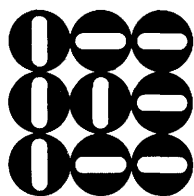



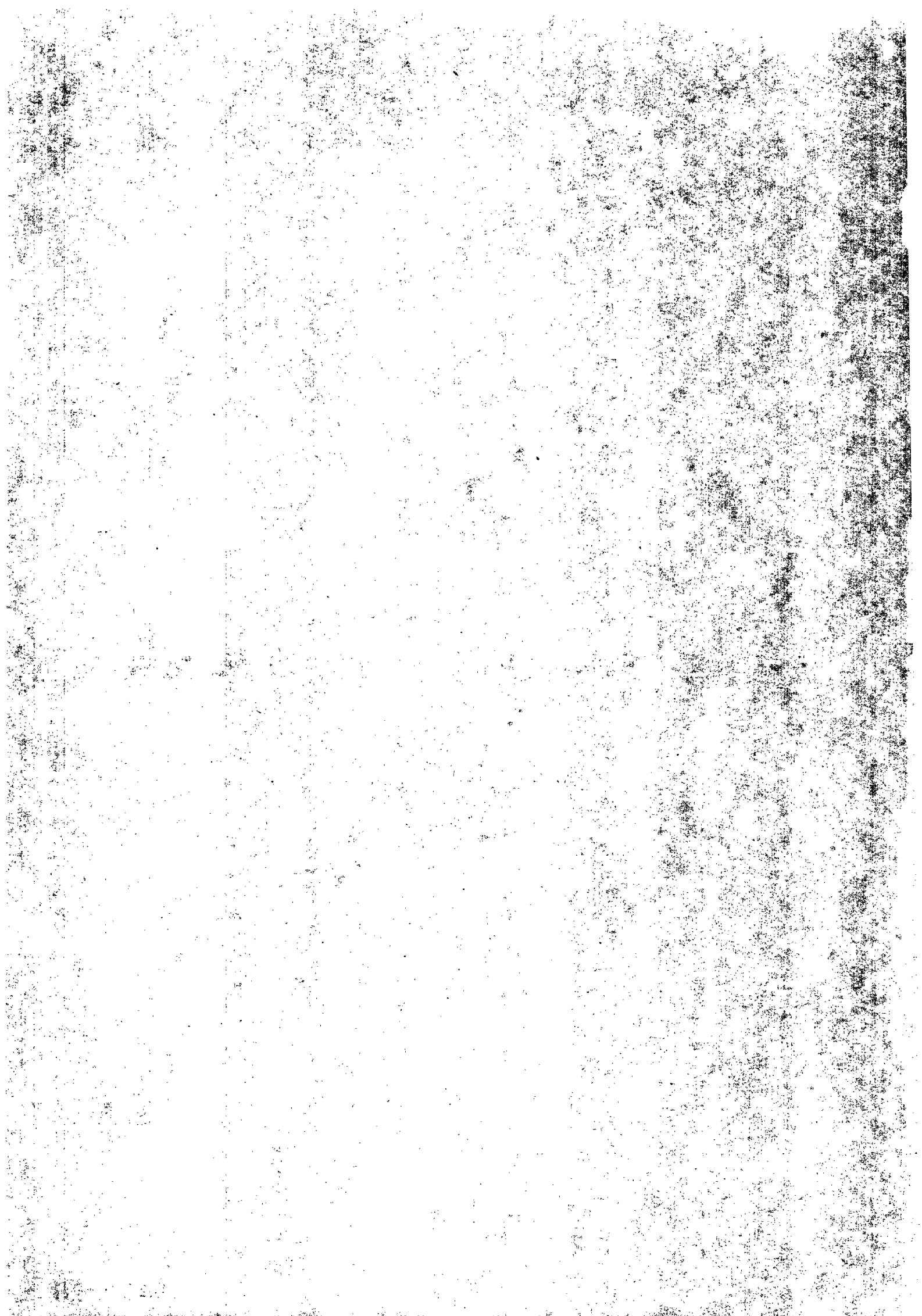
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FOR
THE YEAR
1976



