research) and the acceptance (rehabilitation) acquire legal force through signature by the two parties — Community and beneficiary. In this case too, the allocation to the provision will henceforth be made not when the decision to grant an interest reduction is made but when the agreement for the loan receiving the reduction is signed.

Compared to 1973, new reductions for the year were up by 8 896 471 u.a. 5 852 038 u.a. for loans under Article 54 and 3 044 433 u.a. for loans under Article 56.

48.1 The *provision for interest reductions on loans for industrial structural reorganization* (Article 56) totalled 7 862 412 u.a. at 31 December 1974. New commitments approved during the year totalled 3 457 410 u.a. for 13 signed loan agreements. Reductions disbursed totalled 3 321 754 u.a. of which 502 124 u.a. were interest reductions on four loans to a total value of 18 012 203 u.a. which were granted by other bodies for the same purposes of industrial structural reorganization as those provided for in Article 56. In the case of these four loans the reductions are paid out every year directly to the beneficiary enterprises and do not affect the ECSC's loan service.

48.2 The *provision for interest reductions on loans for the financing of industrial investments in the coal and steel sectors* (Commission decision of 18 June 1970, taken on the basis of Article 54) totalled 9 622 344 u.a. at 31 December 1974. New commitments for the year totalled

(1) 1973 Auditor's Report, No 48.

6 111 473 u.a. and concerned 13 loans to a total of 40 743 157 u.a. Total disbursements were 1 828 883 u.a. and all related to loans granted by the ECSC.

48.3 The sums shown in these two provisions — 5 614 513 u.a. up on those for 1973 — thus represent binding commitments this year but no longer comprise exclusively the part of levy income for the year which is earmarked for this financial assistance.

In the same way as last year, 'future commitments' include a sum of 4 032 747 u.a. which is designed to cover the granting of interest reductions during the first six months of 1975.

On the balance sheet, the existence of this reserve set aside for possible future allocations represents an increase in the 'unallocated balance'.

Movements caused by this procedure, which is designed to reflect the Institution's desire to maintain its estimates in relation to the 'operating budget' break down as follows :

Future commitments	Article 54	Article 56	Total
Position at 31. 12. 1973	2 503 115	2 596 204	5 099 319
Less :			
— sums earmarked in 1974	2 264 755	2 536 875	4 801 630
— transfer to unallocated balance	238 360	59 239	297 689
Position at 30. 6. 1974	0	0	0
Allocations in 1974 (position at 31. 12. 1974)	— 396 718	4 429 466	4 032 747

48.4 A number of conclusions may be drawn from the above :

- The new commitments for 1974 (9 568 883 u.a.) described under 48.1 and 48.2 thus include 4 801 630 u.a. financed out of levy income for 1973 which was recorded in the accounts at 31 December 1973 as future commitments, whilst the rest (4 767 253 u.a.) was drawn from levy resources during 1974.
- This latter figure also shows that the Institution subscribed commitments this year for all the funds it had earmarked for interest reductions under Article 54, and even more (hence the minus figure in the table), but that it did not manage to carry out its 1974 programme for the sector covered in Article 56 (commitments totalling 920 534 u.a. or 17.2 %) and this fact alone explains the high amount of future commitments.
- These explanatory facts are based on an attitude entertained by the Institution which is in no way governed by imperative rules since the Institution's operating 'budget' is merely an estimate which can be adapted at any time whenever the economic situation — which changes — so requires. We did not, however, have the impression that the situation had caused any particular concern to the Institution.

In addition, the transfer of 297 689 u.a. to the unallocated balance shows that the Institution has abandoned entirely its initial plan to earmark this portion of its 1973 resources for interest reductions, though there is no indication of the new use to which these resources were, or would be put.

Assistance to coking coal and coke

49 Extent of our audit

We examined the machinery of financial assistance to coking coal and steel industry blast furnace coke in the Member States under Decision No 1/70, which lapsed on 31 December 1972, and Decision No 73/287/ECSC, which came into force on 1 January 1973. Our audit checked :

- The accounting entries and correctness of Community assistance payments with regard to the financial provisions of the above Decisions.
- That the elements used to determine the financial assistance given by the ECSC were correctly recorded, i.e. :
 - quarterly information from enterprises concerning their purchases of coking coal or coke from non-Community countries for supply to blast furnaces in the steel industry ;
 - quarterly statements from Member States of assistance to sales (by enterprise, coalfield and country of destination), which indicate, *inter alia*, the elements used to determine the basis of assessment for sales assistance.
- That the declarations made by coke suppliers were consistent with those made by the consumers.

These checks were carried out chiefly by examining documents forwarded to us by the Directorate-General for Budgets and those supplied by the Directorate-General for Energy which administers the assistance machinery for the Institution.

50 Remarks

50.1 In 1974, the final account was drawn up for assistance disbursed under Decision No 1/70, which covered the three years 1970-72. The end result of this first system appears as follows :

Years	Countries	Tonnage (in tonnes)		ECSC contribution
		declared	reduced	
1970	Germany	17 813 561	16 897 210	3 379 442
	Belgium	108 364	102 790	20 558
1970	Community	17 921 925	17 000 000	3 400 000
1971	Germany	17 160 406	17 000 000	2 550 000
1972	Germany	15 988 814	15 988 814	1 598 881

For 1970 and 1971 the tonnage declared was fixed at an annual maximum of 17 million, in accordance with Article 8, Paragraph 2 of Decision No 1/70. For this reason a corrective coefficient of 0.9485588 for 1970 and 0.9906525 ⁽¹⁾ for 1971 was applied both to the production taken into account for each of the supplier countries and, consequently, to the Community's financial contribution. The tonnages declared for 1972 were lower than the set maximum.

50.2 An accelerated financing procedure has been introduced whereby contributions by Member States and the ECSC are paid and distributed on the basis of provisional quarterly statements which are followed, after checking, by disbursement of the final amount.

Payments under the new system in 1974 (Decision No 73/287/ECSC) totalled 4 535 527 u.a. This amount results from converting the total amount of assistance paid, i.e. DM 14 603 400 (15 million tonnes at 0.266 u.a., or 3 990 000 u.a.) at the rate of 1 u.a. = DM 3.66. But Decision No 3542/73/ECSC applies to all operations during 1974 (Article 6) — particularly the decision regarding assistance under discussion here (Article 4) — and the conversion rate should thus have been 1 u.a. = DM 3.21978, which would have meant assistance totalling DM 12 846 922. The accounts would have shown the equivalent value of this payment as 3 990 000 u.a. The reason for this difference is that the Institution treated this payment as belonging in 1973 whilst we consider that it belongs in 1974, even though the elements for calculation were taken from operations in the previous year.

The Institution must correct this situation as soon as possible in the next due payment, the amount of which has been correctly entered in the provisions (5 million u.a.).

(1) Arrived at from the following ratios :

$$\frac{17\,000\,000}{17\,921\,925} \text{ for 1970 and } \frac{17\,000\,000}{17\,160\,406} \text{ for 1971.}$$

Administrative expenditure

51 Extent of our audit

Administrative expenditure totalled 18 496 749 u.a. This was the ECSC's annual contribution to the administrative operating costs of the Commission of the European Communities, under Article 20, Paragraph 2 of the Treaty of merger of the Executives. As an integral part of the budget of the single Executive, external auditing responsibility for this expenditure belongs exclusively to the Audit Board of the Commission of the European Communities.

Our own task is simply to check that the amount of this annual contribution paid to the administrative budget of the European Communities is correct and disbursed in the required manner.

52 Remarks

52.1 The obligation to pay the contribution of 18 million u.a. laid down in the Treaty of merger was not affected by recent decisions ⁽¹⁾ amending the conversion rules for the ECSC unit of account. It is because of the double conversion that the real amount shown in the ECSC accounts is different from that specified in the Treaty of merger. In fact, the payment in currency is based on the parities of the various currencies as declared to the IMF, a system which ended for the ECSC on 31 December 1973 but which is still applicable to the general budget of the European Communities.

Nevertheless, for the sake of uniformity in its accounts, the Institution was obliged to reconvert the currency amounts actually paid at the new exchange rate used in converting the balance sheet at 31 December 1973. In the event, the excess is due to the fact that once again the full amount of the contribution was paid in BFr, the operation being calculated at an exchange rate of 1 u.a. = BFr 50 but shown in the accounts at 1 u.a. = BFr 48.6572.

The comments we made in our three previous reports ⁽²⁾ are all the more pertinent this year if we note that the excess of 496 749 u.a. is totally unjustified in regard to the objective system we had desired, since it must be borne in mind that the payment solely in BFr of these 18 486 749 u.a. also led to an exchange loss of 336 580 u.a. which was entered in the accounts among 'other expenditure' under the heading 'exchange differences' (800 392 u.a.) and accounts for over 40 % of this figure (see No 29.1).

If the currency amounts paid had been paid in proportion to levy receipts in the various national currencies the ECSC would, on the contrary, have made a slight profit (23 030 u.a.).

52.2 Our second comment, which is also made in the previous reports, concerns the erroneous charging of administrative expenditure to financial costs relating exclusively to the ECSC's borrowing and lending operations.

Here too, the situation is unchanged.

⁽¹⁾ Decisions Nos 3541/73/ECSC and 3542/73/ECSC of 19. 12. 1973 (OJ L 361 of 29. 12. 1973, p. 11).

⁽²⁾ ECSC Auditor's Report for 1971 (No 107), 1972 (No 101) and 1973 (No 52.1).

Borrowing, lending and guarantee operations

53 Extent of our audit

53.1 With regard to borrowings, our audit covered the whole process entailed by the floating of ECSC loans, in particular :

- Private and public loan agreements.
- Operations following each issue : transfer of funds, analysis of the issuing costs, payment of coupons, redemptions, calculations of interest paid and due.
- Accounts of operations related to borrowings.
- Borrowing operations with reference to the terms of the agreements governing them.

53.2 With regard to *loans* granted out of borrowed or own funds, our audit covered the ECSC's entire credit operations, more particularly :

- Loan agreements.
- Related operations : transfer of funds loaned, calculation of interest paid and due, checking that due dates and repayment schedules were respected, fees to national agents.
- Guarantees obtained.
- Allocation of loans with reference to the terms of the Treaty (depending on the origin of funds and proposed use of the loans).
- Loan operations with reference to the terms of the agreements governing them.
- Accounts of operations relating to loans.
- Any disputes.

53.3 *With regard to the service of all borrowings and the corresponding loans*, our audit concentrated on the operating account for borrowings contracted and loans granted out of these borrowings.

53.4 With regard to *guarantee operations*, we checked that fees received by the Institution for its guarantee activities were correct, as well as the expenditure incurred by remuneration of agent banks in the various countries for their assistance and operations connected with supervision of dossiers. We also examined commitments still due from companies for which the Institution had previously stood surety and ensured, more especially, that amounts still guaranteed under the repayment schedule for loans contracted by enterprises were correct.

54 **Remarks**

54.1 *Borrowings*

Table 21 shows the main characteristics of each loan contracted by the ECSC from its inception to 31 December 1974, with the initial amounts borrowed and the balance outstanding at the end of the 1974 financial year.

As can be seen, the ECSC has contracted 100 loans on the international market and various national markets since its inception, to a value of 2 102.8 million u.a. Less repayments, this sum was 1 702.3 million u.a. at 31 December 1974.

With the fourteen borrowings to a value of 600.6 million u.a. which were collected during 1974, the Institution had available to it borrowed funds totalling 659.8 million u.a., including a residue from borrowings contracted before 1974 but not yet reloaned (59.2 million u.a.).

54.12 Total borrowings contracted and collected during 1974 more than doubled by comparison with the previous year, in which the figure had already been a record one (289.7 million u.a.). ECSC borrowing operations were thus particularly vigorous despite a general rise in interest rates which may be seen in Table 7. In 1973 the 14 borrowings were contracted at rates between 6.25 and 8 % whilst the corresponding rates for 1974 were between 7 and 10 %. Most of the loans floated by the Institution were private loans raised in Germany and on the international market, though two other operations were concluded, one in Italy, the other in Switzerland. Apart from these two loans and the public loan floated in the Grand-Duchy of Luxembourg, all loans, whatever their type, were floated in US \$ and in DM.

Before floating its five-year public loan of US \$ 100 million at 8.75 %, the Institution had on two previous occasions raised some US \$ 50 million on the American market, but had had to withdraw from this market due to deteriorating conditions there. On its return to this market, however, the American authorities classified the ECSC as a first-class issuer ranking as A.A.A.

Our audit of loans floated in 1974 requires no particular comments or observations on our part.

54.13 The end cost of certain borrowings contracted in 1974 was higher than the yield on loans. These were granted at interest rates of 8.25, 9.25 and 10 %, whilst the final rate on most of the borrowings was between 9.25 and 10 %.

Admittedly, the loan operating account has so far, thanks to the compensation of costs and receipts relating to loan service, shown a profit which constitutes a provision designed to cover losses of this kind. The balance sheet at 31 December 1974 shows, amongst the 'sundry provisions', a reserve for 'compensation of borrowing costs' (8 828 829 u.a.) and an unallocated balance (6 380 402 u.a.) entitled 'profit on loan service, to be distributed'. There appears to be no clear or justified distinction between these two reserves: they should in fact be combined since they are both designed to cover cost differences between loans raised and loans granted.

Given the current market conditions, which are in a state of extreme flux and which lead to considerable gains and losses in loan administration of the kind described above, the Institution must give particular attention to seeking an adequate balance between borrowing costs and the terms it lays down for the corresponding loans. This ties up with our previous comment on the financial consequences of the US \$ 20 million loan floated in 1971 (1).

54.14 The Institution made a laudable attempt to improve its method of writing off recoverable issuing costs.

In the case of new borrowings, the amount written off was exactly the same as the sum recovered in annual repayments from loan debtors.

In the case of earlier borrowings, whose issuing costs were written off more quickly than is normal and without any formal plan, after establishing the amount which should have appeared on the assets side of the last balance sheet, the annual amount written off was reduced to the pro-rata amount of the sum actually remaining. Whilst this second part of the procedure repre-

(1) Auditor's Report for 1971 (No 114), 1972 (No 110) and 1973 (No 54.13).

TABLE 21

ECSC borrowings

Characteristics, initial amounts and balances outstanding for each borrowing at 31. 12. 1974

Floated maturing in	Initial amount currencies	Description of loan	Balances outstanding at 31. 12. 1974 currencies	Balances outstanding at 31. 12. 1974 (exchange rates at 31. 12. 1974)
	in \$		in \$	
1954/1979 (1)	100 000 000	3-875 % private loan	30 700 000	22 861 654
1957/1975 (1)	25 000 000	5-5 % debenture loan	2 200 000	1 638 294
1957/1962 (1)	10 000 000	5 % bearer bonds and private loan	—	—
1958/1978 (1)	35 000 000	5 % debenture loan	9 700 000	7 223 389
1958/1963 (1)	15 000 000	4-5 % bearer bonds	—	—
1960/1980 (1)	25 000 000	5-375 % debenture loan	10 150 000	7 558 495
1960/1965 (1)	10 000 000	4-75 % to 5 % bearer bonds	—	—
1962/1982	25 000 000	5-25 % debenture loan	13 450 000	10 015 936
1964/1984	30 000 000	5-25 % debenture loan	20 000 000	14 893 585
1966/1986	15 000 000	6-5 % debenture loan	12 000 000	8 936 151
1966/1986	20 000 000	6-5 % debenture loan	15 950 000	11 877 634
1967/1987	25 000 000	6-5 % debenture loan	21 600 000	16 085 072
1967/1987	20 000 000	6-62 % debenture loan	17 300 000	12 882 951
1971/1986	20 000 000	7-75 % debenture loan	20 000 000	14 893 585
1973/1988	30 000 000	7 % private loan	30 000 000	22 340 378
1974/1989	50 000 000	7-75 % private loan	50 000 000	37 233 964
1974/1979	20 000 000	8-25 % private loan	20 000 000	14 893 585
1974/1982	100 000 000	9-25 % private loan	100 000 000	74 467 927
1974/1984	100 000 000	9-5 % private loan	100 000 000	74 467 927
1974/1984	200 000 000	10 % private loan	200 000 000	148 935 853
1974/1979	100 000 000	8-75 % debenture loan	100 000 000	74 467 927
	975 000 000		773 050 000	575 674 307
	in DM		in DM	
1956/1981 (1)	50 000 000	3-75 % private loan	14 969 800	4 649 324
1957/1977 (1)	2 977 450	4-25 % private loan	598 467,44	185 872
1964/1976	100 000 000	5-75 % private loan	23 000 000	7 143 345
1964/1979	100 000 000	5-5 % debenture loan	41 900 000	13 013 311
1964/1976	30 000 000	5-75 % private loan	6 000 000	1 863 481
1965/1983	150 000 000	5-5 % debenture loan	104 000 000	32 300 343
1965/1970	23 000 000	5-5 % private loan	—	—
1967/1972	30 000 000	6-75 % private loan	—	—
1968/1978	120 000 000	6-5, 6-75 and 6-875 % private loan	60 000 000	18 634 814
1968/1981	60 000 000	6-25 % private loan	42 000 000	13 044 369
1969/1984	40 000 000	6-25 % private loan	40 000 000	12 423 209
1969/1982	50 000 000	6-5 % private loan	40 000 000	12 423 209
1969/1984	50 000 000	6-75 % private loan	50 000 000	15 529 011
1971/1986	100 000 000	7-5 % debenture loan	100 000 000	31 058 023
1972/1987	100 000 000	6-5 % debenture loan	100 000 000	31 058 023
1972/1988	150 000 000	7 % debenture loan	150 000 000	46 587 034
1973/1988	150 000 000	6-75 % debenture loan	150 000 000	46 587 034
1973/1988	100 000 000	7-75 % debenture loan	100 000 000	31 058 023
1974/1979	20 000 000	10 % private loan	20 000 000	6 211 605
1974/1979	30 000 000	10 % private loan	30 000 000	9 317 407
1974/1981	50 000 000	10 % private loan	50 000 000	15 529 011
1974/1981	150 000 000	9-75 % debenture loan	150 000 000	46 587 034
	1 655 977 450		1 272 468 267,44	395 203 482
			Carry forward	970 877 789

(1) These loans were concluded under the 1954 Act of Pledge between the ECSC and the Bank for International Settlements.

TABLE 21 (contd.)