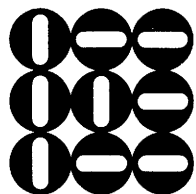
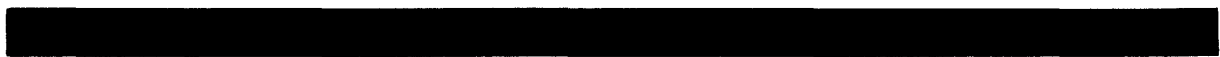
PAUL GAUDY

Luxembourg, 30 June 1977

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AUDITOR'S REPORT
FOR
THE YEAR
1976



PAUL GAUDY

Luxembourg, 30 June 1977

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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. This will be referred to frequently in the following report, simply as 'the Treaty'.

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. One such change provided that the Auditor's responsibilities would be limited to auditing the ECSC's operating expenditure, whilst administrative expenditure would be 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 between the institutions.

The independent 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 independent Auditor thus bases himself on regular and permanent observation of the institution's day-to-day activities in drawing up an annual report, both descriptive and critical, for those to whom it is to be sent (Council, Commission and, via the latter, the European Parliament).

Despite the fact that the Treaty contains no provision for examination of the report or a procedure to approve it, the Parliament discusses in depth the elements and opinions which the Auditor provides in this way.

In so doing, the Parliament 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 1976, 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. The latter are presented so as to show, for each of the items of income, expenditure or other financial operations, trends, statistics as far as possible and, lastly, any criticisms prompted by our audit. This part of the report is divided according to the large sectors of specific ECSC activity, namely: 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 financing of social housing construction.

The *General Conclusions* sum up the most typical features of the ECSC's financial activity for the year 1976 and make recommendations prompted by our main critical observations.

There are also two annexes to this report.

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 figures in this report are given in European units of account (EUA). The process of transition towards this system, introduced on 18 December 1975 by Decision No 3289/75/ECSC, (1) was described in our previous report. (2)

4.1 The value of the EUA in the various currencies used by the ECSC is as follows:

National currencies	Value of 1 EUA at	
	31 12 1975	31 12 1976
Belgian franc (BF)	46.0606	40.66
Danish kroner (DKr)	7.19697	6.5396
German mark (DM)	3.05382	2.66938
French franc (FF)	5.21981	5.61696
Irish pound (£Irl)	0.575039	0.662646
Italian lira (Lit)	797.769	989.293
Luxembourg franc(Lfr)	46.0606	40.66
Dutch guilder (Fl)	3.1312	2.77855
Pound sterling (£)	0.575973	0.662646
Swiss franc (Sfr)	3.05239	2.7626
US dollar (US \$)	1.16528	1.12999
Canadian dollar (Can. \$)	—	1.14213

(1) OJ L 327, 19. 12. 1975.

(2) 1975 Auditor's Report, No 4.

These values varied throughout the year, affecting the conversion operations carried out daily.

However, for a transitional period ending on 31 December 1976 the 'conversion rate (of levy amounts collected) shall, for each payment made from the fifteenth of a given month to the fourteenth of the following month, be the rate obtaining on the last working day of the month preceding this period'. The same rule applies to contributions to the financing of sales aids for coking coal and coke for the iron and steel industry in the Community, under Decision No 73/287/ECSC. (1)

4.2 As of 1 January 1976 the EUA is the only monetary unit 'to be used in decisions, recommendations, opinions and communications for the purposes of the Treaty'.

For the purposes of this report, one must include more precisely all financial commitments in the form of contracts or aid decisions and all recoverable claims (levy amounts, contributions and other).

In the case of contracts expressed in EUA the recipients themselves likewise draw up 'the statements of expenditure . . . at the conversion rates obtaining on the day on which each item of expenditure is paid', but if they are not able to do this, provision may be made in the contract for conversion 'at the rate obtaining on the last day of the half-year to which the statement pertains'.

Once again, these rules do not cover the ECSC's borrowing and lending operations and investments, which continue to be expressed and managed in currency. Rights and obligations existing prior to 1 January 1976 also continue to be governed by the rules obtaining when they were contracted.

4.3 If the rules for the expression of rights and obligations are partial and gradual, the same is not true of those applicable to the keeping of the accounts and balance sheets. These, in principle, allow of no exceptions, not even the conversion, according to other standards, of older operations expressed in currency or in convertible u.a.