Floated maturing in	Initial amount currencies	Description of loan	Balances outstanding at 31. 12. 1974 currencies	Balances outstanding at 31. 12. 1974 (exchange rates at 31. 12. 1974)
			carried forward	970 877 789
	in Lit		in Lit	
1963/1983	15 000 000 000	5.5 % debenture loan	9 000 000 000	10 310 637
1966/1986	15 000 000 000	6 % debenture loan	12 000 000 000	13 747 515
1966/1986	15 000 000 000	6 % private loan	12 000 000 000	13 747 515
1968/1988	15 000 000 000	6 % debenture loan	14 000 000 000	16 038 768
1968/1988	15 000 000 000	6 % debenture loan	14 000 000 000	16 038 768
1972/1987	20 000 000 000	7 % debenture loan	20 000 000 000	22 912 526
1972/1987	20 000 000 000	7 % private loan	20 000 000 000	22 912 526
1974/1989	10 000 000 000	7 % private loan	10 000 000 000	11 456 263
	125 000 000 000		111 000 000 000	127 164 518
	in NFL		in NFL	
1961/1981 (1)	50 000 000	4.5 % debenture loan	23 200 000	6 914 908
1961/1966	10 000 000	4.5 % private loan	—	—
1962/1987	6 000 000	4.75 % private loan	3 120 000	929 936
1962/1982	25 000 000	4.75 % private loan	13 450 000	4 008 858
1962/1967	20 000 000	4.5 % private loan	—	—
1963/1968	10 000 000	4.5 % private loan	—	—
1963/1993	1 750 000	4.625 % private loan	1 112 000	331 439
1964/1984	25 000 000	5.75 debenture loan	16 750 000	4 992 444
1965/1985	40 000 000	5.75 debenture loan	29 400 000	8 762 857
1967/1972	20 000 000	6.375 % private loan	—	—
	207 750 000		87 032 000	25 940 442
	in FFr		in FFr	
1964/1984	150 000 000	5 % debenture loan	93 750 000	15 692 950
1971/1989	150 000 000	8.5 % debenture loan	150 000 000	25 108 721
1972/1987	150 000 000	7.25 % debenture loan	150 000 000	25 108 721
1973/1988	60 000 000	7.5 % private loan	60 000 000	10 043 488
1973/1980	50 000 000	7 % debenture loan	50 000 000	8 369 574
1973/1991	150 000 000	7.5 % debenture loan	150 000 000	25 108 721
	710 000 000		653 750 000	109 432 175
	in SFr		in SFr	
1956/1974 (1)	50 000 000	4.25 % debenture loan	—	—
1961/1966	9 000 000	5.25 % private loan	—	—
1961/1966	2 290 000	4.5 % private loan	—	—
1962/1980	60 000 000	4.5 % debenture loan	28 500 000	8 439 818
1969/1987	60 000 000	5.5 % debenture loan	60 000 000	17 768 038
1972/1984	50 000 000	7.25 % private loan	50 000 000	14 806 699
1973/1988	80 000 000	6.25 % debenture loan	80 000 000	23 690 718
1973/1978	65 000 000	6.75 % private loan	65 000 000	19 248 708
1973/1980	75 000 000	7 % private loan	75 000 000	22 210 048
1973/1978	50 000 000	7.25 % private loan	50 000 000	14 806 699
1974/1979	20 000 000	9.25 % private loan	20 000 000	5 922 679
	521 290 000		428 500 000	126 893 407
			Carry forward	1 360 308 331

(1) These loans were concluded under the 1954 Act of Pledge between the ECSC and the Bank for International Settlements.

TABLE 21 (contd.)

Floated maturing in	Initial amount currencies	Description of loan	Balances outstanding at 31. 12. 1974 currencies	Balances outstanding at 31. 12. 1974 (exchange rates at 31. 12. 1974)
			carried forward	1 360 308 331
	in FLux		in FLux	
1957/1982 (1)	5 000 000	3.5 % private loan	—	—
1957/1982 (1)	100 000 000	5.375 % private loan	51 307 036	1 054 459
1961/1986 (1)	100 000 000	5.25 % private loan	69 673 305	1 431 922
1961/1986	100 000 000	5 % private loan	69 129 900	1 420 754
1962/1977	300 000 000	4.75 % debenture loan	90 000 000	1 849 675
1962/1987	250 000 000	5.125 % private loan	183 800 250	3 777 452
1964/1984	150 000 000	5.375 % private loan	100 000 000	2 055 194
1971/1979	150 000 000	6.5 % debenture loan	150 000 000	3 082 791
1971/1986	250 000 000	7 % debenture loan	250 000 000	5 137 986
1971/1983	300 000 000	7.75 % private loan	300 000 000	6 165 583
1972/1984	300 000 000	6.75 % private loan	300 000 000	6 165 583
1972/1987	400 000 000	6.75 % debenture loan	400 000 000	8 220 777
1973/1988	300 000 000	6.75 % private loan	300 000 000	6 165 583
1973/1985	800 000 000	7 % private loan	800 000 000	16 441 554
1973/1988	800 000 000	7 % private loan	800 000 000	16 441 554
1973/1985	300 000 000	8 % private loan	300 000 000	6 165 583
1973/1985	200 000 000	8 % private loan	200 000 000	4 110 389
1973/1988	500 000 000	7.25 % debenture loan	500 000 000	10 275 972
1973/1981	250 000 000	7.5 % private loan	250 000 000	5 137 986
1974/1981	400 000 000	10 % debenture loan	400 000 000	8 220 777
	5 955 000 000		5 513 910 491	113 321 574
	in UA		in UA	
1966/1986	20 000 000	5.75 % debenture loan	16 100 000	16 100 000
	in BFr		in BFr	
1957/1982 (1)	200 000 000	3.5 % private loan	84 800 000	1 742 805
1957/1982 (1)	20 000 000	3.5 % private loan	8 480 000	174 280
1962/1982	300 000 000	5.25 % private loan	168 000 000	3 452 726
1963/1983	300 000 000	5.5 % private loan	189 000 000	3 884 317
1968/1983	750 000 000	6.75 % debenture loan	690 000 000	14 180 841
1970/1990	500 000 000	8.75 % private loan	500 000 000	10 275 972
1971/1986	700 000 000	7.75 % debenture loan	700 000 000	14 386 360
1973/1985	1 000 000 000	7.75 % debenture loan	1 000 000 000	20 551 943
	3 770 000 000		3 340 280 000	68 649 244
	in £		in £	
1970/1990	50 000 000	8 % debenture loan	50 000 000	56 836 266
			Total	1 615 215 415

(1) These loans were concluded under the 1954 Act of Pledge between the ECSC and the Bank for International Settlements.

sents a marked progression, we are nevertheless unable to understand why writing off operations were not simply blocked in order to permit a swift overall correction of the item to be written off.

54.15 Recoverable issuing costs include the sum of 12 703 u.a. incurred in 1974 in connection with a DM loan floated in 1965. These are the costs of a coupon renewal made when the loan, which is still current, had reached five years before maturity.

54.16 As regards the item 'profit on loan service', it should be noted that the amount of 6 380 402 u.a. ought to be the same, both at the 1973 balance sheet exchange rate and the 1974 rates. The decrease in the Institution's balance sheet (Table 29) is due to the fact that the Institution reduced the profit obtained from readjusting item VI of the assets 'recoverable issuing costs'.

54.2 *Loans*

54.21 A. — Loans granted out of borrowed funds

Compared with the previous year, loans granted out of borrowed funds in 1974 (404 million u.a.) were up by almost 35 %.

54.22 Table 1, showing the use made of loans granted out of borrowed funds, reveals that the greater part of the 403 740 677 u.a. disbursed in 1974 was accounted for by loans to finance industrial investments under Article 54 of the ECSC Treaty (87.1 %), followed by loans for industrial structural reorganization (12.8 %) and social housing (0.1 %).

Industrial loans under Article 54 of the Treaty were made to coal and steel investments within the general objectives of the Community.

There were 62 of these loans, 13 of which were granted either interest-free or at reduced rates of interest. This Community assistance was given to investments concerning the protection of the environment, a vocational training centre, a research centre for special steels and long distance heating plant.

In 1974 the ECSC granted 14 loans for *industrial structural reorganization* under Article 56 of the Treaty. Thirteen of these were granted at reduced rates of interest.

Two loans for the *construction of social housing* were granted out of borrowed funds in 1974 under the seventh programme, for the normal portion (207 039 u.a. in Italy) and the experimental portion (214 109 u.a. in France).

54.23 As stated in the notes to the statement of income (No 28.4 the interest rate of 8.25 % per annum, which had applied since December 1973, remained unchanged till 13 July 1974 when it was increased to 9.25 %. This rate applied until 25 November 1974 when it was again raised to 10 %.

By its decision of 18 June 1970 ⁽¹⁾ the Institution reduced this rate by three points, which meant that industrial loans and loans for structural reorganization could be granted at a reduced rate of interest which was fixed successively at 5.25 %, 6.25 % and 7 %.

As regards loans for the construction of social housing, the normal rate of interest is always charged, but it must be borne in mind that the beneficiaries receive more favourable conditions thanks to the method of combining funds, whereby the greater part of funds loaned are drawn from the ECSC's own funds which carry only a very low rate of interest.

For the rest, and as a general principle when changing the rates of interest, the Institution reserves the right to set different conditions in special cases, based on the characteristics of the borrowed funds used. In 1974 we found several instances where the rate of interest on the loans granted differed from the rate applying when the loans were contracted.

⁽¹⁾ OJ C 73 of 18. 6. 1970.

Amount of loan	Date	Interest %	Interest on corresponding borrowing %	Official rate % %, applying since
Sfrs 12 400 000	6. 3. 1974	7.5	6.75 — 7	8.25 19. 12. 1973
Lit 1 500 000 000	18. 7. 1974	8.25	7	9.25 13. 7. 1974
BFrS 350 000 000	29. 7. 1974	8.25	7.75	9.25 13. 7. 1974
Lit 6 750 000 000	31. 7. 1974	8.25	7	9.25 13. 7. 1974
US \$ 10 000 000	31. 7. 1974	8.25	10	9.25 13. 7. 1974
DM 19 700 000	20. 8. 1974	10.25	10	9.25 13. 7. 1974
DM 30 300 000	17. 9. 1974	10.25	10	9.25 13. 7. 1974
DM 25 000 000	21. 10. 1974	10.25	10	9.25 13. 7. 1974

In all these cases except one the rate of interest on the loans was higher than that on the corresponding borrowings out of which they were granted. For the three DM loans the rate of 10.25 % was determined with reference to the real cost of the corresponding borrowing. In the case of the SFrs loan, a special decision by the Institution decreed that the current rate should not be applied to loans granted out of the corresponding borrowing.

As for the four other loans granted within 18 days of the date on which the current interest rate (9.25 %) was changed, the rate at which these were granted (8.25 %) was that applying when the letter containing the offer was sent. This was the result of the Institution's new policy, which was introduced in 1974 and which put an end to earlier confusion regarding the reference date (date of signature, disbursement or date of the letter offering a loan) on the basis of which the rate of interest was determined.

The speed at which interest rates were rising prompted the Institution on 25 November 1974, the date on which it raised its rate to 10 %, to constitute a provision for compensation of borrowing costs, designed to cover the difference between the actual cost of borrowings contracted and the yield on loans financed out of these borrowings.

At the time this decision was taken the Institution estimated the necessary cover at about 9 million u.a. and decided to draw the funds for the provision out of the following reserves :

— Reserve for compensation of borrowing costs	6 million u.a.
— Reserve for doubtful debtors under the levy	0.5 million u.a.
— Available portion of the reserve for depreciation of the portfolio, estimated at	0.5 million u.a.
— Unallocated guarantee fee	approx. 1.8 million u.a.

At 31 December 1974, and based this time on detailed calculations, the provision for compensation of borrowing costs was 8 828 829 u.a.

54.24 In order to *guarantee loans* granted out of borrowed funds, the ECSC makes use of a variety of securities. These are listed by country in Table 22. It will be seen that first mortgages, followed by the guarantee of Member States, financial establishments and industrial groupings, provide the security for the greater part of the loans granted.

54.25 As regards *disputes* the situation has remained unchanged since 1968.

It will be recalled that under the regulation concerning the rationalization plan agreed on in 1968 between the ECSC and an enterprise receiving an industrial loan, the Institution took over a sum of 81 298 u.a. in 1974, representing 25.4 % of the repayment instalment accrued on this debt at 31 December 1974. Two other debtors who defaulted in 1968 also still appear under sundry debtors for a total amount of 732 098 u.a. Recovery of one of these loans (41 931 u.a.) appears unlikely. The Institution still hopes to be able to collect the other (690 117 u.a.), which was secured by a mortgage.

At 31 December 1974 loans still outstanding from defaulting debtors represented only 0.05 % of all loans granted out of borrowed funds.

If we consider the sums entered between 1968 and 1974 in the 'provision for doubtful debtors in respect of borrowings' — a provision which, in reality, covers the risks attaching to annual repayments due from debtors in respect of loans out of borrowed funds — we find that the Institution has not followed a consistent line of procedure and that, furthermore, it has made provision for debts which are not of one and the same kind.

It first entered in this provision, as from 1968, the amount of principal and interest for debts which were due but not yet paid. These same sums were shown on the assets side of the balance sheet among financial debtors. In 1970, a new allocation of 1 800 000 u.a. increased this provision so that it now represented the total amount of a loan to be repaid by two enterprises, plus the sums which the ECSC had agreed to bear under a settlement with a defaulting enterprise. As for the fourth debt, it was paid off in full in 1970 but still remains entered in the provisions.

If we assess the total amount of the debt owed by the three enterprises at 31 December 1974, i.e. principal and interest due from the two defaulting enterprises plus the amount of the debt taken over by the Institution under a settlement with the third enterprise, we arrive at a sum of 1 373 599 u.a., whilst the provision totals 1 764 112 u.a.

TABLE 22

Loans granted out of borrowed funds
Breakdown by country and type of security obtained
Balances outstanding at 31. 12. 1974

Type of security	Belgium	Denmark	Germany	France	Italy	Luxembourg	Netherlands	United Kingdom	Total
1. Government guarantees and negative clauses	1 902 971			5 979 282					7 882 253
2. Guarantees of Member States	65 203 607		69 578 444	81 489 431	24 874 175	1 074 697		70 663 286	312 883 640
3. Indemnity bonds of financial establishments	7 489 720		92 411 705	138 047 237	37 676 103		5 054 906		280 679 671
4. Indemnity bonds of financial establishments and mortgages			17 858 123				2 414 541		20 272 664
5. First mortgages	10 457	7 809 738	397 116 714	421 748	2 691 710		10 530 432		418 580 799
6. Second mortgages			17 767 869				9 264 092		27 031 961
7. Indemnity bonds of industrial groups and negative clauses	2 587 595			8 176 998	388 139				11 152 732
8. Indemnity bonds of industrial groups	21 066 349		15 348 173	40 740 809	126 111 807		2 222 749		205 489 887
9. Negative clauses and miscellaneous	1 146 744		9 033 511	3 670 488	140 032	2 273 447	7 366 804		23 631 026
10. Registered mortgage bonds			4 649 324				429 320		5 078 644
11. Bank guarantees			13 973 861	100 455 244			13 777 209		128 206 314
12. No guarantee				428 217	207 039				635 256
Total per country and for the Community	99 407 443	7 809 738	637 737 724	379 409 454	192 089 005	3 348 144	51 060 053	70 663 286	1 441 524 847

This provision for doubtful debtors in respect of borrowings' thus contains allocations of totally differing kinds. In our view, the only sums justified are those designed to cover the successive annual repayments which the ECSC takes over from a defaulting company. It is not, however, acceptable for a debt still to be shown as if it had not yet been repaid. Nor is the assumption justified, in view of the security on two of the loans outstanding, that they will represent a total loss, since it is by no means sure that they are irrecoverable.

As in the case of all other provisions, we are convinced that this allocation should be reserved for real and calculable costs, as represented by one of the debts and the interest due on it. No other provision should be necessary and would in any case deprive of all meaning the guarantees obtained from loan debtors.

54.26 B. — Loans granted out of non-borrowed funds

During 1974, 80 loans were granted to a total value of 5 857 595 u.a., bringing the loan total at 31 December 1974 to 95 579 996 u.a.

54.27 Allocations out of the special reserve

During 1974, 9 loans for the financing of social housing construction programmes were granted to a value of 4 495 763 u.a. Current loans of this kind, totalling 81 040 405 u.a., represent 85 % of total loans out of non-borrowed funds. Since the methods used to finance this form of activity are so varied, a special section has been devoted to them in order to give a better overall picture.

Since 1966-67 loans for *industrial structural reorganization* (earlier outstanding loans granted out of the special reserve still totalled 738 379 u.a. at the end of 1974) have generally been granted out of borrowed funds at a reduced rate of interest, whilst since 1959 and 1966 respectively loans for the *social rehabilitation of workers* (total now outstanding 356 921 u.a.) and *research* (total now outstanding 2 284 496 u.a.) have been financed exclusively by outright grants. In all these cases, operations concerned the continuation of earlier initiatives, and do not call for any comment.

As regards guarantees, Table 23 shows the various types of security required by the Institution on loans granted out of the special reserve.

TABLE 23

Loans granted out of the special reserve

*Breakdown by country and type of security obtained
Balances outstanding at 31. 12. 1974*

Country	Government guarantee	Registered mortgage bond	Mortgage	Indemnity bond and other guarantees	No guarantee	Total (exchange rates at 31. 12. 1974)
Belgium	2 341 797	—	—	—	—	2 341 797
Denmark	—	—	—	—	271 829	271 829
Germany	1 398 482	27 117 755	—	14 227 092	4 910 167	47 653 496
France	977 985	—	666 971	11 266 546	2 430 323	15 341 825
Italy	—	—	45 768	5 107 477	177 973	5 331 218
Luxembourg	1 790 550	—	—	—	—	1 790 550
Netherlands	—	1 552 913	56 160	3 183 827	—	4 792 900
United Kingdom	1 722 079	—	—	—	—	1 722 079
Total	8 230 893	28 670 668	768 899	33 784 942	7 790 292	79 245 694

54.28 Allocations out of the former pension fund

During 1974, 71 loans were granted to officials of the Community Institutions for the construction of personal housing. The total at 31 December 1974 was 11 156 795 u.a. or 12 % of total loans out of non-borrowed funds. They are thus below the present ceiling of 13.6 million u.a. The ceiling is 3.1 million u.a. higher than at the end of 1973 (10.5 million u.a.) and was fixed, as decreed by the Decision of 1970 (1), at 40 % of the former pension fund. The latter totalled 33 949 726 u.a. at 31 December 1974 after allocation of part of the contribution paid by the new Member States (see point 22).

Inspections carried out by us at the Directorate-General for Personnel and Administration, where the records of the recipients of housing loans are kept, again revealed a number of points raised in our previous report (2).

The drawbacks resulting from differences in legislation on marital status still continue :

- Loan beneficiaries do not always, when making their application, provide proof that they are able to put down 10 % of the total cost of the investment themselves.
- In a number of dossiers, documents necessary for the granting of loans are missing, e.g. land register excerpt, building specification, certificate of marital status, document evidencing that the applicant's apartment is not owner-occupied, copy of the purchase deed for an apartment, etc. Applicants fail to reply (when checks are carried out) or provide incomplete replies to questions put by the Administration (e.g. on the provisional use to be made of the dwelling).
- The social purpose of this loan system, which is to assist Community officials to purchase a first property, is not always respected. Thus, for example, officials receive loans for a secondary residence away from their place of origin or work which, on their own admission, is only occupied during the holidays or during their retirement.
- Despite the Council's recommendation, the condition that housing located at the official's place of work must be occupied full time is not always fulfilled. Similarly, the exception whereby financial assistance to build a dwelling away from the place of origin, granted to officials aged 50 and over, is also granted to persons below that age limit.

54.3 *Guarantee operations*

Under Article 52(2) and Article 54 of the Treaty, the ECSC may extend its guarantee to loans contracted by coal and steel enterprises with non-Community bodies. Of the three operations guaranteed before 1966 — there have been none since then — two are still current, representing a total net commitment guaranteed at 31 December 1974 of 22 517 066 u.a. We have no comment to make on our examination of these guarantees extended by the ECSC for commitments entered upon by companies receiving non-Community loans.

(1) Council Decision of 2. 3. 1970.

(2) 1973 Auditor's Report, point 54.28.

Management and investment of funds

55 Extent of our audit

In this field, where operations are numerous and speedy, the objective of our auditing activities is to ensure at all times that the requirements of good investment management, i.e. yield, security and liquidity, are respected. To this end we systematically examine the Institution's investments, principally with regard to the dates of fixed deposits and the various operations (e.g. arbitrage) connected with portfolio assets. We thus examine systematically all revenues other than levy income : interest, income on bank accounts and investments, interest on loans granted out of own funds, fines and interest on arrears and miscellaneous revenue. For each account we check that the revenue amounts were correct, that their dates were duly respected and that they were correctly charged.

Our audit is based on examination of the accounting vouchers, contracts and bank agreements on which the Institution's entitlement to its various revenues is founded.

56 Remarks

56.1 Between 1971 and 1974 the average annual return on liquid assets rose from 5.8 % to 10.10 %. This rate is based on the ratio between such returns and the arithmetical average of the assets which yield them. In 1974, the average liquid assets were 311 million u.a.

At 31 December 1974 the ECSC held liquid assets of 609 593 757 u.a. which are shown on the balance sheet assets under the headings 'cash and banks' (515 204 518 u.a.), 'short and medium-term investments' (26 876 357 u.a.) and 'portfolio' (67 512 882 u.a.).

The greater part of these funds (542 080 875 u.a.) is held at banks in current accounts at sight and at notice, in fixed deposits with a term of less than one year or in the form of other short and medium-term investments. A number of fixed deposits (FFr 9 500 000) bearing a low rate of interest have, however, been held for an extremely long period. These funds were entrusted from 1963-1966 to a bank which was to reloan them to coal mining enterprises for boiler construction. The normal maturity date of these investments was to be 10 years after consolidation of the loans by the beneficiaries. Now that more than 10 years have elapsed since the first assistance payments were made, the Institution should ask the agent bank why these loans have not been repaid.

By way of illustration, Table 24 shows a breakdown by country and currency of all liquid assets at the date of the balance sheet. This breakdown is clearly subject to frequent changes, particularly when interest rates are fluctuating as at present.

Table 25 gives a breakdown, by currency and interest rate, of bank holdings at sight and at notice (except for short and medium-term investments and the portfolio). This two-fold breakdown is clearly shown as a percentage of total liquid assets available at sight and at notice.

TABLE 24

Breakdown by country and currency of funds held by the ECSC at 31 December 1974
(in million units of account, exchange rates at 31. 12. 1974)

Country	Currency											Total per country	%	
	BF	DKr	DM	FFr	£ Irl	Lit	LFr	NFL	£	SFr	\$			UA
Belgium	8 685			1 322		5 327	2	387			210		15 933	2.83
Denmark		735											735	0.13
Germany			134 207	335			23				129 886		264 451	47.04
France				36 849		1 718			1 184		2 656		42 407	7.54
Ireland					104								104	0.02
Italy						29 491					24 311		53 802	9.57
Luxembourg	3 435		11 802	8 229	5 264	16 033			2 532		11 884	1 194	60 373	10.74
Netherlands							12 154				998		13 152	2.34
United Kingdom				1 674		2 291			444		51 500		102 556	18.24
Switzerland				2 176					1 409		5 128		3 585	0.64
USA													5 128	0.91
Total per currency	12 120	735	146 009	50 585	104	44 091	16 035	12 564	46 647	5 569	226 573	1 194	562 226	100
%	2.16	0.13	25.97	9	0.02	7.84	2.85	2.23	8.30	0.99	40.30	0.21	100	

TABLE 25

Breakdown of investments held with banks in current accounts and fixed deposits at 31 December 1974, by currency and rate of interest
(in thousand units of account, exchange rates at 31. 12. 1974)

Rate of interest %	Currency											Total	%			
	DKr	£ Irl	DM	BFr	FFr	Lit	LFr	NFL	£	SFr	\$					
<i>Current accounts</i>																
0 — 0.5	55	104	70	106	328	76	270	98	1 211	160	2 139	4 617	0.98			
0.5 — 1.5			3 273	653		254		250		36		4 466	0.95			
1.5 — 3				297	1	1 788	248	241				2 575	0.55			
3 — 4					801		1					802	0.17			
4 — 6					96							96	0.22			
6 — 7.5					1 392							1 392	0.30			
Total current accounts	55	104	3 343	1 056	2 618	2 118	519	589	1 211	196	2 139	13 948	2.97			
<i>Fixed deposits</i>																
3 — 4					3 259							3 259	0.69			
4 — 5					335							335	0.07			
5 — 6										503		503	0.11			
7 — 8											484	16 927	0.60			
8 — 9				1 978			1 644	5 812				66 121	14.04			
9 — 10	112		16 927				802	1 788				168 877	35.87			
10 — 11	568		59 321				10 070					63 396	13.46			
11 — 12			9 317				2 055	1 446				25 659	5.45			
12 — 13				5 750					3 668			16 625	3.53			
13 — 14				678					873			38 927	8.27			
14 — 15					4 519				3 494			24 645	5.23			
15 — 17					4 268				28 823			11 789	2.50			
17 — 20					7 951				8 577			17 215	3.66			
20 — 26					3 760						1 117	2 615	0.55			
					352											
Total fixed deposits	680	---	85 565	8 406	41 016	38 974	14 571	9 046	45 435	4 161	209 039	456 893	97.03			
Sum total	735	104	88 908	9 462	43 634	41 092	15 090	9 635	46 646	4 357	211 178	470 841	100.---			
% of Sum total	0.16	0.02	18.88	2.01	9.27	8.73	3.20	2.05	9.91	0.92	44.85	100				

It will be seen from these tables that the biggest share of liquid assets — 40.3 %, comprising for the most part borrowed funds not yet disbursed as loans — is accounted for by US \$ invested with financial establishments in eight countries.

The higher yield on investments compared with the preceding year is largely due to two facts.

Firstly, the amount of liquid assets which, at 31 December 1974 had almost doubled (515 204 518 u.a. compared with 265 391 435 u.a, an increase of more than 94 %), remained higher than its 1973 level throughout the year, as a result of increased financial activity.

Secondly, higher interest rates provided a greater profit yield. Among the most significant increases it should be noted that 35.87 % of capital assets yielded between 9 and 10 % (26.01 % in 1973), that 14.04 yielded between 8 and 9 % (6.79 % in 1973) and that 8.27 % yielded between 13 and 14 % (0.84 % in 1973).

56.2 It is interesting to compare the changes between 1973 and 1974 in both the size of investments and their interest rates, for each currency.

Currency	Investments as % of whole			% interest yield		
	1973	1974	Difference	1973 between	1974 between	Difference
DM	33.5	26,—	— 7.5	12 & 13	8 & 9	— 4
Lit	12.8	7.8	— 5,—	6 & 7	17 & 20	+ 11
FFr	12.9	9,—	— 3.9	8 & 9	15 & 17	+ 7
US \$	11,—	40.3	+ 29.3	9 & 10	9 & 10	— —
FI	3.7	2.2	— 1.5	9 & 10	8 & 9	— 1
BFr	8.4	2.2	— 6.2	9 & 10	11 & 12	+ 2
SFr	5.5	1,—	— 4.5	6 & 7	10 & 11	+ 4
LFr	4.5	2.8	— 1.7	9 & 10	11 & 12	+ 2
£	7.6	8.3	+ 0.7	15 & 17	13 & 14	— 2

Investments in US \$ thus increased most, because US \$ borrowings were particularly high and a large part of these funds (US \$ 276 900 000) formed part of the liquid assets at the balance sheet date. Nearly all the interest rates on investments in the various currencies increased in 1974 except for those on DM, FI, US \$ and £ sterling investments. Rates which rose most markedly were on investments in Lit, FFr and SFr.

The general rise in interest on short and medium-term investments together with the increase in funds invested explains why returns as a whole were 78 % higher in 1974 than in the previous year (see No 32.1). Table 14 gives details of these returns.

In order to assist us in our audit, we regularly received monthly computer print-out statements for the ECSC's entire liquid assets (with dates and movements for all accounts, by currency and country) and for the securities portfolio, market prices, nominal values and interest due dates.

56.3 At 31 December 1974, coupons overdue on securities held for the ECSC by financial organizations amounted to 42 154 u.a. (compared with 31 194 u.a. at 31 December 1973). Apart from a sum of 272 u.a. still due for five years' coupons, the amount still unpaid consisted almost entirely of a number of sums due in 1973 (3 982 u.a.) and 1974 (37 900 u.a.).

56.4 During 1974 there were no further transfer operations of liquid assets from one currency to another ⁽¹⁾, required by short-term monetary conditions or the need to cover an exchange risk for a certain term.

(1) 1973 Auditor's Report, No 56.4.

Two operations of this kind, begun in 1973 and continuing into 1974, concerning sums of US \$ 24 315 505 and SFr 42 465 441 respectively, were completed leaving a final net exchange cost for these transfers of 45 311 u.a., notwithstanding the overall positive result.

56.5 We ascertained a large exchange loss of 353 144 u.a. resulting from two operations carried out within four days of each other and concerning conversion of a total of Lit 3 230 875 000 into US \$ 4 849 019.

This exchange operation was made necessary by the abnormal increase in liquid assets held in lire. The Institution's policy is to maintain its liquid assets in the various Member States' currencies in roughly the same proportion as its receipts in these currencies from the levy.

In the event, and even if this holding had been kept in lire until the closing of the accounts, the depreciation of this currency, predictable and later confirmed, would in any case have necessitated the recording in the balance sheet of a loss very close to the cost of the exchange operation.

The reason for these losses must thus be sought among the reasons which prompted the steady growth in liquid assets held in lire : one cannot but note with regret here that the Institution was unable to grant to Italy a sufficiently large part of the assistance it gives from its levy resources (research, rehabilitation) or from its own funds (social housing, interest reductions on loans).

56.6 Other exchange losses for 1974 totalling 336 580 u.a., are the result solely of the conversion into BFr of the flat-rate amount of 18 million u.a. which the ECSC pays as its share of operating costs incurred by the single Executive. To fulfil this obligation, and apart from all considerations regarding the nature of its available liquid assets, the Institution was obliged to convert into BFr sums in other currencies, which produced exchange gains and losses in 1974 depending on the operation in question and resulted in the overall net loss mentioned above (No 52.1, notes on these procedures and the amount of the real loss).

56.7 Whilst banks consistently use the same method of interest calculation, either 360/360, 365/365 days or 365/360 days, it was found that banks in Belgium do not follow these consistent methods but apply at random the formula which will be most profitable to themselves and which, in the event, tend to be least profitable to the ECSC. Drawbacks of this kind might be avoided in future if the Institution were to agree with each bank of a definitive calculation method.

56.8 Similarly, in the case of bank accounts requiring 48 hours' notice, interest is calculated in a number of different ways. In some countries, e.g. Germany, credit interest is calculated as per the day on which the capital invested or the current rate of interest changes. In banks in other countries, e.g. Luxembourg, United Kingdom, interest is calculated at different fixed intervals, e.g. every quarter.

These procedures, which differ according to the banks or countries concerned, should be especially borne in mind by the Institution when it is deciding where to invest funds.

56.9 We found several instances of interest payments between one and three months overdue from banks on funds invested with them by the Institution.

56.10 A telex order sent by the Institution omitted to give the date of the transaction, and the Institution was thus charged several days' debit interest (US \$ 1 044 on a sum of US \$ 734 413) at a rate of 12.75 % per annum.

56.11 With regard to the property in Washington, the Commission of the European Communities continued in 1974, as in previous years, to pay the ECSC a rent of US \$ 42 000, as if the conversion rate of the US \$ against the u.a. had remained unchanged. In view of the new rules for converting the dollar against the unit of account, the sums paid in respect of this Washington property continue to be 13 231 u.a. short, despite reminders from the competent departments of the Institution. This difference should be made good without delay for the three years 1972, 1973 and 1974.

Furthermore, whilst the full amount of insurance for the building — a large part of which is payable under ordinary law by the tenant — has been borne by the ECSC and charged to its financial costs incurred through investments, the Institution has not asked for reimbursement of the portion payable by the Communities.

These two observations on the management of ECSC funds prompt two conclusions. Firstly, the Commission should fully respect the commitments it has undertaken and, secondly, the lease for the Washington property should provide for a fair apportionment of the costs and responsibilities normally incumbent upon the parties concerned.

Financing of social housing construction

57 Extent of our audit

ECSC assistance in this sphere currently takes the forms of loans granted out of own funds and borrowed funds, and it is our responsibility :

- To analyse the characteristics of each loan on the basis of an information sheet drawn up by the financial departments on payment of the first instalment and which summarizes the financial characteristics of the loan contract.
- To supervise operations relating to the loans, by ensuring :
 - that loan operations are conducted in accordance with the terms of the relevant loan contract ;
 - that funds loaned are duly disbursed ;
 - that interest paid and due is correctly calculated ;
 - that payment dates and the repayment schedule are respected ;
 - that fees to national agents are duly paid.
- To check the guarantees obtained.
- To check the correct recording of loan operations in the accounts.
- To check that the loan contract terms and any termination clauses applied have been upheld throughout the financing period.

Remarks

58 From its inception up to 31 December 1974 the ECSC has helped finance the implementation of seven standard programmes for the construction of social housing and three experimental programmes. The latter are designed to solve the pressing problem of housing for workers in ECSC industries and to help ease current housing problems in general.

The standard programmes are financed from loans granted out of the special reserve (67 %) and borrowed funds (33 %). The first of the three experimental programmes was financed entirely by subsidies for technical research, the second by both subsidies and loans and the third exclusively by loans.

Under the seven standard programmes and three experimental programmes currently being financed, 122 233 dwellings had been completed by 31 December 1974 out of the 132 160 receiving aid. The total cost of this housing is 1.461 thousand million u.a., financed both by the ECSC and other sources of funds raised by the ECSC. Of this amount, the ECSC paid 111.76 million u.a. out of own funds and 49.78 million u.a. out of borrowed funds.

Table 26 shows the amounts of assistance granted to the seven programmes financed, grouped according to the nature and origin of the funds disbursed.

TABLE 26

ECSC assistance to social housing construction

Breakdown by programme and type of assistance
Position at 31. 12. 1974

	Outright subsidies	Amounts disbursed (including repayments)			
		Loans out of borrowed funds	Loans out of the special reserve	Loans out of levy income, granted for technical and economic research	Loans out of levy income, granted for rehabilitation assistance
— <i>Social housing construction</i>					
— 1st programme		21 077 936	15 473 059		
— 2nd programme		2 898 059	12 785 198		
— 3rd programme		3 843 533	19 731 209		
— 4th programme		12 618 556	28 346 917		
— 5th programme (standard and special)		6 753 849	20 847 326		
— 6th programme		442 894	14 217 401		
— 7th programme (standard and experimental)		2 142 595			
<i>Housing for rehabilitated workers</i>					529 816
<i>Experimental social housing construction</i>					
— 1st programme	995 838				
— 2nd programme	904 176		360 883	3 195 988	
Total	1 900 014	49 777 422	111 761 993	3 195 988	529 816

During 1974 loans under the seventh programme were disbursed partly out of the special reserve and borrowed funds, for both the normal and experimental instalments (4 916 911 u.a.).

The breakdown of these loans by country is as follows: Denmark 271 829 u.a., Germany 561 218 u.a., France 414 102 u.a., Italy 1 331 957 u.a., Luxembourg 411 039 u.a., and the United Kingdom 1 926 766 u.a.

59 The special reserve which guarantees these loan operations was unchanged at 31 December 1974.

Under a decision of 22 December 1972 ⁽¹⁾ the Commission made provision for the allocation of 60 % of the former pension fund, i.e. the part hitherto uncommitted, ⁽²⁾ as extra security on social housing commitments.

If we calculate the amount to be covered by adding total loans at 31 December 1974 and the amount still to be disbursed for the programmes not yet completed at the same date, given that a sum for earlier loans to structural reorganization guaranteed by the same reserve is still outstanding we arrive at a figure of 102 672 049 u.a. (1973 u.a.) or 99 316 826 u.a. (1974 u.a.). As

⁽¹⁾ Since this concerns a financial guarantee, the wording of the decision ought to have included the stipulation in question, which is only stated explicitly in the notes to the draft decision.

⁽²⁾ 40 % of the pension fund existing at the time of the merger of the Executives (25 509 351 u.a.) plus the interest added to it since guarantee the building loans granted to officials of the European Communities.

these two figures have to be related to a figure of 90 million u.a., which remains the same at both the 1973 and 1974 exchange rates, we conclude that the 60 % proportion of the pension fund guarantees sums totalling 12 672 049 u.a. (1973) or 9 316 826 u.a. (1974).

As the amount of the former pension fund was 25 509 351 u.a. in 1968, and has since increased by 7 million u.a. as a result of the 1974 contribution paid by the new Member States, it in fact provides additional cover of 19 505 610 u.a. (60 %). In view of the above, the margin remaining at 31 December 1974 is thus 6 833 561 u.a. (1973) or 10 188 784 u.a. (1974).

TABLE 27

Progress achieved in social housing construction projects at 31. 12. 1974

Breakdown by country (standard and experimental programmes)

Land	Number of dwellings financed	comprising dwellings		
		in preparation	under construction	completed
Belgium	7 189	—	436	6 753
Denmark	62	20	21	21
Germany	84 270	962	1 512	81 796
France	25 069	2 011	1 286	21 772
Ireland	115	115	—	—
Italy	6 575	400	—	6 175
Luxembourg	945	6	2	937
Netherlands	4 779	—	—	4 779
United Kingdom	3 156	—	3 156	—
Total for the nine countries	132 160	3 514	6 413	122 233

60 Table 27 shows details of progress achieved in the seven construction programmes financed by the ECSC at 31 December 1974, as revealed in the dossiers kept by the authorizing departments.

61 The one dispute to which we alluded in our previous report concerned a residue of 10 656 u.a. which was being held unjustifiably by a regional bank. This dispute was satisfactorily solved in October 1974 when the full amount of this residue was repaid to the ECSC.

62 In our previous report, we questioned the discrepancy between the terms of a loan contract for FI 2 million and its implementation, and the principle of giving Community financial assistance to the purchase of housing for steelworkers. It seemed to us that this interpretation was incompatible with the objectives consistently followed by the Institution.

A decision was taken by the Institution which agreed that there was a discrepancy. Although the draft text of the eighth programme still includes the possibility of financial assistance in the purchase of housing, this has been strictly limited to exceptional cases.

It is important to recall at this point that the purpose of assistance granted by the ECSC is still the promotion of worker housing either by building new housing of a satisfactory standard (a question which should first be examined by the competent departments) or by modernizing existing housing to bring it up to the same standard. Even though purchases are to remain exceptional, the ECSC should take care to ensure that an equal amount is spent on improving the quality of housing purchased.

63 We examined the checking procedures followed by the Institution in this field. At present, the only systematic checks are made from a form which is sent to the loan beneficiary asking him to notify the Institution of the dates on which the work begins and ends.

Admittedly, this information, together with the fact that the national governments cooperate with the ECSC in financing these operations, ought to provide a certain assurance that the funds are really used for the purpose intended. Nevertheless, given that the Community assistance is more concerned with the promotional aspects of this social housing, it seems to us essential that this system should be supplemented by more frequent contacts with the construction sites, in order to be sure that the plans have been scrupulously respected, particularly with regard to the objectives of Community financial assistance.

Checks of this kind can only be made on the spot.

General conclusions

64 As a preface to these conclusions and in order to put them into clearer perspective, we shall begin with a *summary* of the main features of the *ECSC's financial activities* in 1974.

64.1 1974 was marked by a steady increase in the volume of ECSC borrowings. The Institution floated 13 loans to a total value of over 600 million u.a. (as opposed to 290 million u.a. in 1973), bringing total loan issues since the ECSC's inception to more than 2 100 million u.a. As regards ECSC loans floated, the ECSC was the first overseas Institution to issue a public loan in New York since the US capital market was reopened. Loans granted out of borrowed funds totalled more than 400 million u.a. and were granted for the purposes provided for in Articles 54 and 56 of the Treaty (structural reorganization and industrial loans). The largest proportion of loans in 1974 were earmarked for industrial programmes under Article 54 of the Treaty. Given that interest rates continued to rise throughout most of the year the standard rate on loans, which remained at 8.25 % up to July 1974, had to be raised first to 9.25 % and then to 10 %. In a number of cases, decisions on which had been taken earlier, loans granted under Articles 54 and 56 of the Treaty were charged a rate three points lower than the standard rate. Other loans granted out of ECSC own funds totalled about 4.5 million u.a. These were long-term loans granted at moderate rates of interest for purposes of a social nature.

64.2 The 1974 rise in levy resources, which totalled more than 69 million u.a. although the levy rate had been unchanged since 1972, is largely due to the good economic climate prevailing in the steel industry during most of 1974.

Interest yields on liquid funds invested reached a record figure of 31 million u.a. This is due to the investing of a higher proportion of funds at particularly high interest rates which continued throughout most of the year.