Generally speaking, in these cases, balances held over when the accounts are opened at the beginning of each year are converted at the rate applicable to the balance sheet, partial movements are approved and entered in EUA, and an adjustment is not made until the final account is drawn up, when the only values which count are those arising out of contractual provisions.

In the case of banking activities, only annual management operations (collection of interest, service of debit interest and repayments) are converted directly in such a way that the profit and loss (management) account can at any given moment provide a full view of the position. Collection or payment operations are conducted in currency. These are debited or credited to a suspense account and this is immediately balanced with the EUA equivalent, which thus affects the profit and loss account. Movements in the permanent accounts, however (borrowings, loans, overall liquid assets), are still dealt with exclusively in the currencies in which they were originally constituted or granted.

Thus the accounting operations, which are already divided into the management services of the operational budget, on the one hand, and banking activities on the other hand, obey different principles, a fact which makes the task of the independent Auditor harder.

4.4 In the second half of 1976, however, a commendable initiative was begun which helps to make auditing operations easier.

As a result of the cooperation between the Commission and the main banks most frequently concerned in ECSC operations, these banks opened accounts in EUA for the Community, which meant that those responsible for management and supervision were no longer required to carry out conversions for operations relating to rights and obligations subscribed in EUA. The banks treat these as if they were in a national currency; sums are converted into the currency of the beneficiary's choice, but the operation remains a simple transaction between the beneficiary and the banks which hold the funds. For the moment, however, these accounts are used only for outgoing payments. The next step should be to have incoming payments also collected directly in EUA in the same kind of accounts.

(1) OJ L 259, 15. 9. 1973, page 36.

Our conclusion, in the light of the difficulties encountered in our audit and pointed out in our various remarks in this report, is that the EUA ought ideally to be effective as a common monetary instrument in the financial transactions arising out of the ECSC Treaty and that the accounts, both banking and administrative, which record these transactions should be kept in the same manner. This would appear possible for all activities covered by the operational budget of the ECSC in respect of rights and obligations created after 1 January 1976. In the case of past operations still current, care should be taken to ensure that the contractual financial bases for these are respected and above all reflected clearly, otherwise all auditing operations become complex if not impossible.

4.5 As we have already pointed out, unless full currency accounts are maintained, transition to different units of account systems means that it is no longer possible to draw up truly meaningful cumulative statements of the kind previously annexed to our reports.

PART ONE

PART ONE

Introduction

5 The three Tables 26, 27 and 28 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 (balance sheet in EUA, conversion of the balance sheet at 31 December 1975, management account), the three tables can be unfolded to the right, so that they are constantly visible to the reader of the report, whatever point he wishes to study.

6 Part One of this report first of all gives notes on 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 1976 was 4 236 931 667 EUA (Table 27) as against 3 183 849 045 EUA at 31 December 1975.

After the analysis and notes on the assets and liabilities comes Table 11, which shows changes in the balance sheet items from 1975 to 1976.

Secondly, in the order in which the items appear in Table 28, 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 1976 was 55 874 470 EUA.

Analysis of the balance sheet and accounts is made complex by the fact of the adoption of the EUA, not only as a monetary instrument for certain commitments entered into after 1 January 1976 but also as a means of expressing, in accounting terms, values initially expressed in currency and which constitute the legal reality of assets, debts or operations.

Naturally, the relationship of the EUA to any given currency varies from one day to the next.

When an operation is carried out exclusively in EUA, either because the terms of a contract or an accounting method so require, the terms of comparison remain valid irrespective of when they are examined, and a conversion into currency can be made at any time without the risk of error: in short, the conversion basis remains intangible in EUA.

But in a reverse situation, i.e. when assistance sums prior to 1 January 1976 or movements in the loan service account are being assessed, the function of the EUA may be a statistical one only, whereby the total of values expressed in different currencies can be shown by means of a common unit. The result of this is that no conversion has any meaning except on a specific date. Thus, whenever we wish to assess changes in a balance sheet item from the beginning to the end of the year, we have to use a single rate for the EUA in converting the currency value of this item. In applying this method we were obliged to reconstitute in EUA the balance sheet items (currency) at 31 December 1975, on the basis of the rates for the EUA at 31 December 1976 as shown in the Foreword, whilst items expressed directly in EUA were not, of course, affected. This reasoning is best illustrated by an example. Supposing a commitment for US \$ 1 000 was outstanding both at the beginning and at the end of 1976. In the last balance sheet it would be

shown as 858 EUA and in the current balance sheet as 885 EUA. Comparing these two sums, one would suppose that a commitment, which had not in fact changed, had increased!