64.3 As regards overall liquid assets, the excess of income over budgetary and financial expenditure was about 67 million u.a. allowing for a loss of some 27 million u.a. as a result of adjusting the figures to the exchange rates applying at 31 December 1974. The rate of outgoing payments for rehabilitation, research, assistance to investment loans (Article 54 of the Treaty) and for assistance to coke speeded up considerably during the year, but remained practically unchanged for assistance to structural reorganization loans (Article 56 of the Treaty).

64.4 As regards allocations to the provisions and reserves, the ECSC continued to set aside in the provisions for financial assistance sums for which binding commitments had been subscribed, either in the form of contracts signed (research), agreement between the parties concerned (rehabilitation), offers made by the Institution in connection with loans contracted or approved in principle (interest reductions under Articles 54 and 56) or financial assistance officially approved (coking coal). Thus the amounts put to provision for research, assistance under Articles 54 and 56 of the Treaty and coking coal were much larger than in 1973.

'Other provisions', which are virtually reserves with no legally binding character, are still shown on the balance sheet, viz :

- Those constituted out of the levy and reflecting commitments which the Institution intended but was unable to subscribe in 1974 and which it now proposes to allocate in the first six months of 1975 (more than 17 million u.a.).
- Those drawn from other resources which :
 - are designed to enable the Institution to meet the risks inherent in its financial activity. This is the case with the provision for depreciation of the portfolio and the provision for debtors in respect of loans granted out of borrowed funds, both of which are lower than in 1973.
 - are designed to cover the cost of lending operations. The provision for compensation of borrowing costs was increased to 8.8 million u.a., a figure which was calculated exactly on the basis of current operations.
 - are still unallocated. These other provisions are the profit on loan service (6.4 million u.a.) and the unallocated balance.

Decreases or cancellations of these provisions are almost exclusively due to the fact that the funds in them were transferred wholly or partly to other provisions following the adoption of certain criteria and not to the fact that these provisions were drawn on during 1974.

The Institution also increased the guarantee fund by 8 million u.a. and the former pension fund by 7 428 604 u.a. (428 604 u.a. of these in the form of interest paid by debtors under loans granted out of part of this fund), using the second instalment of the accession contributions paid by the three new Member States.

No new allocation was made to the special reserve.

64.5 All in all it will thus be seen that new allocations during 1974, less cancellations for the year, totalled 186.3 million u.a., an increase of 21.5 % over 1973.

The unallocated balance on operations for the year was 16 658 034 u.a., but given that new exchange rates were applicable as from 31 December 1974, it appears on the official balance sheet at 31 December 1974 as 15 817 u.a.

When assessing the significance of this item as a reserve unallocated at the balance sheet date, we must bear in mind the similar nature of the sundry provisions (about 41 million u.a.) and the various ways in which the assets items (real estate, recoverable issuing costs) might be revalued. At the date of the balance sheet the Community's financial capacity for covering or guaranteeing its activities is further increased by the body of assets (guarantee fund, former pension fund), so that a wide potential margin still remains.

65 Our remarks as a whole may be summed up as follows.

65.1 Before moving on to the conclusions as such, it would seem a good idea to give a brief outline of the *working conditions* which prevailed in 1974.

65.11 Our task has been made easier by the fact that we are systematically notified of Commission decisions and the reasons underlying them. This procedure has been operational since November 1974 and its full effects will thus be evident in our next report.

65.12 We still encounter problems due to the lack of any effective centralization of accounting data on all the ECSC's financial activities. We were increasingly aware of this lack in 1974 since the introduction of new rules regarding the unit of account was accompanied by differences of application. Because of these, two of our colleagues spent several months simply comparing and balancing figures converted differently in different accounting documents.

65.13 Despite a marked improvement in the regular and systematic treatment of the dossiers and documents we need for our auditing operations, a few gaps still remain here and there as regards the submission of dossiers which have been closed and certain inspection reports.

65.14 As regards the balance sheet, we are happy to say that the deadline of the beginning of March was respected. Other accounting data, however, some of which entail considerable amendments to the balance sheet, were not available until the beginning of May despite the fact that the last subsidiary ledgers had been received by the same deadline.

65.2 Assessment of the ECSC's *financial management* will be easier if we examine it under four separate headings.

65.21 We can only repeat our *conception of the balance sheet*: it must be a clear, precise and full statement of both assets and liabilities, which gives the position at 31 December 1974:

- of the *overall liquid funds*
- of the *acquisitions and obligations* arising out of the financial management (legal concepts)
- of the results represented by *items remaining available* for future undertakings.

To illustrate what we mean here, we should like to see summarized, in a simple and generally acknowledged classification, the strict application of these principles which we have devised from a critical analysis of these items during our Report:

This summary prompts two reflections:

- Firstly, the balance sheet items are much more homogeneous than before. Definite progress has been made in the criteria on which they are based but more remains to be done in the case of those dealt with in the notes which follow.
- Secondly, the above presentation of the balance sheet does not presume to redesign the one used by the Institution: we are aware that it wished to anticipate a number of allocations. But it is our duty to insist on greater strictness as regards the balance sheet, so that it is possible to stop at the end of the financial year and assess exactly in financial terms the value of hypothetical items which will not become real until later.

65.22 Special attention should be given in all fields to the checking of management operations. The full importance of this is evident if we remember that the departments of the Institution do not in general administer operations directly and must thus, since they bear responsibility for the Community assistance given, oversee very closely activities conducted by government departments, other bodies or even private individuals.

65.221 Once the present situation is rationalized, we should like to see a reorganization of operations, with the technical and financial departments working together, so that the progress of research work can be followed from both these angles at once and more systematically than at present. This regular coordination of the technical and financial procedures of Community checking operations would avoid disputes of the kind arising hitherto which are due, from the point of view of efficiency and systematic processing of results, to the delay which precedes the final check and the lack of strictness by the Institution in insisting that the research findings be submitted.

65.222 Another aspect of this same problem arises in connection with the financing of social housing. Although beneficiaries are regularly asked to submit a form showing that the funds received have been properly used, it is immediately clear that more thorough investigations are necessary to ensure that the various terms on which Community assistance is granted are in fact respected. It is not enough for the beneficiary to complete the project himself: such investments must, and this is the principle on which the ECSC gives assistance — contribute to the implementation of a certain policy, by possessing the features deemed necessary for this policy and stated as terms in the contracts.

65.223 We also noted that the number of operations by the inspectors responsible for checking the assessment basis of the levy had decreased by half from the previous year although the European Parliament had remarked that these operations were already extremely inadequate. They are in fact essential to ensure uniform interpretation of the concepts used to determine the production factors on which collection of the levy is based. One cannot but feel that there is a certain apathy amongst inspection officials as regards surveillance of the ECSC's activities.

65.3 During the European Parliament's discussion of our 1973 Report, the Committee on Budgets asked us to provide it with supervisory data which, as well as relating strictly to accounting data, might suggest guidelines as to policy.

We believe that an explanation of the circumstances surrounding or reasons underlying certain financial operations can indeed shed light on their true significance, the aspects of which may be extremely varied and may include political factors.

Is it not, for example, significant that sizeable expenditure such as this year's losses on currency exchange operations were made necessary by the fact that the country concerned did not make use of ECSC assistance?

In another context, that of rehabilitation, it would appear expedient to make greater use of the on-the-spot checks — which are perfectly satisfactory — to exchange views with the competent local officials as to the value of the types of assistance given as a result of economic changes. Would this not be a further opportunity for the competent national and Community officials to compare notes using concrete data assessed in their regional setting? However worthwhile national programmes may be, ECSC assistance remains an essential Community method of ensuring that these are continually kept up to date.

65.4 Before concluding this Report, we should like to reconsider two points with which we were most particularly concerned in 1974.

65.41 We completed a thorough investigation of ECSC technical and social research.

Our starting point last year was the awareness that some degree of rearrangement was essential. In this respect the compilation of a register, which still does not claim to be altogether complete, was a great help. The constant updating of this register will make it an indispensable tool in providing a horizontal cross-section of the Community's management operations in this sector.

Even though the intervals between applications and signature of the contracts are considerable, this has so far in our view been the phase best supervised by those responsible. We shall merely ask here for general consideration as to possible ways in which procedures and deadlines can be improved and shortened, to accord best with the requirements of the Institution.

The main requirement here is still to improve administrative operations and continuity by more systematic cooperation between the technical and financial officials responsible for these questions. Constant cooperation of this kind, starting at the most appropriate moment, is the best way to guarantee efficient and regular checking operations through the systematic updating of the terms of contracts concluded, once the value of these has been acknowledged. This would in many cases provide the external Auditor with the answer to questions which currently seem incomprehensible, in particular sizeable amendments to initial cost estimates.

Under the new system proposed by the Institution for the rapid and most appropriate dissemination of research findings, the regular provision of data forms an essential part of the system, the efficiency of which can only be assessed after a certain period of time has elapsed.

65.42 This year was also marked by the introduction of new provisions regarding the unit of account.

The two main advantages of the system are, firstly, a more normal assessment of the true value of the currencies in which levy payments are made and, secondly, a more meaningful Community balance sheet, which cannot fail to make the Community a more attractive prospect to those lending it funds.

This is the most that can be expected of a unit of account which is not legal tender and thus cannot be substituted for national currencies in contracts and financial dealings between parties.

For the moment it thus serves merely as a yardstick, primarily for statistical purposes. Consequently, it is always preferable, when drawing up accounts of currency operations, to use a real value rather than any theoretical one. A valid check is only possible under these conditions. Recent events have in fact proved that no other methods are suitable for operations lasting several years: one has only to note that we have been unable in this Report to express total

ECSC assistance, in all its various forms, in overall figures from the beginning of operations up to the present time.

66 As a result of our investigations and auditing activities conducted during and at the end of the 1974 financial year in the sectors covered in this Report, we are able to confirm that the ECSC's balance sheet and management account (statement of income and expenditure) dated 31 December 1974 tally in every respect with the accounting documents and vouchers submitted to us. We therefore certify that all the assets and liabilities shown in the balance sheet at 31 December 1974 are correct, and that all accounting operations relating to the year in question are correctly and properly shown.

In addition to certifying that *accounting operations* were correctly and properly carried out we are also able, in accordance with the terms of our mandate under the Treaty, to certify that the *financial management* conducted by the single Commission under the terms of the Treaty of Paris is also correct and proper subject, however, to the reservations expressed in these conclusions.

We can state in conclusion that the ECSC's management of funds respects the requirements of prudence and orthodoxy generally observed in these activities, but that account should be taken in future of the remarks and suggestions set out in this Report.

This Report was compiled in French. It was translated by the translation department of the European Communities in Luxembourg and published in the various languages by the Publications Office. This year we were once again able to submit our Report in all the official languages of the Community, having received all the assistance and cooperation necessary. Thus the Authorities for which it is intended will receive our Report by a date which will certainly permit them to use it at the most appropriate time.

67 In conclusion, it is our pleasant duty to note that our relations with the departments we audited were again, as in the past, frank and marked by a clear readiness to cooperate. From our own colleagues, headed by Mr Planchard, we also received willing assistance and a team spirit which is increasingly essential in view of the fact that our resources are stretched to a maximum by the increased volume of work.

Luxembourg, 30 June 1975

A handwritten signature in black ink, appearing to read 'Gaudy', with a long horizontal stroke extending to the right.

Paul GAUDY
Auditor

ANNEXES

SYNOPSIS OF THE ECSC'S FINANCIAL AND BUDGETARY OPERATIONS

Introduction

68 The European Coal and Steel Community was established by the Paris Treaty of 18 April 1951, ratified by the six Member States and took effect on 23 July 1952 for a period of 50 years.

Under the terms of the Treaty the object of the ECSC is to work for economic expansion, maximum employment and higher living standards in the Member States, in harmony with the general economy of those countries and through the establishment of a common market for coal and steel.

It is based on the principles of free movement of coal and steel products and the creation of free but strictly-defined competition among manufacturers. To this end the Institutions set up by the Treaty are also vested with powers to act in matters of prices, production and even capital expenditure (enterprises are required to declare their proposed investment projects).

It also has funds of its own in the form of levies on coal and steel production which enable it to give financial assistance to technical, economic and social research and to the rehabilitation of workers. Two types of resources also enable it, within certain limits, to operate in the social field (social housing construction) and the field of investments or industrial structural reorganization. These are funds which the ECSC may borrow solely for reallocation as loans, and income such as interest on invested funds, fines and interest on levy arrears. The Treaty does not require this income to be used for any specific purpose. One of the duties assigned to the High Authority of the ECSC in connection with industrial investments is that of facilitating their realization by acting as surety for loans obtained for the same purpose from other sources.

The ECSC has its own funds and the right to borrow funds, and is obliged to use its various revenues for purposes explicitly laid down in the Treaty. The special character of its own resources drawn from taxation levies and banks, the borrowed funds it can command, and the uses to which it is required to put these resources, gave this first European Community an originality which is reflected in the organization of its finances. Furthermore, experience had led to the development of specific mechanisms best able to finance the tasks imparted to the Community.

Although the ECSC was empowered to levy a tax on coal and steel production it initially had no capital at all and thus tried in the first instance to build up a fund to serve as joint security to future creditors, using part of its first receipts from the levy. The temporary availability of part of its funds induced the Institution first of all to build up a fund of liquid assets by means of a careful, non-speculative investment policy and then to constitute reserves which in turn enabled it to increase its activities in the social field.

As a result, in fact, of its borrowing and lending policy the ECSC has to some extent become an industrial development financing institution, specializing in credits to coal and steel investments.

More recently still, as a result of the economic climate in the coal and steel sectors, the ECSC has begun to finance new activities such as industrial structural reorganization, wherever such measures are likely to ensure re-employment of the labour made redundant in those two sectors.

It will be noted that the Paris Treaty did not endow the ECSC with a traditional budgetary structure except in respect of its administrative budget which, since the merger of the Executives, forms part of the single budget of the Commission of the European Communities.

Although not mandatory, an informal 'budget' comprising two items — variable resources and the allocation of these to specific expenditure estimates — has been prepared every year since the High Authority of the ECSC was established. This 'operating' budget, drafted by the budget departments, has always been discussed with the European Parliament before being formally approved. Compilation of this estimate of income and requirements is in fact essential to allow the rate of the levy to be fixed in advance. This budget, essentially designed to provide a comparison of estimates, has never been restrictive or imperative in character. Only from 1962 onwards was it drafted in more precise detail, with a more methodical assessment of the specific requirements to be covered by the resources available.

Borrowing and lending operations and policy for the management of funds (a source of own funds) were never the subject of any budget estimate whatsoever, because they were considered strictly as financial, even banking operations.

This peculiarity of the ECSC's financial activities is reflected in the balance sheet and statement of income and expenditure which, because it is permitted to borrow funds, the Institution must publish for the benefit of its creditors and banking supervisory authorities. This balance sheet gives a full picture of all the Community's activities as regards both the management of funds yielded by its investments and the use made of its income from taxes and levies: this dualism reflects the intention of the authors of the Treaty, whereby the ECSC's income from taxes and levies constitutes the ultimate guarantee of its commitments vis-à-vis its creditors.

This was in no way altered by the merger of the Executives in 1967. The ECSC's administrative expenditure is in fact charged as a fixed contribution of 18 million u.a. and shown under overall administrative expenditure. The Commission, established in succession to the High Authority, continues to manage the ECSC's assets, its own resources and the use made of these funds, completely separately from the rest of the single budget.

Consequently the ECSC, albeit within a new institutional framework, retains its original and specific features, i.e. its financial autonomy, the special mechanisms operating it, its ability to borrow and lend and to undertake the tasks prescribed in the Paris Treaty in connection with the financing of research, rehabilitation and industrial structural reorganization.

In the sections which follow we shall now describe, one by one, the financial and budgetary mechanisms which currently form part of the specific activities of the European Coal and Steel Community and which come within the scope of our audit.

The levy

69 General

Under Article 49 of the Treaty establishing the European Coal and Steel Community the Institution is empowered to raise the funds necessary for the performance of its work by imposing a levy on coal and steel production.

Under Article 50, this levy income must be used exclusively for administrative expenditure and outright grants (technical, economic and social research, rehabilitation). In no event may levy income be used to finance investments. However, Article 50 provides that the levy may be used either to cover any part of interest payable on borrowed funds which cannot be met out of interest received on funds loaned, or if the ECSC extends its guarantee, to cover loans contracted directly by third parties, should any reserve constituted by the Institution by adjusting its loan and guarantee terms prove inadequate. Up to now the Institution has not set up a reserve of this kind.

The terms of assessment and collection of the levy were defined in the first instance on 23 December 1952 by the Institution and took effect from 1 January 1953.

They were subsequently amended by later decisions (1).

(1) OJ of the ECSC,

- 30. 12. 1952 (Decision Nos 2/52 and 3/52 of 23. 12. 1952)
- 1. 8. 1954 (Decision No 30/54 of 25. 6. 1954)
- 28. 11. 1955 (Decision No 29/55 of 3. 11. 1955)
- 28. 11. 1955 (Decision No 31/55 of 19. 11. 1955)
- 22. 2. 1956 (Decision No 4/56 of 15. 2. 1956)

OJ of the European Communities,

- 27. 1. 1959 (Decision No 3/59 of 21. 1. 1959)
- 27. 1. 1959 (Decision No 4/59 of 21. 1. 1959)
- 27. 1. 1959 (Decision No 5/59 of 21. 1. 1959)
- 22. 6. 1959 (Decision No 34/59 of 10. 6. 1959)
- 12. 6. 1964 (Decision No 13/64 of 3. 6. 1964)
- 22. 3. 1965 (Decision No 5/65 of 17. 3. 1965)
- 22. 3. 1965 (Decision No 6/65 of 17. 3. 1965)
- 14. 6. 1965 (Decision No 8/65 of 2. 6. 1965)
- 16. 6. 1966 (Decision No 10/66 of 8. 6. 1966)
- 28. 12. 1968 (Decision No 2/45/68/ECSC of 18. 12. 1968)
- 24. 12. 1969 (Decision No 69/490/ECSC of 18. 12. 1969)
- 30. 12. 1970 (Decision No 2650/70/ECSC of 22. 12. 1970)
- 23. 12. 1971 (Decision No 2733/71/ECSC of 15. 12. 1971)
- 23. 12. 1972 (Decision No 2691/72/ECSC of 18. 12. 1972)
- 31. 12. 1972 (Decision No 2853/72/ECSC of 29. 12. 1972)
- 31. 12. 1972 (Decision No 2854/72/ECSC of 29. 12. 1972)
- 23. 12. 1971 (Decision No 2733/71/ECSC of 15. 12. 1971)
- 23. 12. 1972 (Decision No 2691/72/ECSC of 18. 12. 1972)
- 30. 12. 1972 (Decision No 2821/72/ECSC of 22. 12. 1972)
- 31. 12. 1972 (Decision No 2853/72/ECSC of 29. 12. 1972)
- 31. 12. 1972 (Decision No 2854/72/ECSC of 29. 12. 1972)
- 29. 12. 1972 (Decision No 3543/73/ECSC of 29. 12. 1973).

Before the beginning of each financial year the Institution, acting on its own initiative, fixes the rate of the levy on production for the following year. Although it has no formal obligation to do so, it regularly consults the European Parliament by submitting to it the various allocations envisaged.

Since 1 January 1953 the rate of the levy on coal and steel production has been both raised and lowered. These changes are essentially dictated by the volume of requirements and by the prevailing industrial climate. However, the much higher rates applying between 1 January 1953 and 1 January 1956 (0.50 %, 0.70 % and 0.90 %) were due to the new Community's need to constitute a guarantee fund to compensate for its lack of own resources. This fund rose steadily to 100 million u.a. by 30 June 1956 and remained unchanged until 31 December 1972. It subsequently increased to 112 million u.a. in 1973 and 120 million u.a. in 1974 due to the allocation of part of the contributions paid by the new Member States.