Given, however, that the first balance sheet has been adjusted, comparisons between asset and liability items remain quantitatively valid, and the reader can obtain an exact currency equivalent of EUA amounts on the dates in question by using the rates set out in the Foreword.

This method means that use of the EUA is neutral, as a true unit of account should be.

The extent of the discrepancies can be observed if one considers the columns in the various tables in this report, headed 'rate of EUA at 31. 12. 1975' and 'rate of EUA at 31. 12. 1976'.

However, for lack of time and means, we were not able to reconstitute figures which could be compared and analysed in the case of the management account.

Our main handicap was the incomplete nature of the accounting method used for the part concerning financial assistance. It is not enough, here, to enter exclusively in EUA movements which occur both in EUA and in currency, when the items have to be charged to commitments subscribed in currency. If these movements are to be exactly quantifiable at the end of the year, one cannot use the EUA but ought to consider the equivalent in the currency in which the contract was drawn up, with reference to each individual dossier, unless one has access to a computerized accounting programme, in which case the currency figure should be shown side by side with each EUA figure. Using this method it would be possible, at the end of the year, to add up automatically the total in each currency for each of the sector items. These could then be converted into EUA at the rates applying on a given date — the same as those used to value the assets and liabilities — and could, as in the past, explain the differences between items as shown at the beginning and at the end of the year.

The quantitative elements of the management account cannot, therefore, in the form in which they are given in the report, have any real significance, even as indicators, for it is not possible to convert their total in EUA on the basis of the list of rates shown in the Foreword. This conversion was made by the Institution every day of the year at varying rates, and it was made without adjustment to a single rate.

It would doubtless have been possible to reconstitute the picture using non-accounting data, but it is not the responsibility of the independent Auditor to make good the inadequacies of an accounting system which should be designed to give an exact reflection, *immediately and directly verifiable*, of operations as to their quantity and value. It would thus be a good thing if the computer programme used for loan service could be extended to cover all the ECSC's accounting operations.

7 The way in which the balance sheet (Tables 26 and 27) and the management account (Table 28) 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 presentation.

Notes to the balance sheet

ASSETS

8 I — Disbursed loans

The sum of 3 476 765 113 EUA 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 1976, net of repayments already made.

The net increase of 974 659 312 EUA compared with the position for the previous year is the result of disbursements on new loans or current contracts (1 066 218 215 EUA) less repayments for the year (91 558 903 EUA).

9 A — Loans granted out of borrowed funds

Loans out of borrowed funds granted by the Institution from its inception to 31 December 1976 total 3 976 457 454 EUA (1) or 3 345 998 117 EUA net of repayments.

Table I gives a breakdown, by country and use, of the loans disbursed and still outstanding at 31 December 1976, net of redemptions or anticipated repayments, together with movements affecting loan operations during the year.

Borrowed funds not yet loaned total 128 329 470 EUA and are included in the overall liquid assets. 124 916 532 EUA represents the portion not yet loaned of issues made for the most part in the second half of 1976, and 3 412 938 EUA are the result of accelerated or early repayments on loans.

9.0 Total loans granted out of borrowed funds at 31 December 1976 break down into the following three types of financing :

9.1 The first and most important (2 963 093 831 EUA) is the financing of *industrial investment projects* submitted by Community enterprises under Article 54 of the Treaty. It comprises loans made to :

the iron and steel industry	2 296 387 136 EUA
coal mines and coking plants	552 874 382 EUA
iron ore mines	39 537 872 EUA
power stations	71 022 054 EUA
shipyards	3 272 387 EUA.

Total loans increased by 923 931 299 EUA from 1975 to 1976 and include 81 new loans granted in 1976 to a total value of 982 421 848 EUA.