If for any reason it became necessary to fix or increase the rate of the levy above the maximum figure of 1 %, this measure would first have to be approved by the Council by a two-thirds majority.

70 Assessment

The ECSC fixes, in EMA units of account, the average per tonne value of the six categories of products subject to the levy :

- (1) Brown coal briquettes and semi-coke derived from brown coal, excluding crude brown coal which is not chargeable. No deduction may be made for 'seconds' which are sold cheaper. However, a flat-rate reduction of 3 % is granted on these products when consumed at the plant.
- (2) Coal of all categories. A flat-rate reduction of 12 % is granted on net production after screening and washing, for in-plant consumption. Enterprises which have no washing and screening plants are permitted to reduce their gross production by 18 % before claiming any flat-rate reduction.
- (3) Pig iron other than that for making ingots.
- (4) Basic and Acid Bessemer steels in ingots.
- (5) Steels in ingots other than Basic Bessemer steel and in particular duplex steels, pure oxygen steels and special steels.
- (6) Finished and end products set out in Annex I to the Treaty under Nos 4400 and 4500 (OEEC code). This category should include all products which, from the point of view of the steel industry, are considered as finished products, with the exception of tyres, one-piece wheels and hoops.

Article 2 of Decision No 2/52 defines the *average value* on which assessment of the levy is based.

The average per tonne value of each of the products subject to the levy is that calculated on the basis of net receipts on leaving the plant. This value is applied to the whole of production whether sold or stocked.

The average values of the various products are calculated for each Member State by the respective producer associations every year. The part played by the ECSC in this consists, on the one hand, in checking the information thus provided and, on the other hand, in determining the average Community values by suitable weighting which results from applying the single rate to the values charged. Thus, the final net scale takes into account a weighting of the various current prices and the relative importance of products of one and the same category both at national and at Community level. Any change in this annual scale is enacted in a decision published in the Official Journal of the European Communities.

Prior to 1 January 1973 the Institution, in establishing the scale, only took into account changes of at least 10 % in the average per tonne value of one of the products compared with its previous value. From that date onwards, ⁽¹⁾ it must examine every year the basis for fixing a new average

(1) OJ of 23. 12. 1972 (Decision No 2691/72 of 18. 12. 1972).

value. It may, however, limit the increase resulting from the adjustment to 15 % of the previous scale.

In addition, a system of value-added tax was adopted in order to comply with the Treaty's stipulation that cumulative taxation should be avoided as far as possible. Under this system, only that which has not been charged at earlier stages is charged, and the chargeable value is determined by deducting from the average value of each product category the average value of the products previously liable which have played a part in their manufacture.

The conditions of assessment and collection are fixed in a general decision by the Institution, taken after consulting the Council.

71 Statements of output

The Levy Office maintains a list of addresses of Community enterprises which are liable to the levy. This list is constantly modified to reflect changes which may occur in enterprises liable to the levy: winding up of a company, creation of new industries, mergers, absorption, and other changes.

A regular coding system is maintained in the form of computer listings (and an addressograph) which enables the competent departments to record for every enterprise and works (with separate registration numbers) monthly data regarding dispatch and submission of statements together with payments or any necessary reminders.

All enterprises subject to the levy make their own declaration, on two forms sent to them by the Institution, of their production figures on which the amount charged will be based.

On the first form they calculate the sums payable by multiplying the tonnages produced by the scale fixed for the six product categories in their national currency and per tonne.

The second form requires statistical details of the tonnages declared for each of the products making up the six categories, In addition to its statistical usefulness, this detail is a valuable auditing aid, both for the Levy Office and for the internal inspectorate.

It frequently happens that, as a result of errors of calculation or interpretation, enterprises are obliged to amend their statements of output or their payments. These adding or cancelling operations require the submission of additional returns or the cancellation of earlier returns.

All enterprises coming under the terms of the Treaty must complete their monthly statement, including those which enjoy the exemption granted when the levy total effectively due for the month is less than 100 u.a.

As from 1 January 1959 ⁽¹⁾, the ECSC has authorized a number of coal mining enterprises to defer payment of sums due under the levy for tonnages stocked without arrears interest or penalty, as a result of marketing difficulties which led in the Community coalfields to exceptional stockpiling of hard coal, coke derived from hard coal and patent fuels. This measure applies to chargeable output stocked after 31 December 1957 for which the levy amount is not payable until the 25th of the month following that in which a decrease in stock occurred. Stocks held on 31 December 1957 were considered as the normal level and it was not until the beginning of 1958 that the coal crisis began.

However, with the accession of three other countries to the ECSC on 1 January 1973, changes in this temporary deferment procedure became necessary, as the reference date of 31 December 1957 could not be applied to the new member countries without subjecting their previous production to the levy. From this date, ⁽²⁾ therefore, the Institution recognizes as normal any stockpiling up to 3 % of the production liable to the levy. ⁽³⁾

Thus the Institution authorizes a deferment of levies on quantities exceeding this 3 % limit, until such time as stocks again fall below this limit, and sends a third form every month to the enter-

⁽¹⁾ OJ of 27. 1. 1959 (Decision No 5/59 of 21. 1. 1959).

⁽²⁾ OJ of 31. 12. 1972 (Decision Nos 2853/72/ECSC and 2854/72/ECSC of 29. 12. 1972).

⁽³⁾ This 3 % represents stocks held at 31. 12. 1957 in relation to total chargeable production in 1957.

prises concerned to ascertain the monthly fluctuations in their stocks and the amount of deferments or the amount of levies due should these deferments have lapsed.

The statement forms are sent by the Levy Office by the 5th of the month following that of the production in question. Enterprises must complete and return them by the 20th of the same month and for each of the establishments connected with them.

In the event of default or deliberate falsification of statements, fines and penalty payments may be imposed by the Institution under Article 47, Paragraph 3 of the Treaty. The former are calculated as a flat percentage of the total annual turnover (1 %), the latter at a maximum of 5 % of the average daily turnover per day of arrears.

72 Payment procedure and disputes

Payment of the levy on output for the month past becomes due on the 25th of the month following that of the production concerned. Enterprises make their payments in the currency of the country where they have their registered headquarters, into various accounts maintained by the ECSC in banking establishments in the nine countries of the Community.

On the basis of daily records, the Levy Office draws up two copies of a list of statements from these banks. One copy is sent with all the relevant vouchers to the accounting department and the other is sent to the computer centre after transfer to the registers kept by the Levy Office for future checking operations.

Under Article 50 of the Treaty (Paragraph 3) the Institution may charge enterprises not meeting their obligations arrears interest of up to 5 % per quarter overdue. Pursuant to Decision No 3/52 (Article 6), levies not paid are charged 1 % interest per month (i.e. 3 % per quarter) as from the 5th of the month following that in which payment was due. This arrears interest, calculated each time on the principal, may be reduced or waived if the Institution deems fit.

In the event of non-payment the Institution must give notice under the terms of the Treaty (letter based on Article 36) and issue an enforceable decision imposing financial sanctions (increases) (Article 92).

The notification procedure under Article 36 of the Treaty may be applied to all cases of dispute (fines or penalty payments) and is only embarked upon after two or three reminders (sent by the Levy Office) which may be spread over three months.

The form in which notice is served is set out in Article 92 of the Treaty ; enforcement within the territory of Member States is carried out by means of the legal procedures in force in each State, after the enforcement order in the form usual in the State on whose territory the decision is to be enforced has been appended to the decision.

To date, enterprises which have occasionally defaulted and have rectified the situation have never had financial sanctions imposed upon them.

73 Levy collection procedure

As from 1 July 1967, when the Treaty of merger establishing a single Council and a single Commission of the European Communities came into effect, the powers and competencies devolving upon the High Authority under the Paris Treaty were transferred to the Commission. Consequently, income from the levy continues to provide the own resources of the ECSC and the earlier procedures for collection and supervision are still applied following the same principles and within the same reorganized administrative structures.

73.1 Since the executives were merged, the Levy Office has been attached to the Directorate-General for Credit and Investments, which administers the funds and financial operations

entailed by the ECSC's policy of borrowing and lending. This department operates in the same way as a tax collection office. It has particular responsibility for :

- Keeping up to date the list of addresses of enterprises registered and liable to the levy.
- Preparing and sending out the monthly statements of output (including preparation of the tax section, i.e. the scale of levy charges).
- Making entries in the register per month and per enterprise and checking payment liabilities discharged.
- Overall accounting per country and group of products (coal, steel) of data or statements of output received during the month.
- Monthly checking by comparing the table of balances per enterprise with the figures of the overall accounting on the basis, on the one hand, of the department's documents and, on the other hand, of the computer listings.
- Keeping records of disputes and the relevant correspondence (reminders, litigation).
- Processing the inspection reports compiled by the levy inspectors.
- Comparing the levy totals declared per enterprise with the overall figures per product category and country compiled by the statistical departments.

73.2 The *inspectorate* is responsible, acting on details provided by the Levy Office, for checking on the spot at debtor enterprises that provisions in force are observed and that the production declared is correct. On the basis of observations gathered from information declared by the enterprises, the Levy Office gives the inspectorate broad guidelines as to the sectors it should examine.

Under Article 86 of the Treaty the officials who carry out these checks enjoy the same rights and powers as are granted by the rules of Member States to officials of their own tax services. It is stipulated, however, that their only power is that of inspection and that in consequence they have no authority to cooperate with the enterprise in determining its output (even where doubts have risen as to the correctness of the output statements submitted). Nor have they any authority to provide defaulting enterprises with a programme for discharge of their debts. Their inspection reports are intended for analysis by the Levy Office.

73.3 The *technical advisers* attached to the coal and steel directorates and representatives from the Levy Office meet periodically to process these inspection reports. The conclusions drawn by this group are put into effect by the Levy Office.

Rehabilitation

74 General

The only provisions of the Treaty of Paris which now permit the ECSC to take action in the rehabilitation of workers are those of Article 56, Paragraphs 1 and 2.

In the Convention on the Transitional Provisions annexed to the Treaty, Paragraph 23 also sets out the machinery for the granting of rehabilitation assistance. These latter provisions, which ceased to be applicable in 1960, were transferred *en bloc* to Article 56, Paragraph 2, when a revision of the Treaty, based on Article 96, was carried out.

Under Paragraph 1, initially the only paragraph in Article 56, the Institution may take action at the request of the governments concerned to help the labour situation in emergencies only (deterioration in the labour situation following the introduction of new technical processes or equipment ; exceptionally large reduction in labour requirements following achievement of the general objectives of the Common Market ; particular difficulties in the re-employment of workers made redundant in one or more areas as a result of this reduction in labour requirements). Although there has not been, formally speaking, an emergency of this kind the unexpected pattern of development in the coal and steel market and the appearance of structural features with consequences which could be foreseen by the authors of the Treaty prompted the addition, in 1960, of the present-day Paragraph 2 to Article 56. Under this new paragraph the Institution may take action when an enterprise is compelled to discontinue, curtail or radically alter its activities as a result of fundamental changes, not directly connected with the establishment of the Common Market, in market conditions in the coal and steel industries.

If the Institution establishes that this is in fact the case it may, in conjunction with the government concerned, take a series of measures designed to re-employ the workers made redundant. The assistance it may give is only paid if the government concerned has itself made a special contribution at least equal to that of the Institution. This latter condition may, however, be waived with the assent of the Council, acting by a two-thirds majority.

The Institution may, then, grant assistance for rehabilitation only if a formal request is made by the government and if certain economic and technological conditions are met.

75 Types of financial assistance for rehabilitation

75.1 Financial assistance for worker rehabilitation granted by the ECSC under paragraph 23 of the Convention on the Transitional Provisions and, later, exclusively under Article 56, Paragraph 2 of the Treaty. It has usually been in the form of outright grants (subsidies) and occasionally as repayable assistance (loans).

At present this assistance, comprising an ECSC contribution of 50 % of the costs which qualify for such aid (except in special cases with the unanimous assent of the Council of the European Communities), is as follows :

- for workers re-employed at a lower wage : guarantee for a limited period of time of between 70 and 100 % of the previous net wage or 60 to 80 % of the difference between the old and the new wage. Assistance is generally paid for a period of 12 months, but may be extended for certain categories of older or handicapped workers or workers in places where the rate of assistance given within the above limits include local differences and family circumstances ;
- For workers in the coal industry who are over 40 years of age or handicapped on dismissal : granting, in one or more payments, of a compensatory lump sum, of which the ECSC will pay up to 750 units of account ;
- For workers re-employed in or transferred to another region :
 - payment of a lump sum resettlement grant and reimbursement of travel and removal costs for the worker and his family ;
 - reimbursement, in certain cases, of additional daily travel expenses and payment of a separation grant when the worker is unable to bring his family with him to the new region ;
- For workers undergoing vocational training :
 - contribution by the ECSC towards costs of vocational re-training (wages of workers attending re-training courses and operating costs of state or private vocational training centres).

Assistance in the form of subsidies and loans granted before 1960 under Paragraph 23 of the Convention on the Transitional Provisions was of the same type as that now granted under Article 56, Paragraph 23 of the Treaty. The subsidies were given to workers made redundant in Belgian coal mines and the loans, two in number, were granted for the re-housing of workers displaced in France. Only one of these is still being paid off.

75.2 Lastly, mention should be made of the special decisions taken under Article 95 of the Treaty ⁽¹⁾ after the unanimous approval of the Council and following consultation with the Consultative Committee. These covered two types of assistance which have now ceased to operate. The first was in the form of outright grants and five-years interest-free loans given to ease the situation created in the coal mining industry as a result of unusually high stock piling and to reduce the number of days not worked in certain coalmining enterprises of the Community. Assistance of this kind, both repayable and non-repayable, has virtually ceased since 1963-1964.

76 Financial policy and procedure

In order to meet commitments subscribed by the ECSC for outright rehabilitation grants, the Institution allocates funds to a provision for rehabilitation expenditure which it shows on its balance sheet. Calculation of the sums entered in this provision has undergone several changes in the course of recent years.

Up to the financial year 1961/1962 the Institution allocated each year to this provision the approximate sum it expected to pay out, as distinct from the social assistance which the various governments proposed to provide.

From 1961-1962 onwards, the Institution was led to define a stricter policy aimed at financial equilibrium not just for one year but for a period of several years, by more rigorous limitation of the sums tied up under its commitments. This financial policy — is the result of the widening gap between the Community's revenues and requirements as determined by the state of the economy, and of the difficulties inherent in precise valuation of rehabilitation commitments.

Consequently from this date onwards, the provision for rehabilitation shown on the balance sheet under liabilities comprises :

- (i) the part not yet disbursed of commitments subscribed by the ECSC in accordance with the agreements on Community financing, which have formed the object of a decision by the Institution and been accepted by the governments ;

⁽¹⁾ Under Article 95, Paragraph 2 the Institution may, subject to certain procedural conditions, take a decision or make a recommendation in all cases not provided for in the Treaty where this is necessary to ensure that the common market in coal and steel continues to function normally.

- (ii) part of commitments already undertaken by Member countries, which have formed the object of an ECSC decision and which are of the type eligible for Community financing ;
- (iii) a sum equal to the loans it grants for rehabilitation. After 1965-1966, however, this practice was discontinued, as the Institution deemed it unnecessary to maintain sums corresponding to loans in the provision for rehabilitation. It considered that the granting of loans did not deplete its resources as such, so that no corresponding provision need be formed ;
- (iv) a buffer reserve fixed in the first instance at 10 000 000 u.a. and designed to meet exceptional requirements which might be created by a period of economic depression, thus avoiding the need to increase the rate of the levy unduly. This reserve was completely exhausted by 31 December 1970 and has not been reconstituted.

In order to make the sum held in the provision as realistic as possible, and by agreement with the governments concerned, the Institution occasionally cancels commitments or parts of commitments undertaken towards workers affected by the closure of coal mines or iron and steelworks, where it appears certain that the assistance will not actually be used. Because of these cancellations, sums earmarked for the rehabilitation provision are periodically readjusted.

77 Procedure for the granting and supervision of rehabilitation assistance

77.1 Procedure for the granting and payment of outright assistance is laid down in general agreements concluded with the various governments concerned.

These general agreements, which are designed ultimately to adjust and harmonize the procedures set out in the various national legislations, are concluded for an unspecified period of time with the relevant Community countries. Only one exception to this rule has been made in the case of Great Britain with which the ECSC concluded a general agreement in 1973, for a limited period of three years, to give that country a transitional period in which to adjust. General agreements are subsequently completed by directives which are the subject of agreements between the Institution and the respective governments.

The Institution receives from the national authorities lists of the personnel who qualify for the assistance provided for in the agreement. These lists are compiled jointly by the enterprises employing the workers affected by the rehabilitation measures and by the competent government departments. These lists give details of jobs withdrawn and of each individual case (registered number, date of birth, dismissal, nationality, latest gross wage, etc.) and enable the Institution subsequently to check that payments are made in accordance with the directives issued.

Grants and expenses are never paid directly to workers by the Institution but by the competent national government bodies or, if appropriate, by enterprises themselves.

The ECSC's contribution is only paid, in principle, on presentation of the government's own detailed statements and calculations. In respect both of interim allowances and resettlement and vocational retraining costs, these statements and calculations must include all elements evidencing payments effected by governments, bodies or enterprises so that the Institution can check that the amounts of contributions requested of it are in order. However, in order to accelerate disbursements, it pays out to government bodies instalments of sums already paid out by these to those receiving assistance before the final statement has been sent and checked. In effect, the assurance that the respective states have already paid their contribution empowers the Institution to make available these instalments before the final statements are checked.

77.2 Procedures for ECSC readaptation assistance involve the departments of four Directorates-General: 'Social Affairs', 'Budgets', 'Financial Control' and the 'Legal Department'.

77.21 *The Directorate-General for Social Affairs* has special responsibility for drawing up agreements with governments on rehabilitation assistance and for checking the assistance granted.

The supporting documents themselves are held by the bodies which pay out the contributions. However, declarations, statements, and calculations submitted in connection with rehabilitation

assistance are studied in depth by specialist departments of the Directorate-General for Social Affairs and are often amended and corrected as a result.

When assistance has been granted by the Institution, the statements submitted (and already checked) by the governmental bodies in the countries concerned are carefully vetted from computer listings. For those countries which do not as yet use computers to administer and check their rehabilitation assistance, the Directorate-General for Social Affairs carries out random checks on the spot. It has virtually discontinued manual checking from the individual records for beneficiaries.

Checking operations also examine the efficiency of the assistance machinery and ensure a minimum of delay between attribution of the assistance and actual receipt of it by the beneficiary. Other contacts with heads of beneficiary enterprises and trade unions, when these are possible, enable the Directorate-General to keep an eye on assistance methods and procedures as applied at national level.

77.22 The *Directorate-General for Budgets* prepares budget estimates for rehabilitation, for inclusion in the Community's overall budget estimates. The rehabilitation estimates are based on data supplied by the Directorate-General for Social Affairs. It cooperates with the latter department in a regular assessment of available Institution funds and may settle legal matters or disputes (debt collection, overpayments, etc.).

77.23 The *Legal Department* vets the technical dossiers compiled by the Directorate-General for Social Affairs to ensure that the required conditions are met, and thus participates in the preparation of programmes and directives.

77.24 A *Financial Control* department is responsible at an earlier stage for keeping the accounts, charging commitments, making payments and supervising rehabilitation expenditure.

Technical and social research

78 Legal basis

Under Article 55 of the Paris Treaty, the ECSC has to promote technical and economic research concerning the production and increased consumption of coal and steel, and the achievement of safe working conditions in these industries. To this end, it is required to organize all appropriate contacts among existing research bodies.

Under the terms of the Treaty the ECSC may finance research in three ways, after consulting the Consultative Committee. These are by organizing joint financing by the enterprises concerned, by allotting funds received as gifts, or, subject to approval by the Council, by allotting levy resources. Use has been made of this third option.