(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 1976 and sums disbursed and outstanding at 31. 12. 1976

Categories Countries	Position at 31. 12. 1975				Operations in 1976			Position at 31. 12. 1976	
	Rate of EUA at 31. 12. 1975		Rate of EUA at 31. 12. 1976		Sums disbursed	Sums outstanding	Redemptions, anticipated repayments and accelerated redemptions	Sums disbursed	Sums outstanding
	Sums disbursed	Sums outstanding	Sums disbursed	Sums outstanding					
I. Industrial investments (Article 54 of the Treaty)									
Belgium	116 353 921	96 060 060	128 363 359	106 969 938	34 575 208	4 638 909	162 938 567	136 906 237	
Denmark	30 832 809	30 832 809	33 703 459	33 703 459	—	845 765	33 703 459	32 857 694	
Germany	936 051 753	691 075 448	1 020 612 547	757 895 163	173 730 594	30 979 783	1 194 343 141	900 645 974	
France	501 511 240	436 227 363	517 773 408	449 851 748	112 905 732	8 058 069	630 679 140	554 699 411	
Italy	427 907 049	340 900 169	436 882 367	344 666 608	115 350 043	11 506 266	552 232 410	448 510 385	
Luxembourg	3 906 476	2 808 614	4 364 989	3 205 815	—	274 221	4 364 989	2 931 594	
Netherlands	60 714 801	52 574 157	64 045 089	54 671 597	38 159 904	2 187 536	102 204 993	90 643 965	
United Kingdom	276 175 989	276 175 989	288 198 204	288 198 204	507 700 367	—	795 898 571	795 898 571	
Total	2 353 454 038	1 926 654 609	2 493 943 432	2 039 162 532	982 421 848	58 490 549	3 476 365 280	2 963 093 831	
II. Social housing									
Belgium	23 420 233	11 895 082	26 530 989	13 475 027	106 247	2 177 494	26 637 236	11 403 780	
Germany	17 347 928	4 190 664	19 846 350	4 794 197	3 619 778	1 089 311	23 465 128	7 324 663	
France	455 649	455 649	423 432	423 432	—	—	423 432	423 432	
Italy	6 621 297	3 200 989	5 532 373	2 581 288	313 355	307 525	5 845 728	2 587 118	
Luxembourg	1 845 395	1 058 125	2 090 507	1 198 669	—	90 483	2 090 507	1 108 187	
Netherlands	2 475 090	1 256 387	2 789 225	1 415 847	—	478 930	2 789 225	936 917	
Total	52 165 592	22 056 896	57 212 876	23 888 460	4 039 380	4 143 743	61 252 256	23 784 097	
III. Structural reorganization (Article 56 of the Treaty)									
Belgium	48 292 785	36 564 828	52 427 671	39 532 267	—	4 764 971	52 427 671	34 767 296	
Germany	111 716 328	95 709 377	124 461 992	106 848 926	3 511 185	8 623 416	127 973 177	101 736 695	
France	77 918 446	70 161 870	83 928 115	75 662 064	16 022 902	3 407 910	99 951 017	88 277 056	
Ireland	—	—	—	—	539 828	—	539 828	539 828	
Italy	26 008 655	11 873 904	26 360 357	11 142 916	31 480 099	2 209 240	57 840 456	40 413 775	
Netherlands	27 956 814	23 254 844	28 315 422	24 162 114	—	2 568 922	28 315 422	21 593 192	
United Kingdom	58 389 400	58 389 400	60 212 922	60 212 922	11 579 425	—	71 792 347	71 792 347	
Total	350 282 428	295 954 223	375 706 479	317 561 209	63 133 439	21 574 459	438 839 918	359 120 189	
Sum total	2 755 902 058 (1)	2 244 665 728	2 926 862 787 (1)	2 380 612 201	1 049 594 667	84 208 751	3 976 457 454	3 345 998 117	

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

9.2 The second category of operations (359 120 189 EUA) is the financing, under Article 56 of the Treaty, of *industrial structural reorganization* in areas particularly affected by closures of steelworks and pits. Compared with the previous year, total loans rose by 41 558 980 EUA. In 1976 there were 19 new loans totalling 63 133 439 EUA.