The Institution makes available to all interested parties in the Community the results of research financed by these two latter means and issues all notices which may help to spread knowledge of technical improvements (in particular exchanges of patents and the issuing of operating licences).

79 Areas of research assisted

Since 1955 the ECSC has financed research activities by allocating part of its levy income, in accordance with a procedure laid down in the Treaty, i.e. after consultation with the Consultative Committee comprising representatives of producers, consumers and workers, and with the assent of the Council representing the governments of the Member States.

Financial assistance of this kind has been granted to research bodies and institutions and to enterprises. The applicant does not need to be directly concerned with the mining or steel industry, but it is essential that the proposed research should be potentially beneficial to a large number of enterprises in the Community or, in the case of measures connected with work safety, to a large number of workers in those enterprises.

Research programmes implemented since 1955 have covered the following sectors :

- *Coal, steel and iron ore* from the most varied of aspects : from economic and technical aspects of production methods to the perfection in use of processes developed from prototypes. Both for the coal and the steel sectors the ECSC has tried in recent years to draw up a long-term research programme to be implemented and financed partially out of own funds.
- *The social sector* in which, under large-scale programmes extending over a number of years, the Institution encourages basic laboratory research and applied research in industrial health, medicine and safety and in ergonomics (industrial physiology and psychology) aimed at improving the prevention and treatment of occupational diseases and industrial accidents and providing workers with greater comfort and safety.

80 Special features of ECSC research

The three cornerstones of research planned systematically since 1955 (granting of financial assistance, promotion of cooperation among research organizations in the Member States and the making available of results via patenting) have enabled national research bodies, institutes and enterprises with which the ECSC cooperates in the preparation, carrying out and partial financing of research work and the dissemination of its results, to gain a deeper knowledge of each other's work and have encouraged them to undertake projects jointly.

Compared with other types, ECSC research projects have the following features :

- They are not carried out in the European Institutions but in scientific and technical institutes or industrial enterprises.
- They are financed in part by contract assistance granted for the implementation of a specific planned project.
- They are carried out in temporary cooperation under a strictly defined programme which is limited in time and may be spread over a number of years.
- Whether basic or applied, they pursue practical objectives.

81 Procedure prior to research projects

For research on coal, steel and iron ore the Institution normally establishes a committee of highly qualified specialists from the Community countries (directors of research centres or institutes, senior figures in industry, experts and academics). This committee draws up proposals and opinions on research projects under consideration for financial assistance. Once the Consultative Committee has given its opinion and the Council its assent, the decision to award financial assistance is taken and an executive committee set up which, for each project or group of projects, includes representatives of the beneficiary institutes, organizations and enterprises. This is responsible for following the progress of the project, working together with the competent technical officials of the Institution.

In the case of social research, the Institution prepares general programmes after consultation with scientific and technical circles, professional circles (employers and workers) and government experts and compares the requirements thus ascertained with the Community's objectives in that field. Consequently it is not until these programmes have been painstakingly prepared and distributed that preliminary applications for research are received and granted and that contracts are signed.

In every case, once the Institution has decided to grant assistance, the dossier must be sent first to the Consultative Committee for its opinion and then to the Council for its assent. Only after these procedures have been completed can the contract be signed by the beneficiaries and then by the Institution.

82 Financial procedures governing contracts

The agreement concluded with the beneficiary of the financial assistance fixes the maximum amount of the ECSC's contribution. Up to this maximum amount the Institution reimburses its share of expenditure claimed and duly substantiated. Most contracts, however, specify that the Institution may pay up to 90 % of the proposed subsidy in instalments as the work progresses and the relevant payments are made.

On receipt of the final scientific and financial reports, the Institution's budget departments draw up a final statement which is checked on the spot with the authorizing department. The balance is then paid.

Financial assistance given by the ECSC always covers only part of the expenditure incurred directly by the research project itself. This expenditure may be recurring costs (staff, consumable

supplies, etc.) or capital expenditure (installation and plant) intended directly for use in the research project. On completion of projects in the coal and steel sectors the ECSC, under the terms of the contract, takes account in its final statement of the residual value of the equipment, which is not necessarily the case in the social and medical sectors where the equipment procured may be left for use by universities or institutes active in ECSC research.

When existing equipment or equipment purchased with a view to later industrial use is made available for the research project, the assistance provided by the ECSC may cover the depreciation in value undergone by the equipment as a direct result of the project. In the event of total depreciation the ECSC may also provide part of the purchase price.

83 Availability of research findings and dissemination of information

The ECSC contributes to the dissemination of results and information by providing the costs of publishing research findings or of filing and keeping any patents. It also imposes a number of obligations on beneficiaries to make available the findings of research financed by the ECSC to all interested parties in the Community. Furthermore, it is entitled to a share of any royalties the beneficiary may earn from the granting of licences in respect of industrial property or from the passing on of knowledge acquired from the research.

It also covers the cost of all other initiatives, e.g. conference, symposia, seminars and publications, whereby the results of research activities can be most widely, but above all most appropriately disseminated within the enlarged Community.

Decisions as to the form, content and usefulness of such initiatives are the responsibility of the technical officials in charge of research, who authorize the expenditure required. Since the merger of the Executives they have cooperated at all stages with the Directorate-General for Scientific and Technical Information and Information Management, which is the Community body responsible for centralizing information activities in all fields, for organizing them, ensuring their continuity and improving them.

In order to ensure publication not only of research findings but also of programmes undertaken and progress reached in current work, the competent technical officials in the three sectors regularly update the information needed by the Directorate-General for Information for the purpose.

Measures of this kind are financed mainly by the portion of levy income which is set aside for the research projects themselves and, in the second place, by the administrative budget of the European Communities to which the ECSC makes an annual contribution of 18 million u.a. In the former case, funds earmarked for these measures may be up to 3% of total research expenditure. In the latter case, the costs involved are additional ones relating to the convening of experts, officials' travel expenses and the setting up of a documentation pool, and a budget allocation has also been envisaged to cover the cost of publications emanating from the Directorate-General for Scientific and Technical Information and Information Management.

At present any patents filed are filed on the initiative of the research assistance beneficiary. The ECSC merely makes a financial contribution towards the costs of lodging and obtaining them. Licences may be granted only to 'beneficiaries within the sector', a concept which is taken to cover debtors under the levy, i.e. producers, who have a right of appeal to obtain licences 'for their own use'. Adjustment of these practices is currently being studied with a view to devising a true Community policy on the subject.

A first step in this direction was made in 1972 with the publication of a survey of patents already taken out by Community industries as a result of research projects financed by the ECSC in the coal and steel sectors. This survey was based on the data collected on completion of the projects, when a systematic list is compiled of the patent or patents filed by the beneficiary during the research project financed.

In the social sector, an addition to the advantages yielded by the usual specific and final measures, active and frequent participation by the same research workers and the joint organiza-

tion of research work under general programmes means that the enterprises concerned are directly acquainted with the findings obtained.

84 Financial policy

A number of elements make budgeting for technical and economic research difficult. Financial assistance by the ECSC requires first of all an application by an enterprise or research establishment and, secondly, the completion of procedures laid down in the Treaty (consultation of the Consultative Committee, assent of the Council).

In practice it is found that a considerable period of time often elapses between the decision in principle which specifies the total amount of assistance granted, signature of the research contracts with the beneficiaries and the actual financing of the first part of the work.

On its inception, the Institution allocated the following items to a provision for research on its balance sheet: the total amount of internal and unilateral commitments resulting from broad decisions taken by the Institution, a sum equal to the value of loans granted for technical research (two loans granted under experimental social housing programmes); and a buffer reserve of 6 000 000 u.a. which was exhausted by 31 December 1970 and has not been renewed since.

Gradually, however, the Institution amended the procedures governing constitution of the provision for financial assistance to research, by allocating to this provision only such amounts for which legal commitments had been undertaken and signed as of the date of the balance sheet (contracts with research institutes). These sums thus represent commitments which are legally more binding than those resulting from broad decisions taken by the Institution. The contra of loans granted to research was no longer included in the provisions since these loans, unlike outright grants, did not entail an irrecoverable depletion of the Community's assets.

The provision for research also includes accessory costs directly linked to research projects and evaluated as and when deemed necessary. These are part of the total allocation (3% of the value of each contract) earmarked by the Institution to enable it to finance the dissemination of scientific research findings, help researchers to draw benefit from them and permit the competent bodies in the sectors concerned to promote and facilitate the practical application of these findings.

The Institution periodically cancels outstanding provision balances corresponding to credits given to projects which have been completed and will require no further payments. It may also reduce the provisions following application of the contract's resolutive clause, under which it may rescind the agreement in certain cases of non-performance.

85 Supervisory procedure for research assistance

Departments involved in ECSC financial assistance to research projects include, on the one hand, the directorates-general concerned with steel and iron ore (Industrial Affairs), coal (Energy) and industrial safety and medicine (Social Affairs) and, on the other hand, certain sections of the Directorate-General for Budgets and the Directorate-General for Financial Control.

The first are especially responsible for drawing up general and special research programmes, preparing negotiations on research contracts and for technical supervision of their progress. The budget officials help to work out the financial details of contracts, check on the use made of subsidies and prepare the budget estimate, for the sector in which the research is done. The procedures laid down for each project deal particularly with scientific and financial responsibility, certain guarantees concerning the use made of credits and the making available of the research findings. The Directorate-General for Financial Control gives prior approval to this expenditure.

The Legal Department also cooperates at all stages in the drafting and editing of contracts and their interpretation in the event of disputes or litigation.

The beneficiary is required to send in a technical and a financial progress report every six months, whereby the ECSC reserves the right to check on the spot and from any document that the expenditure claimed is justified.

Periodically, the appropriate officials of the directorates-general of the Institution carry out joint on-the-spot inspections and draft an interim report on financial aspects of the research project at its current stage of progress.

Borrowing, Lending and Guarantee operations

BORROWINGS

86 Authority to borrow

Under Article 49 of the Treaty and on behalf of the ECSC — which, under Article 6 of the Treaty, has legal personality in its own right — the Institution may borrow funds in order to obtain the resources necessary to the performance of its work.

Since its inception, the ECSC has contracted a series of loans both on the international market and on a number of national markets, notably those of the member countries of the Community, the USA and Switzerland.

87 Guarantee operations

The ECSC was not provided with any initial capital by the Member States. In addition, Member States are not obliged to guarantee loans floated by the ECSC even when the latter judges it necessary to seek this guarantee after consulting the Council and the governments concerned (Article 51, Section 1, Paragraph 3 of the Treaty). In reality, the ECSC has always issued its loans without making use of the guarantee of Member States. As a result, the fiscal powers granted to the Community under the Treaty were initially the only guarantee offered to those lending it funds.

For its first loans, contracted between 1954 and 1961, the ECSC was bound by an instrument of English and American law known as the 'Act of Pledge'. Under this the first creditors, mainly American, obtained a common possessory lien on claims held by the ECSC against enterprises receiving loans granted out of ECSC borrowings. This lien took the form of the holding in pledge of these claims (and the securities relating to them) by an 'approved third party', the Bank for International Settlements (BIS). This body was responsible, on behalf of the creditors, for the safekeeping of the items secured and for ensuring that the Act of Pledge was respected. In effect it centralized all banking transactions connected with the payment of borrowings and the servicing of loans both contracted by the ECSC. To this end the BIS obtained the assistance of financial institutions in each member country to act as agents. When the loan was contracted and the promissory notes transferred, the proceeds were paid into a special account with the BIS, which only used it to pay out loans to beneficiary enterprises on receipt of the proofs of debt and related securities. The same applied to the annual repayments on loans paid directly by debtor enterprises into the special account.

Since 1961, bond issues have not been governed by the Act of Pledge because of the new guarantees which the ECSC is able to offer on its assets.

In addition to subscribing to the Act of Pledge the Institution gradually built up by 1956 a guarantee fund of 100 million u.a. using its income from the levy, the rate of which had been set fairly high. This guarantee fund, however, increased to 120 million u.a. by the allocation of part of

the new Member States' accession contributions, may only be drawn on after all other reserves are exhausted.

Furthermore, creditors lending funds to the ECSC know that the ECSC is compelled to use the product of loans it contracts exclusively for re-lending, as it is required under the Treaty to meet its operating expenses out of receipts from the levy and income on its assets. In addition, the choice and quality of the beneficiaries receiving loans keeps failures to a minimum and the increase in structural reorganization loans diversifies the risks involved by making them less dependent on the economic climate in the coal and steel sector alone.

This gives an idea of the credit capacity which the ECSC offers and which enables it to draw on money markets. It is because it makes public issues on these markets that the Institution publishes and distributes its balance sheet at regular intervals.

88 Methods and procedures

Under Article 51, Section 1, Paragraph 2 of the Treaty, the floating of ECSC loans on the markets of Member States is subject to the rules obtaining on these markets.

In general issues are made through banks or institutional investors and are quoted in the currency of the market they are floated. These loans are medium and especially long-term loans and are floated under the usual market conditions. Issue prospectuses contain the conditions governing the loan, viz. the amount borrowed, rate of interest, duration, payment and repayment terms and the applicable laws and place of jurisdiction. New bonds are held 'pari passu' with all bonds issued and to be issued, with the exception of those covered by the Act of Pledge.

The ECSC also contracts private loans from banking establishments.

Given that borrowed funds must be allocated to loan operations, the accounting procedure for payment of interest on those funds and on the corresponding loans is kept separate, so that the operating balance between these parallel operations can be ascertained at any time.

Current costs connected with the service of loans contracted by the ECSC (interest and fees paid annually) are charged to this special loan operating account and offset by current receipts from the service of loans granted (interest collected annually). The initial costs of loans contracted are not charged to this special operating account but are carried on the balance sheet as assets under a separate heading (recoverable issuing costs) and are gradually written off every year of the special loan operating account. The end position of this special operating account may also be affected by other management factors (particularly by any losses due to default on the part of borrowers).

The balance of this account, which has so far always been in credit, is put to reserve on the liabilities side of the balance sheet (other provisions).

89 Use

Under Article 51, Section 1, Paragraph 1, the product of ECSC borrowings may only be used to grant loans.

LOANS

Loans granted by the Institution are of two types, depending on the origin of the funds providing them. Some are granted out of borrowed funds, others from non-borrowed funds taken either from the special reserve, or directly from the levy, or from the former pension fund for officials of the ECSC.

90 Loans granted out of borrowed funds

90.1 Apart from the fact that the product of borrowings is generally speaking used to grant loans (Article 51 (1) of the Treaty) and that as a result there is an equilibrium between funds borrowed and funds loaned, Articles 54 and 56 give more detailed definitions of the exact use to which borrowed funds may be put. Under Article 54, Sections 1 and 2 and Article 56, Sections 1 and 2, loans granted out of borrowed funds must be used to finance :

- (a) The implementation of investment programmes by coal and steel enterprises.
- (b) With the unanimous agreement of the Council, works and installations which contribute directly and mainly to :
 - increased production ;
 - lower production costs ;
 - easier marketing of products subject to the jurisdiction of the ECSC.
- (c) In the industries subject to the ECSC's jurisdiction or, with the agreement of the Council, in any other industry, programmes to create new and economically sound activities capable of assuring productive re-employment to workers discharged following the introduction of new technical processes or equipment into enterprises.
- (d) In the industries subject to the ECSC's jurisdiction or, with the agreement of the Council, in any other industry, programmes for the creation of new and economically sound activities or the transformation of enterprises capable of assuring productive re-employment of workers discharged as a result of far-reaching changes in marketing conditions in the coal and steel industry.

90.2 From the *accounting* point of view and to underline the fact that borrowed funds are used exclusively for allocation as loans as stipulated in Article 51 of the Treaty, the Institution, up to 1968, always showed separately in the balance sheet the arithmetical balance between the funds borrowed, under liabilities and, under assets, the same funds whether they had been paid out to borrowers or not. This balance was in fact the result of the policy whereby funds borrowed were directly and individually allocated as loans for financing.

After 1968, the Institution no longer drew a distinction between categories of loans according to their origin or use. Nevertheless, the balance between borrowed funds and loans is still respected and can be checked in the overall accounts. This change was prompted by the desire to apply the principle of unity in managing both borrowed and own funds, as we shall explain in the section entitled 'Management and investment of funds'.

90.3 In general, the *terms of loans* granted have been more or less identical with those of loans contracted (same currency, duration, principal, repayment terms). The rate of interest on the loans granted has often been slightly higher than that on the corresponding loan contracted, to offset its cost. As from 1969, however, the ECSC has set a standard rate for all loans granted out of borrowed funds. This single rate is subject to periodic alteration and is the result of evening out the cost of various loans contracted over a certain period.

Loans for structural reorganization (under Article 56 of the Treaty), the amount of which rises considerably, were initially granted at more or less the same rate of interest as that on the corresponding funds borrowed and then at a lower rate, thanks to the combining of funds from different origins (very low-interest own funds and higher-interest borrowed funds). Since 1967 loans for structural reorganization granted out of borrowed funds qualify for a reduced rate of interest for the first five years. These reduced rates were fixed successively at 4.5 %, 5.25 %, 6.25 % and 7 %.

The resulting interest loss, shown in the loan operating account, is made good by an outright difference payment credited to the same account to restore the balance between the cost of borrowed funds and the cost of the corresponding loans.

Loans for the financing of industrial investment projects under Article 54 of the Treaty have always been granted under the Institution's normal conditions. As from June 1970, however, they too can obtain a reduced rate of interest, provided they fulfil certain requirements, similar to that on structural reorganization loans granted under Article 56 of the Treaty. The criteria taken into account in granting this reduction are concerned with the nature of the investments to be financed : investments resulting from safety and public health regulations (nuisance control), multi-national investments promoting the integration within the Community of ECSC enterprises, investments designed to eliminate bottlenecks affecting an entire ECSC industry or investments for the establishment of research or vocational training centres within the scope of the ECSC's activities.

As regards the first category of loans granted at reduced rates of interest under Article 54 of the Treaty, the ECSC was prompted to set out in detail the conditions under which these should be granted, (1) as a result of the guidelines adopted by the Commission of the European Communities in matters of environmental policy (and particularly the upholding of the 'polluter pays' principle) (2). Under these conditions, these reduced-interest loans may only be granted :

- (a) For investments carried out by undertakings specifically for the purposes of environmental protection and in response to obligations imposed by the public authorities.
- (b) For investments to be carried out in plants in existence on 1 January 1975, whereby the proportion of the cost corresponding to extensions of capacity is not, however, eligible for reduced-interest loans.
- (c) For investments meeting accepted standards of efficiency and for which the costs, for the production stage in question, are substantially higher than those which would be considered normal for the construction of similar plant.
- (d) In so far as, before 31 December 1980, the investment decisions confirmed have given rise to firm orders and the corresponding loan applications have been made.
- (e) Up to a maximum of 50 % of the capital cost.

These restrictions are not, however, applicable to the financing of investments relating to the industrial utilization of new technical processes, if the results of their introduction are made available within the Community to all those interested.

Under Article 54 of the Treaty, the ECSC has also financed housing construction programmes for workers in the coal and steel industries. These loans are mainly granted out of own funds at 1 %, but may also be granted out of borrowed funds at a normal rate of interest more or less equal to that on the funds borrowed.

90.4 *Guarantees* required by the ECSC on the loans it grants are principally first mortgages, guarantees of Member States, industrial groups and banks.

(1) OJ C 146 of 25. 11. 1974, p. 1.

(2) OJ C 112 of 20. 10. 1973 and OJ C 68 of 12. 6. 1974, p. 1.

90.5 All loans provided out of borrowed funds are granted in the *same currency* as that of the borrowings, whatever the nationality of the beneficiary.

90.6 As regards the Institution's *policy* towards potential borrowers, this is essentially to guide and direct investments in accordance with the general objectives periodically defines under Article 46 of the Treaty. These are also published in the Official Journal of the European Communities and thus enable industrialists to know the areas in which they may expect Community financial assistance for their investments.