9.3 The third category of operations (23 784 097 EUA) concerns the financing 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 are to be completed under programmes implemented over a number of years in the countries of the Community.

Loans in this category decreased by 104 363 EUA compared with the previous year. Three new loans, amounting to 4 039 380 EUA, were granted in 1976, 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 to 31 December 1976 total 198 072 123 EUA, or 130 766 996 EUA net of repayments.

10.0 This net total (130 766 996 EUA) comprises loans granted out of funds from three sources: from the special reserve to finance social housing (112 274 091 EUA), from the levy itself to finance rehabilitation (304 962 EUA) and technical research (2 391 438 EUA), and from the former ECSC pension fund (15 796 505 EUA) 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 amount to 112 274 091 EUA and cover, on the one hand, eight normal programmes plus one special programme, six of which have been completed and, on the other hand, three experimental building programmes, two of which have also been completed.

Disbursements in 1976 totalled 14 175 177 EUA and break down as follows:

- 1 partial payment of 188 883 EUA for contracts under the fifth programme;
- 11 payments totalling 1 616 565 EUA for loans granted under the seventh programme;
- 13 payments totalling 12 167 564 EUA under the eighth programme;
- 1 payment of 202 165 EUA, representing the start of a special aid programme to the Friuli region (Italy).

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 1976. It should be pointed out that the new loans granted are intended exclusively for social housing, and that loans for industrial structural reorganization drawn from borrowed and own funds are now granted only in the form of interest reductions.

10.2 *Loans for research and rehabilitation granted out of own funds raised by the levy* totalled 2 696 400 EUA at 31 December 1976. No new loans were granted or disbursed during the year in question in these two sectors, which have for some time now been financed by subsidies (see notes on research and rehabilitation expenditure under Nos 28.2 and 28.3). The only changes to the total were the results of scheduled repayments in the course of the year.

Loans for technical research were thus in previous years granted exclusively under the second experimental construction programme for social housing. They were granted at a rate of interest considerably below the market rates current at that time, and were for a relatively long term (36 years).

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

TABLE 2

Loans granted out of the special reserve

Breakdown by use and country

Operations in 1976 and sums disbursed and outstanding at 31. 12. 1976

Use and country	Position at 31. 12. 1975				Rate of EUA at 31. 12. 1976			Operations in 1976			Position at 31. 12. 1976	
	Rate of EUA at 31. 12. 1975		Sums outstanding		Sums disbursed		Sums outstanding	Sums loaned	Redemptions and repayments	Sums disbursed	Sums outstanding	
	Sums disbursed	Sums outstanding	Sums disbursed	Sums outstanding	Sums disbursed	Sums outstanding	Sums loaned	Redemptions and repayments	Sums disbursed	Sums outstanding		
<i>Social housing</i>												
Belgium	5 878 603	3 480 446	6 659 419	3 942 730	2 582 253	794 833	9 241 672	5 730 150				
Denmark	694 737	690 391	764 573	759 790	—	35 875	764 573	723 915				
Germany	74 031 004	55 874 609	84 692 835	63 921 583	6 047 383	2 778 745	90 740 218	67 190 221				
France	31 600 250	21 033 247	29 365 938	19 546 080	4 278 471	1 591 796	33 644 409	22 232 755				
Ireland	166 945	166 945	144 874	144 874	150 457	—	295 331	295 331				
Italy	8 695 938	6 248 364	7 012 432	5 038 701	601 440	263 521	7 613 872	5 376 620				
Luxembourg	3 090 364	2 248 344	3 500 836	2 546 977	75 160	1 37 823	3 575 996	2 484 314				
Netherlands	7 662 558	5 295 372	8 635 080	5 967 454	394 090	4 36 490	9 029 170	5 925 054				
United Kingdom	2 840 843	2 840 843	2 469 266	2 469 266	45 923	199 458	2 515 189	2 315 731				
Total social housing	134 661 242	97 878 561	143 245 253	104 337 455	14 175 177	6 238 541	157 420 430	112 274 091				
<i>Structural reorganization</i>												
Belgium	56 978	—	45 947	—	—	—	45 947	—				
Germany	1 011 344	—	815 551	—	—	—	815 551	—				
France	288 517	—	232 661	—	—	—	232 661	—				
Italy	806 795	—	650 603	—	—	—	650 603	—				
Netherlands	3 334 501	—	2 688 952	—	—	—	2 688 952	—				
Total structural reorganization	5 498 135	—	4 433 714	—	—	—	4 433 714	—				
Sum total	140 159 377	97 878 561	147 678 967	104 337 455	14 175 177	6 238 541	161 854 144	112 274 091				