Article 54 also provides for the prior declaration of individual programmes. Within three months the Institution gives a reasoned opinion based on the general objectives whenever the investment plan is a basic investment. Approval means that Community loans may be made in principle, subject to fulfilment of certain financial conditions.

In addition to these contacts envisaged in the Treaty the Institution makes known its financial assistance terms either through official channels (Official Journal of the European Communities), or by letters to governments when, as in the case of structural reorganization, these are the intermediaries responsible for submitting loan applications, or by circulars sent to professional organizations or even to enterprises themselves.

91 Loans granted out of non-borrowed funds

In addition to loans granted from borrowed funds, the ECSC also grants loans out of the special reserve (to finance social housing construction and industrial structural reorganization), from levy resources (for the social rehabilitation of steelworkers and miners or for technical or social research) and from the former ECSC pension fund (for the construction of personal housing for officials of the Communities).

91.1 In effect, loans for *rehabilitation, technical and social research and industrial structural reorganization* are few in number and date from the years 1958-59, 1955-66 and 1966-67 respectively. The fact that operations in these areas have slowed down is mainly due to a change in the methods of financing projects in these three sectors: loans have given way to subsidies.

91.2 Loans granted out of ECSC own funds are principally used, then *to finance social housing construction*. These loans are usually granted to financial establishments or banks. In view of the very moderate rate of interest they are given (1%), these establishments usually undertake in turn to lend the sums received from the ECSC to industrial enterprises or specialist organizations, supplemented by amounts which they themselves raise on their home markets. The combined amount can thus be loaned at a single rate of interest which, because the interest on the funds loaned by the ECSC is so low, is very competitive.

The final rate is laid down in the agreement and must be respected by the companies which grant the loans to beneficiaries.

Programmes receiving assistance must be approved and checked by the ECSC which also requires security on the loan it grants. This security may be one of many types but is often either a government guarantee given by national construction companies specializing in moderate-rent housing or a guarantee from industrial groups given to construction companies attached exclusively to those groups. When loans granted for social housing construction programmes are provided from borrowed funds, these are often combined with own funds so that the average interest rate can be a moderate one.

Loans of this type are always given in the currency of the country in which the borrower is established. This eliminates all exchange risks for the borrowers and makes the financing of building operations considerably easier.

91.3 The third type of non-borrowed funds out of which loans are granted is that of the funds held in the former ECSC pension fund. Since 1964 the Institution has used these funds to grant loans to its employees for the *purchase or construction of personal housing*. Up to 4 March 1968 the ECSC pension fund was constituted from ECSC and employees' contributions and

managed by the Institution together with the rest of its assets. Since the merger of the Executives when all the pensions of Community officials were placed on the administrative budget of the single Executive, this fund has been part of the overall financial assets of the ECSC. In 1970 a decision was passed whereby 40 % of the sum may be allocated to provide personal housing loans to all Community officials and 60 % of it for the purpose either of guaranteeing social rehabilitation commitments or granting reduced-interest loans within the context of the social and economic objectives of the ECSC Treaty.

Details of the loans granted out of this fund are set out in the annex to this report (Pension fund).

GUARANTEE OPERATIONS

92 Under Article 51 (2) and Article 54 (1) of the Treaty, the ECSC may also extend its guarantee to loans contracted by coal and steel enterprises with other parties. Such guarantees must be extended in accordance with the terms of Article 54 of the Treaty, i.e. respecting the objectives envisaged (loans to assist the implementation of investment programmes or, with the agreement of the Council, works and installations which contribute to an increase in production, lower production costs or easier marketing of products).

In accordance with normal banking procedure, the ECSC receives remuneration for the guarantees it extends in the form of moderate guarantee fees which are added to its own funds.

Management and investment of funds

93 Origin and composition of the financial assets of the ECSC

Although the Treaty does not provide for the constitution of a body of initial capital and contains no rules governing the administration of funds temporarily held by the Institution, it does contain some financial provisions. Article 49 sets out the means by which the Institution may procure funds: the levy, borrowing and any gifts. On the other hand, Article 50, Section 1, Paragraph 3 and Article 51, Section 3 state that the Institution may constitute reserves. Section 4 of Article 51 also specifies that the Institution may not itself engage in banking operations relevant to its financial activities and Article 52 requires all Member States to take all appropriate measures to ensure that funds are transferred as far as required.

Within the spirit of these provisions, then, and because of its public interest, the Institution has always taken care to avoid speculative investment and has tried, as far as possible, to keep all receipts from the levy in their country of origin in accounts maintained on the Institution's behalf until such time as they are used.

Furthermore, since the ECSC had no financial resources at the beginning, it was obliged to build up over the initial years a body of assets which could be used to guarantee its commitments (guarantee fund, reserves and provisions), the contra of which in the assets is a body of liquid funds, held either at banks in current accounts at sight or at notice, or in debenture bonds.

To this end and in order to obtain access to the money market and thus to achieve sufficient creditworthiness, the new Coal and Steel Community set up a 'guarantee fund' by earmarking part of its levy resources collected during the first three years at a relatively high rate. By 30 June 1956 this fund had increased to 100 million u.a., and it remained unchanged until 1973 and 1974 when it received allocations (2×10 million u.a.) from Denmark and the United Kingdom as part of their accession contributions.

As regards resources from borrowed funds, these must be used exclusively for loans to finance activities specified in the Treaty. Although these funds may not be held as permanent liquid resources, they do give the Institution a certain margin of liquidity.

In view of the fact that the Institution must allocate its income from the levy to specific uses (administrative expenditure, research and rehabilitation expenditure), it constitutes provisions for these three items out of levy income. As the amount of these commitments is not paid to beneficiaries directly and entails expenditure which is generally spread over a number of years, the liquid assets corresponding to these provisions are placed in deposits of varying terms, depending on when they will be required. Income on the investment of these funds is placed in a 'special reserve'. The Treaty does not make any provision for a reserve of this kind, nor state how it should be used.

The ECSC has not to date received any gifts of the kind envisaged in Article 49 of the Treaty.

Together, these allocations thus leave a considerable amount of liquid assets per contra which are invested as described below.

94 Forms of investment

The greater part of liquid assets is held at banks in current accounts at sight and at notice, in fixed deposits with a term of less than one year or in the form of other short-term investments guaranteed by banks. A number of longer-term investments can be maintained, since the need to cover obligations contracted is spread over a period of time. The rest is held in portfolio in the form of first bonds issued by national or government authorities and official and semi-official bodies. The securities portfolio comprises bonds of varying currencies held at banks in ten or so different countries.

Up to 1965-66, the ECSC also concluded individual agreements with the banks at which the Institution's assets had been placed at medium term. These required the banks in turn to grant medium-term, low-interest loans to coal and steel enterprises of the Community. In this way these enterprises were able, on favourable terms, to obtain further sums over and above the sums borrowed directly from the ECSC to finance their investments. As from 1966-67, however, the accelerated pace of the ECSC's disbursements under increasing commitments for rehabilitation, research and loans, obliged the Institution to discontinue this form of investment.

95 Principles governing the management of liquid assets

The investment policy pursued by the Institution has always concentrated on obtaining the best possible return on its assets at the same time as meeting the security and liquidity requirements bound up with the performance of its tasks.

95.1 The high level of *returns* on investments is reflected in the size of the funds which have been gradually accumulated, allowing the ECSC to intensify its action in the social sector with a number of different activities, especially in the field of social housing.

95.2 As regards security the ECSC has always avoided the hazards of speculation by following a cautious investment policy with deposits at large banks and a portfolio mainly comprising first bonds of national and government authorities and official or semi-official bodies. The Institution has also sought investment in securities carrying bank endorsements.

95.3 Finally, the Institution meets its requirements by a suitable policy in the allocation of its resources.

So far it has always covered its loan requirements by sufficient advance borrowing on the market, after which these loans are paid out without any significant delay. The Institution earmarks other resources of a fiscal nature (levy income, fines, interest and increases on arrears) and those from banks (income on investments) to cover, all its commitments immediately after the relevant decisions are taken, even if the sums involved are to be paid out over several years. This system is supplemented by a policy of investment at varying terms which enables the Institution to meet payments required at irregular intervals and, at the same time, to collect a significant return on other investments.

Assistance to coking coal and coke

96 General

Since 1967 the ECSC, making due allowance for the special characteristics of the market in coking coals and coke for use in steel industry blast furnaces, has taken measures to ensure that the conditions of sale attaching to output of these commodities enable Community coal mining enterprises to keep their sale prices close at all times to those of imported coke. These measures, based on Article 95 of the Treaty, require unanimous approval by the Council and consultation with the Consultative Committee. They have given rise to three successive decisions which have guaranteed continuity in Community policy on this question.

A first decision (No 1/67) of 21 February 1967 established a system, for a period of three years, which made it possible for the six Member States to grant maximum subsidies per tonne, thereby making up the difference between Community and imported coking coals. In order to make this financial assistance Community initiative the ECSC, without actually providing funds itself, set up a system of financial adjustments between the Member States, whereby the Institution's role consisted simply in centralizing accounting operations for production and delivery figures and in calculating and checking sums transferred from one State to another.

When this system came to an end, a new decision was enacted by the Institution on 19 November 1969. This decision (No 1/70), which took effect on 1 January 1970 for a period of three years, authorized Member States to continue giving aid to coking coal and coke and pledged the financial liability of the ECSC by contributing to a 'Community fund'.

A new decision (No 73/287/ECSC), taken on 25 July 1973, came into force for a period of six years, with effect backdated to 1 January 1973. It provides for a system broadly comparable to that outlined in Annex I to the 1972 Auditor's Report (1).

The paragraphs which follow describe the new system, with special reference to the differences between the old and new machinery.

96 Operation of the system provided for in Decision No 73/287/ECSC

96.1 The new system, like that introduced by Decision No 1/70, provides for two types of assistance :

- **A production aid** for coking coal, provided and disbursed exclusively by the producer states. This is paid at a rate decided by the governments which must first be authorized by the Institution. The rate is fixed annually for each coalfield, taking particular account of the average costs of production in that coalfield, the price of coking coal in its principal sales area and the long-term supply conditions.
- **A sales aid** to deliveries to areas remote from the coalfield (national aid). Aids to deliveries effected by way of intra-Community trade are financed jointly by the ECSC, Member States

(1) 1972 Auditor's Report, points 200 to 202.

and, for the first time, by the iron and steel industry itself up to a limit of 15 million tonnes per annum (as against 17 million tonnes previously).

96.2 These aids are given :

- In the case of national production aids, to the coking coal producers. When these pass the production aid on to their buyers, this must not give rise to discrimination between the various long-term contracts to be performed by the producers.
- In the case of sales aids, to the purchasers of coking coal and blast furnace coke, in the form of a price rebate.

These aids can only be granted under long-term contracts ⁽¹⁾.

96.3 The 'special fund' of Community resources, a breakdown accounting item administered by the Institution, is constituted from three sources :

- **ECSC contribution** : for the first year this will be 0.266 u.a. per tonne, or not more than 4 million u.a., for the second year 0.333 u.a. per tonne, or not more than 5 million u.a. and, for subsequent years, 0.400 u.a. per tonne or not more than 6 million u.a. per annum.
- **Iron and steel industry's contribution** : this contribution, which made it possible for such a high rate of aid to be given, will for the first four years be 1.107 u.a. per tonne, or not more than 16.6 million u.a. per annum, for the fifth year 1.027 u.a. per tonne, or not more than 15.5 million u.a. and, for the sixth year 0.593 u.a. per tonne, or not more than 8.8 million u.a. The total amount contributed is provided by iron and steel enterprises in proportion to their consumption of blast furnace coke.
- **Member States' contribution** : for the first year this will be 0.627 u.a. per tonne, or not more than 9.4 million u.a., for the second year 0.560 u.a. per tonne, or not more than 8.4 million u.a., for the third and fourth years 0.493 u.a. per tonne, or not more than 7.4 million u.a., for the fifth year 0.273 u.a. per tonne, or not more than 4.1 million u.a. and for the sixth year 0.207 u.a. per tonne, or not more than 3.1 million u.a. The percentage contributions of the various Member States are as follows : Germany 31 %, France 28 %, Belgium 13 %, Italy 12 %, Luxembourg 10 % and the Netherlands 6 %.

96.4 No government contribution has been envisaged for the United Kingdom which has not so far taken part in existing intra-Community trade. In order to avoid any discrimination, the contribution by the British iron and steel industry will be fixed in accordance with the Community rule and paid direct to the government.

Neither Denmark nor Ireland has any blast furnaces and these countries are not, therefore, included in the system.

97 Procedure

As regards procedure, four partners are involved in the operation of the system : steelworks (which use coking coal and coke), the coal mining industries (which supply coking coal or coke), the Member States (which pay part of this financial assistance and are required to submit statements of their assistance to production and marketing) and, finally, the Institution through the intermediary of the Directorate-General for Energy (which centralizes notifications of transactions, checks the details and settles final accounts between countries by payment of its own contribution).

Commission Decision No 3544/73/ECSC laid down the conditions for application of Decision No 73/283/ECSC, particularly with regard to the notification of transactions, determination of the aid basis, determination and collection of the iron and steel industry's contribution and the organization and supervision of administrative operations. A communication from the Commission dated

⁽¹⁾ Rules for determination of the aid basis : OJ L 361 of 29. 12. 1973 (Decision No 3544/73/ECSC of 20. 12. 1973, and communication concerning the implication of provisions relating to long-term contracts : OJ C 160 of 30. 12. 1974.

30 December 1974 to associations of coal and of iron and steel undertakings states the scope of provisions relating to long-term contracts (1).

97.1 On the appropriate forms and within the prescribed time limit (30 days from conclusion of the contract in the case of deliveries, every quarter for purchases from non-Community countries coal and steel enterprises send in notice of new transactions or changes in supply contracts and details of coking coal purchases. Complete professional secrecy is observed in the transmission of this information which is then vetted by the appropriate departments of the Directorate-General for Energy, particularly to check that supplies are made in accordance with the terms of the contracts.

Coal and steel enterprises which produce and consume coke and coking coal must also send their respective Member States the information needed by government departments in order to calculate coefficients for determination of the aid basis. These coefficients determine the ratio between total coke production and deliveries to the iron and steel industry.

Steel enterprises calculate the amount of their contribution every quarter, on the basis of their consumption of blast furnace coke and the rate per tonne communicated to them by the Institution, and pay their contribution into an account in each country designated by the Institution for the purpose.

97.2 For their part, *Member States* :

- Give financial assistance to coking coal producers in their respective countries together with a sales aid to deliveries effected under long-term contracts to areas remote from the producer coalfield or by way of intra-Community trade.
- In order to speed up Community financing operations, submit quarterly statements to the Institution of coking coal supplies which qualify for sales assistance, and pay instalments which are adjusted annually.

Using the information supplied by enterprises, the Member States calculate coefficients for each coking plant. These are based on standard questionnaires drawn up by the Institution to ensure easy comparability and which ask for economic figures (origin of supplies and breakdown of production) and financial details (calculation of the coefficient). If the coking plant and/or blast furnace is situated in a country other than that in which the coal mining enterprise is located, it is the Institution which calculates the coefficient for that enterprise and informs the supplier country.

The Member States calculate for each quarter and then for each year the sums due to coal-producing enterprises. This information is submitted to the Institution not less than 6 weeks from the end of each quarter, in the summarized form devised by the Institution and with a full breakdown of figures.

97.3 *The Commission*, for its part :

- Vets and then authorizes the rate of the aid per tonne granted by Member States to production. These rates are submitted to it for approval, on the basis of the Community criteria, three months prior to the year in question.
- Checks declarations from enterprises for correct application of the rules governing prices, calculation of the aid basis and of the sum of assistance granted.
- Asks Member States and steel enterprises, on the basis of declarations received and in order to speed up Community financing of sales aids, to pay the relevant sums to supplier countries using a quarterly breakdown, and then disburses its own contribution.
- Draws up final statements for each country and each steel enterprise at the beginning of each year for the preceding year, mobilizes the appropriate funds and transfers the net amounts to the supplier countries.

(1) OJ C 160 of 30. 12. 1974.

Financing of social housing construction

98 General

The large amounts of financial assistance given by the ECSC for the construction of housing for coal and steel workers take the form of loans or subsidies as part of the social and economic objectives defined in the Treaty.

The assistance may be financed in two ways : either from subsidies for technical and economic research, which have been restricted to the financing of the first two experimental construction programmes in 1965, or from loans granted out of borrowed funds or, most frequently, out of own funds held in the special reserve.

99 General machinery

Since 1954 the ECSC has designed or helped to finance seven housing programmes for coal and steel workers in Community countries, as well as three special experimental programmes.

In all the standard programmes the ECSC does not act as the developer. The construction work is handled by building firms or associations, local authorities or industries, sometimes by the workers themselves. Such projects, which are social in nature, are implemented in the context of national legislation and receive various kinds of assistance from government authorities.

For reasons of a social nature and under a general policy covering precisely defined building programmes, the ECSC gives its assistance in the form of long-term loans (25 to 30 years), and at reduced interest (1 %). It provides between 15 and 25 % of the total cost required for loans granted out of own funds, and up to 50 % for loans granted out of a combination of own funds and borrowed funds.

100 Implementation and supervisory procedures

Under its procedures for drafting, implementation and supervision of construction programmes to which it decides to give partial financing, the Institution first takes a decision in principle, for the entire Community, to draw up a programme of assistance to the construction of social housing. The ECSC's action is part of a general housing programme closely determined by the general objectives of the Community. Normal and experimental programmes are selected and prepared after consultation with the appropriate industrial and trade union circles in accordance with the general social policy pursued by the European Communities.

The Institution then fixes the total value allocated to the programme out of the resources available, determines the period for its implementation and its special features (certain programmes submitted are drawn up with particular objectives in mind) and decides how to make the financing available and how to check the use made of funds granted to finance such programmes. In the coalfields and steelworks, regional committees composed of representatives of the appropriate ministries and of both sides of industry are established. These are consulted

with regard to the distribution of funds, choice of projects to be financed and the choice of developer.

Two Directorates-General of the Institution are involved in the financing of construction programmes: the Directorate-General for Social Affairs and the Directorate-General for Credit and Investments. The Directorate-General for Social Affairs is responsible for drafting a general housing policy and for preparing construction programmes and overseeing their implementation. After compilation, dossiers are examined to ensure that they comply with the financial and technical provisions laid down in the programme.

Opinions and lists of projects are submitted to the Institution for approval. After an official decision in each individual case, appropriate contracts are drawn up with the national financial establishments responsible for granting and administering loans to the final beneficiaries.

After informing beneficiaries of the agreement provisionally granted, the Directorate-General sends them two postcards which must be returned showing the dates on which construction work began and was completed. It is worth mentioning at this point that the contracts stipulate that any change to a project or transfer of a loan to another builder requires the prior assent of the ECSC. This new information is recorded.

In addition, if progress is found to be abnormally slow, on-the-spot inspections may be carried out by officials of the Directorate-General.

The Directorate-General for Social Affairs also maintains up-to-date dossiers on each project and keeps records both of credits granted and payments made under each programme. The method of classification of projects enables statistical and financial information to be located at any time by country, sector, enterprise, programme and project. These financial records are made possible by cooperation with the Directorate-General for Credit and Investments.

This Directorate-General works out the financial procedures followed, prepares loan agreements together with the legal department and signs these contracts with the financial institutions which distribute the funds to beneficiaries. It also takes care of the administration proper of loans, i.e. it disburses them and checks repayments.

101 Financing

As stressed in the foregoing paragraphs, housing construction programmes are financed above all from loans granted for the most part out of own funds drawn from the special reserve. Sometimes loans are also granted using a combination of funds from the special reserve and borrowed funds, particularly when the loan interest rate currently prevailing on money markets is high.

These loans are most often granted — in accordance with the procedure described above — to financial establishments or banks. The interest rates charged on loans granted from the special reserve are always low (1%) and on loans granted out of a combination of funds they vary between 3.5 and 6%.

As these interest rates are so low, the establishments borrowing funds must undertake in turn to give loans, within three months of receiving the funds from the ECSC, to industrial enterprises or undertakings which specialize in social housing construction, supplementing the sums received by amounts they themselves raise on the home market.

In social terms this means that employees in the iron and steel and coal mining industries — the ultimate beneficiaries — are able, thanks to the varying conditions on which the funds are raised, to obtain loans at a single rate of interest which is very competitive and is no higher than the rates envisaged in the loan agreements between the ECSC and the establishments extending the loans. Moreover, these procedures add a further dimension to the Community's loan operations, by providing financial assistance under its general policy of social housing.

All loans under programmes for social housing construction are given in the currency of the country in which the final borrower is established. This eliminates all exchange risks for the borrower and makes the financing of building operations considerably easier.

The Institution has thus drawn mainly on the special reserve, constituted from the interest yield on own funds invested, in its efforts to promote the construction of social housing. In order to make quite clear that the special reserve is allocated exclusively to social purposes the Institution has also, since 1970, withdrawn from this reserve all sums which were not specifically intended to finance these programmes.

The pension fund

102 Constitution and operation of the ECSC pension fund

The coming into force of the Staff Regulations for Officials of the European Coal and Steel Community (1 July 1956) was accompanied by the establishment of an independently financed pension fund applying to all officials of the Community. Into this fund — which took over the assets of the earlier, provisional Provident Fund — ECSC employees paid a personal contribution of 7.5 % of their basic salary, whilst the Institution paid a contribution of 15 % of the basic salary, thus guaranteeing officials a full pension (60 % of the latest basic salary) after 30 years' service. The fund thus established formed part of the financial assets of the ECSC.

This fund, together with the Institution's liquid assets, was thus invested at medium and long term in a number of forms: either in fixed deposits of varying terms, in portfolio securities or even as loans to Community officials for the construction or purchase of housing.

The pension fund has remained on the balance sheet and is shown separately, under liabilities, among the ECSC's creditors, since it constituted a fixed-term debt of the ECSC towards its staff and was consequently credited with a rate of interest officially fixed at 3.5 % per annum.

From 1 January 1962 the employee's contribution to the pension fund was reduced to 6 % of the basic salary (12 % for the Institution's share), but a full pension was granted only after 33 years' service. Officials employed before 1 January 1962 were, however, given the option of continuing at the old rate or paying the new rate.

This fund thus increased each year by the amount of the contributions paid by the Institution and its employees, the statutory allocations paid by the Institutions of the ECSC and interest yield on these (3.5 %), but decreased by the amount of retirement pensions paid out and severance grants provided for in the Staff Regulations for certain categories of employees.

With the merger of the Executives and harmonization of the Staff Regulations of the three European Communities, the pensions of officials of all three Communities were transferred to the single administrative budget as from 5 March 1968. The ECSC pension fund, which ceased to grow as a direct result, at this time totalled 25.5 million u.a. Now, however, the Council of the European Communities, acting by a qualified majority on a proposal from the Commission and after consulting the Staff Regulations Committee, was empowered to decide how the pension fund should be used (1).

This decision, taken on 2 March 1970, retained the ECSC pension fund (as it is currently known) as part of the own funds of the ECSC, at the same time allocating it to joint ventures of a social nature (loans to officials, *contra* or guarantee of commitments for rehabilitation or loans for social housing).

The portion granted as loans to officials increases every year by the amount of interest received on the service of these loans, which is matched by an equal increase in the amount of the former pension fund.

(1) Council Regulation (EEC, EAEC, ECSC) No 259/68, 29. 2. 1968 (OJ L 56 of 4. 3. 1968), Article 2(11).

In 1974 it was further increased by seven million u.a. received as contributions from the new Member States.

103 Administration of the pension fund

As stated above, the pension fund is invested together with the rest of the ECSC's financial assets. No prior specification is made of the form this investment should take.

In addition to investing it in fixed deposits and portfolio securities, managed as described in this Annex under 'Management and investment of funds', the Institution decided in 1964 to grant part of it as loans to its officials, under certain conditions, for the purchase, construction or conversion of personal housing or the repayment of other loans already contracted for this purpose. This diversification in the investment of the pension fund thus served a social purpose and at the same time enough liquidity was maintained to pay out to beneficiaries pensions due or shortly to become due.

The main features of this system of loans, which was open only to ECSC officials, are described below. It underwent a number of modifications and came to an end on 1 October 1968.

103.1 The conditions governing this *first system of loans* granted out of the ECSC pension fund were as follows :

- Borrowers had to show that they could cover at least 10 % of the total cost (land, building, purchase and conversion and any other costs) from their own resources. Where property was being converted, this had to entail a minimum increase in value of Bfrs 250 000, excluding repairs.
- Annual interest of 4.5 % in the first instance, subsequently reduced to 4 % and 3.75 %, including the cost of insuring the balance outstanding.
- Beneficiaries had to have paid contributions for at least five years.
- Borrowers could obtain this loan to repay other loans contracted earlier for the same purpose, without any limit on interest already paid or on available assets.
- the maximum term of the loan was 20 years with the stipulation that loans had to be repaid by age 70.
- The maximum amount of the loan, fixed in the first instance at 10 000 u.a. plus 500 u.a. per child or other dependant, was increased to 14 000 and 1 000 u.a. respectively, but could not exceed 18 000 u.a. or 40 % of the total cost of the project (including land).
- The total financial burden on the borrower was not to exceed 25 % of his basic salary.
- Repayments were monthly, by deduction from the salary, with the option of unlimited anticipated repayment.
- The security required by the Institution consisted in undertakings by the beneficiary either to forfeit any severance grant to which he might be entitled or to repay at once the amounts outstanding if he should cease working for the Community.
- Applications, supported by the appropriate documents, were examined by an *ad hoc* committee and the loans were serviced by the Directorate-General for Credit and Investments.

104 Use of the former ECSC pension fund

On 2 March 1970 the Council stated that 'available sums carried on the ECSC balance sheet under the heading "pension fund" and administered by the Commission, shall be used by the latter in the following way :

- (a) Up to a limit of 40 % for loans under a housing policy for officials of the Communities.

(b) Up to a limit of 60 % to guarantee rehabilitation commitments (Article 56 of the ECSC Treaty) and to grant reduced-interest loans, with a view to fostering the social and economic objectives of the ECSC Treaty within the context of the financial operations provided for in this Treaty'.

In a decision of 18 June 1971, which came into force the following day, the Commission set out the provisions for implementation of a new system of loans applicable from 18 June 1971 and amended a number of these provisions on 29 September 1971.

It should be noted that the 40 % of the former pension fund provides a kind of revolving fund into which the full amount of annual repayments, principal and interest, are paid.

104.1 The main features of the second system of loans are as follows :

- Total loans from the Commission and other sources must not exceed 90 % of the total cost. Where property is converted, this must entail a *substantial increase in value*.
- Annual interest of 4.2 %, including the cost of insuring the balance outstanding (0.25 %). The sum of this interest is added to the former pension fund.
- Beneficiaries must have had five years' service and paid contributions under the pension scheme for the entire five-year period.
- Beneficiaries may obtain this loan to repay other loans contracted earlier for the same purpose on three conditions : (a) not more than 10 % of the funds available may be granted in this way, (b) the sum granted may not be more than 50 % of the balance outstanding on the date of application and (c) the rate of interest on the borrowings to be repaid must be at least 2.5 points higher than the one currently usual.
- The maximum term of the loan is 25 years, with the stipulation that loans must be repaid by age 65.
- The maximum amount of the loan is 12 000 u.a. plus 1 000 u.a. per dependent child, but may not exceed 18 000 u.a. in all. These sums are set by reference to the Belgian consumer price index.
- The total amount of the loan may not exceed a percentage (between 30 and 80 %) of the total cost (including purchase of the land). This percentage varies according to the employee's basic salary.
- The total financial burden on the borrower may not exceed 30 % of his *net* salary at the time the loan is granted.
- Repayments are monthly, by deduction from the salary, with the option of anticipated repayment of at least one-twentieth of the initial sum borrowed.
- The conditions governing repayment, lodging of applications, guarantees and cases in which repayment may be demanded are essentially the same as those applying to loans granted between 1964 and 1968.

105 Allocation of interest yielded on the pension fund

Throughout its statutory existence, the fund was credited with annual interest of 3.5 %.

From 1967, however, a provision entitled 'unspecified, awaiting allocation' was constituted. Initially paid into this was the difference (1.25 %) between the yield on the pension fund calculated at the average rate of all Community assets invested and the fixed yield of 3.5 % on the fund itself, as laid down in the Staff Regulations. As from 5 March 1968 the entire interest on the fund, the amount of which has remained constant, has been put to this provision which has been used to meet expenditure incurred by the ECSC for assistance to coking coal. This provision was discontinued in 1972.

As regards the former pension fund, only that part of interest received as annual repayments on loans granted to Community officials is recorded separately and added to the amount of the pension fund.

Annex II

The iron and steel scrap compensation system

106 General

The settlement account of the single office which controls the machinery of compensation and was instituted under Decision No 19/65 has been in operation since 1 January 1966 and records the operations involved in implementation of the system.

These are :

- The pursuit of claims against defaulting debtor enterprises for recovery of contributions in arrears⁽¹⁾ and against scrap dealers for compensation amounts improperly collected on supplies which were not eligible.
- The distribution of funds recovered to all enterprises subject to the system, in the form of refunds.
- The adjustment of certain situations following possible changes in assessment bases.

We refer you to the condensed management account at 31 December 1965⁽²⁾ on the basis of which the final rates of contributions, principal and interest, were set by Decision No 19/65 of the High Authority dated 15 December 1965.

107 Extent of our audit

As regards settlement operations under the iron and steel scrap compensation system, our audit is confined to ensuring that the settlement account at 31 December 1974 is correct and balanced. To this end we conducted an examination at the Directorate-General for Industrial Affairs (Directorate for Steel) of the position of the settlement account closed at 31 December 1974 and, in the case of bank holdings, we checked that the balances shown in the ECSC's account tallied with the statements of account issued by the banks.

108 Condensed account of settlements at 31 December 1974 and notes

The position of the settlement account, as closed at 31 December 1974, appears as follows :

(1) These amounts can be found on the assets side of the account under point 108 (enterprises' current accounts)

(2) 1965-66 Auditor's Report, point 99.

Assets	u.a.	Liabilities	u.a.
Enterprises' current accounts	293 120	Provision for future management costs and bad debts	283 390
Banks (1)	390 272	Accounts payable	14 643
		Temporary accounts	818
		Unallocated balance	384 541
	683 392		683 392

(1) For bank assets at 31. 12. 1974 the exchange rates applied are the same as those used to draw up the ECSC balance sheet at that date.

109 Assets :

Examination of this account reveals that the Office holds claims for contributions in arrear totalling 293 120 u.a. owed by five Italian enterprises.

110 Liabilities :

110.1 The sum of 283 390 u.a. shown as 'provision for future management costs and bad debts' covers :

- Fees to the trustee for its subsequent services under the compensation system (4 913 u.a.).
- The sum owed by doubtful debtor enterprises (190 534 u.a.).
- The balance due from enterprises engaged in legal actions (87 943 u.a.).

110.2 The item 'accounts payable' (14 643 u.a. or Lit 9 151 718) represents a claim by the Commission against the Compensation Office, to which it has temporarily ceded the product of sanctions imposed under the compensation system on enterprises which still owe considerable contribution arrears. It was agreed that payments would be written off against the total debt owed by these enterprises in the following order: arrears interest, principal and finally the penalty payments. The ECSC will thus collect the latter once the first two parts of the debt are discharged in full.

On the assets side of the ECSC balance sheet, (1) under sundry debtors, we find the sum of 26 071 u.a. (or Lit 18 970 615) which represents this claim. The difference between the two sums may be explained, firstly, by the fact that different rates of exchange for the lira against the unit of account were applied (u.a. = Lit 625 and u.a. = Lit 727.64), and secondly, by the fact that a sum was transferred at the end of the year from the Office to the ECSC, when the ECSC had not yet received at 31 December 1974 a sum of Lit 9 818 897 representing fines paid by two enterprises.

110.3 The *temporary accounts* contain amounts in respect of the seventh distribution which had been paid out at the end of the year to two German enterprises and returned by a bank because the current accounts maintained with it by these enterprises had been closed (818 u.a.).

An adjustment will be made for this sum in 1975.

110.4 The *'unallocated balance'* of 384 541 u.a. represents the sum available, less exchange differences, for distribution as settlement refunds as provided for in Decision No 19/65, Article 7.

(1) Point 16.2.

Seven refund distributions had been made up to 31 December 1974 to a total of 8 305 130 u.a. The seventh refund made at the end of 1974 totalled 891 400 u.a.

111 Management account

Operating expenditure, which totalled 15 772 u.a. in 1974, was, apart from banking fees to the value of 21 u.a., in payment of the services of a trust company provided in connection with the settlement of compensation activities. These payments were for services rendered in the second half of 1973 and the first half of 1974.

112 Remarks prompted by our audit

In 1974, debts were discharged in full by six enterprises which had to be served with a fixed period of notice. In the case of four others recovery of the sums due (Lit 125 865 556 at the end of the year) and strict adherence to the repayment schedule adopted, whereby final repayment dates all fall in 1975, should result in the final closing of the accounts and the disbanding of the Office. The backlog caused by one of these four debtor enterprises, which did not meet its last payment for 1974, should be made good without further delay in 1975.

We hope that every effort will be made to enable the accounts to be closed once and for all so that this old dossier can at last be closed.

TABLE 29

Financial position of the European Coal and Steel Community at 31 December 1974

ASSETS (Balance sheet) LIABILITIES

ASSETS		LIABILITIES	
exchange rates at 31. 12. 74		exchange rates at 31. 12. 74	
I. <i>Disbursed loans (1)</i>		I. <i>Borrowings (1)</i>	
A. Loans granted out of borrowed funds	1 127 130 339	in US dollars	773 050 000
— to finance industrial investments	231 890 918	in German marks	1 272 468 267
— for industrial structural reorganization	22 743 991	in Italian lire	111 000 000 000
— to finance social housing construction		in Dutch guilders	87 032 000
	1 381 765 248	in French francs	653 750 000
B. Other loans		in Belgian francs	3 340 280 000
— out of the special reserve, to finance social housing construction	78 630 179	in Luxembourg francs	113 321 574
— out of the special reserve, for industrial structural reorganization	615 515	in Swiss francs	126 893 407
— for rehabilitation	331 838	in £	56 836 266
— for research	2 236 223	in units of account	16 100 000
— miscellaneous (out of the former pension fund)	11 156 795		1 615 215 415
	92 970 550	B. <i>Repayment premiums to be paid</i>	
	1 474 735 798	in French francs	11 250 000
		in Belgian francs	1 250 000
II. <i>Cash and banks</i>		II. <i>Reserves</i>	
A. Current accounts	13 948 434	A. Guarantee fund	
B. Fixed deposits	456 892 597	B. Special reserve	
III. <i>Short and medium-term investments</i>	470 841 031	III. <i>Provisions</i>	
IV. <i>Portfolio</i>	24 475 044	A. Financial assistance	
V. <i>Real estate</i>	66 909 982	— Rehabilitation	123 215 337
VI. <i>Recoverable issuing costs</i>	1	— Research	22 826 191
VII. <i>Miscellaneous</i>	23 317 536	— Assistance under Article 56	7 738 733
A. Debtors under the levy	1 568 723	— Assistance under Article 54	9 166 958
B. Financial debtors	2 843 352	— Aid to coke	5 000 000
C. Deposits for coupons and bonds due but not yet presented	40 602 829		
VIII. <i>Accrued income</i>	45 014 904	B. Other provisions	167 947 219
A. Interest and fees accrued but not yet due on deposits, portfolio, loans and guarantees	39 448 498	— Future commitments	17 190 287
B. Levy declared for December 1974 production but payable after 31. 12. 1974	5 749 896	— Sundry provisions (2)	16 166 741
		IV. <i>Former pension fund</i>	33 357 028
	45 198 394	V. <i>Miscellaneous</i>	
		A. Coupons and bonds payable	40 601 490
		B. Sundry creditors	347 672
		VI. <i>Accrued liabilities (3)</i>	
		Interest and fees accrued but not yet due on borrowings and guarantees	47 149 479
		VII. <i>Unallocated balance</i>	15 817
	2 150 492 690		2 150 492 690
SUSPENSE ACCOUNTS		SUSPENSE ACCOUNTS	
I. Enterprises' liabilities under guarantee	22 517 066	I. ECSC's liabilities under guarantees	22 517 066
II. Contributions from Member States	13 847 898	II. Contributions from Member States	13 847 898

(1) Up to July 1961, claims and related sureties under loans granted out of borrowed funds, together with other items of the assets, were pledged (under the Act of Pledge) to the Bank for International Settlements in Basel in favour of the holders of secured notes and coupons issued by the ECSC and indicated in note (1) to the balance sheet liabilities. The amounts pledged were:
Item I: 55 435 402 — Item II: 91 890 — Item VII: 1 034 590

(1) Borrowings secured by the Act of Pledge total.
(2) These sundry provisions include the sum of 4 723 800 u.u. as the profit on loan service for 1974. In effect this profit is not subject to the conversion rules and should be left as 6 380 402 u.u. It was erroneously reduced by 1 656 602 u.u. as a result of adjusting the rates for item VI of the Assets (recoverable issuing costs), an operation which, like the others, should have been applied to the Unallocated Balance.
(3) Of which secured notes total: 990 795

TABLE 31

Allocation of ECSC assets during 1974

Allocation of ECSC assets (reserves and provisions)	Exchange rates at 31. 12. 1973				Exchange rates at 31. 12. 1974
	Total assets at 31. 12. 1973	Allocation of income	Expenditure	Total assets at 31. 12. 1974	
Guarantee fund	112 000 000	8 000 000	—	120 000 000	120 000 000
Special reserve	90 000 000	—	—	90 000 000	90 000 000
Rehabilitation	106 615 871	30 839 902	9 524 765	127 931 008	123 215 337
Technical and social research	20 578 101	22 622 938	19 312 834	23 888 205	22 826 191
Assistance to loans for industrial structural reorganization (Article 56)	7 726 856	3 457 410	3 321 754	7 862 412	7 738 733
Assistance to investment loans (Article 54)	5 339 754	6 111 473	1 828 883	9 622 344	9 166 958
Assistance to coke	4 000 000	5 704 423	4 704 423 (1)	5 000 000	5 000 000
Other provisions:	—	103 316 281	96 935 879	6 380 402	4 723 800
1 — Service of borrowings	1 845 411	—	81 299	1 764 112	1 764 112
2 — Doubtful debtors (borrowings)	1 828 828	1 828 828	—	—	—
3 — Guarantee fee	1 350 000	500 000	—	850 000	850 000
4 — Portfolio depreciation	6 000 000	2 828 829	—	8 828 829	8 828 829
5 — Compensation of borrowing costs	500 000	500 000	—	—	—
6 — Doubtful debtors (levy)	18 366 633	1 176 346	—	17 190 287	17 190 287
7 — Future commitments	26 521 122	7 428 604	—	33 949 726	33 949 726
Former pension fund	496 038	35 493 236	19 331 240 (2)	16 658 034	15 817
Unallocated balance	403 168 514	221 797 922	155 041 077	469 925 359	445 269 790
Total	403 168 514	221 797 922	155 041 077	469 925 359	445 269 790

(1) Includes 168 896 u.a. for 1972 (balance) and 4 635 527 u.a. for 1973 (Decision No 287/73, published in OJ 269 of 15. 9. 1973, provided for the granting of aids to a total of 3 990 000 u.a., but the new figure is the result of changes in exchange rates)

(2) Includes 18 498 749 u.a. as flat-rate contribution to administrative expenditure, 834 491 u.a. for financial costs and 2 525 u.a. for the cost of loans granted out of own funds.