Table 3 shows the history of these loans granted out of the levy funds, with their amounts, the 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 total 15 796 505 EUA. The increase as compared with the previous year (1 470 606 EUA) is due to disbursements made in 1976 (2 448 371 EUA), less repayments (977 765 EUA).

Table 4 outlines the progress from one year to the next of operations under the two systems which successively governed the granting of these loans.

11 II — Cash and banks

Under this heading (422 984 312 EUA) the Institution has grouped all the cash assets it holds in current accounts (11 820 468 EUA) and various fixed deposits (411 163 844 EUA).

The increase of 16 416 688 EUA in overall liquid assets as compared with the previous year is due to increased income in the form of levy receipts, interest and investment yields.

12 III — Short- and medium-term investments

This item (28 607 183 EUA), which shows a decrease of 2 507 648 EUA as compared with the position at 31 December 1975, comprises :

- 3 507 689 EUA : a number of short- and medium-term investments consisting for the most part of securities pledged to the ECSC with bank guarantees and kept safe by those banks, and bonds and notes with staggered maturity dates of less than five years ;
- 25 099 494 EUA : the product of ECSC debenture bonds redeemed by the ECSC before maturity.

13 IV — Portfolio

The acquisition value of portfolio securities — this criterion being retained for the balance sheet — is 73 042 998 EUA. The item is down by 5 681 843 EUA compared with its value at 31 December 1975.

Apart from initial, more diversified investments which are managed by banks, the portfolio is composed entirely of bonds issued for the most part by the public sector and held for safe-keeping by the banks which acted as intermediaries in their purchase.

At 31 December 1976 the proportion of total ECSC funds accounted for by the portfolio, i.e. 13.9 %, is thus unchanged.

14 V — Real estate

This balance sheet item is 331 917 EUA as against 1 EUA at 31 December 1975. This reflects the revision of the acquisition value (price plus costs) of the Washington property which is rented to the European Communities and which houses their delegation. This asset was written off to 1 EUA between 1971 and 1973, a method which was criticized in the reports for those years (1).

15 VI — Recoverable issuing costs

This amount (53 107 717 EUA) represents costs incurred by the ECSC at the time it borrows funds, less the repayments made each year. These are costs such as taking-firm fees, bank fees, redemption premiums (discount), printing costs for securities and prospectuses, first listing costs,

(1) 1971 Auditor's Report, No 24
1972 Auditor's Report, No 20
1973 Auditor's Report, No 14

TABLE 3
Loans for technical research (second experimental building programme) and rehabilitation
Breakdown by country and type of security obtained
Operations in 1976 and sums disbursed and outstanding at 31. 12. 1976

Country	Sums outstanding at 31. 12. 1975		Rate of ELJA at 31. 12. 1976	Repayments in 1976	Loan balances outstanding at 31. 12. 1976	Type of security obtained
	Rate of ELJA at 31. 12. 1975					
<i>Technical research</i>						
Belgium	332 160	376 278		16 070	360 208	Government guarantee
Germany	1 188 020	1 359 118		58 968	1 300 150	Mortgage bonds
France	423 123	393 206		16 614	376 592	Surety
Italy	116 748	94 146		4 021	90 125	Surety
Luxembourg	61 352	69 500		2 834	66 666	Government guarantee
Netherlands	183 259	206 517		8 820	197 697	Surety
Total	2 304 662	2 498 765		107 327	2 391 438	
<i>Rehabilitation</i>						
France	356 701	326 629		21 667	304 962	Government guarantee and surety
Sum total	2 661 363	2 825 394		128 994	2 696 400	

TABLE 4

Loans granted out of the former ECSC pension fund

*Breakdown by system
Sums disbursed and outstanding between 31. 12. 1975 and 31. 12. 1976*

Loan system	Number of loans granted	Position at 31. 12. 1975				Position at 31. 12. 1976				Operations in 1976			Position at 31. 12. 1976	
		Rate of EUA at 31. 12. 1975		Rate of EUA at 31. 12. 1976		Sums disbursed		Sums outstanding		Sums disbursed	Repayments	Sums disbursed	Sums outstanding	
		Sums disbursed	Sums outstanding	Sums disbursed	Sums outstanding	Sums disbursed	Sums outstanding							
Old system (up to 1968)	277	2 752 656	1 382 512	3 118 273	1 566 142	—	177 952	3 118 273	1 388 190					
New system (from 1971)	1 251	13 587 112	11 263 676	15 391 799	12 759 757	2 448 371	799 813	17 840 170	14 408 315					
Sum total	1 528	16 339 768	12 646 188	18 510 072	14 325 899	2 448 371	977 765	20 958 443	15 796 505					

legal consultants' fees in connection with these operations, etc. Regular costs of servicing borrowings (interest and fees) are not included.

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 1976 this was 91 025 338 EUA. Allowing for sums already recovered (37 917 621 EUA), including 7 819 906 EUA for 1976, total issuing costs still to be recovered amount to 53 107 717 EUA.

Issuing costs in 1976 were for 40 loans, two of which were floated in 1973 and 1974 and eight in 1975. These costs total 22 479 321 EUA and break down by loan and currency as follows :

	<i>Amount borrowed (EUA)</i>	<i>Issuing costs in 1976 (EUA)</i>
<i>Loans in DM</i>		
floated in 1973	56 192 824	749
floated in 1976	56 192 824	1 695 013
floated in 1976	29 969 506	734 253
floated in 1976	16 857 847	168 578
floated in 1976	18 730 941	292 203
floated in 1976	74 923 765	1 394 612
<i>Loans in FF</i>		
floated in 1976	10 681 935	61 991
floated in 1976	8 901 612	164 680
floated in 1976	44 508 061	1 037 897
<i>Loans in Lit</i>		
floated in 1975	30 324 686	12 841
<i>Loans in Lfr</i>		
floated in 1975	12 297 098	256 733
floated in 1976	4 918 839	98 377
<i>Loans in Fl</i>		
floated in 1976	21 593 997	391 560
floated in 1976	8 997 499	71 080
floated in 1976	10 796 998	58 304
floated in 1976	5 038 599	12 596
<i>Loans in Sfr</i>		
floated in 1975	36 197 785	1 247
floated in 1975	28 958 228	5 696
floated in 1975	18 098 892	623
floated in 1976	18 098 892	412 057
floated in 1976	36 197 785	917 408
floated in 1976	21 718 671	442 302
floated in 1976	7 239 557	146 366
floated in 1976	9 049 446	184 293
floated in 1976	9 049 446	182 957
floated in 1976	28 958 228	1 203 775
<i>Loans in US \$</i>		
floated in 1974	88 496 358	8 578
floated in 1975	132 744 538	28 538
floated in 1975	26 548 908	— 17 699
floated in 1975	22 124 090	11 868
floated in 1975	110 620 448	148 078
floated in 1976	110 620 448	2 581 609
floated in 1976	44 248 179	884 964
floated in 1976	154 868 627	3 161 374
floated in 1976	20 354 162	630 979
floated in 1976	26 548 908	712 396
floated in 1976	132 744 538	2 598 077
floated in 1976	26 548 908	714 309

Loans in Canadian \$
floated in 1976

43 777 854	1 068 059
<hr/>	<hr/>
1 564 739 927	22 479 321

16 VII — Sundry debtors

16.0 This item (89 904 271 EUA) shows a considerable increase (52 %) compared with the previous year (59 083 736 EUA). In addition to debtors in respect of the levy, loan service and sundry debtors as such, it comprises 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 The heading 'debtors under the levy' (16 804 639 EUA) covers sums due from the levy, payment of which has been deferred (1 976 045 EUA) and sums due from bankrupt enterprises (182 115 EUA) and enterprises in the process of making their payments or in arrears (14 646 479 EUA).

The following table shows the changes by country, from 31 December 1975 to 31 December 1976, in deferred levy payments for quantities of hard coal stocked during 1976.

TABLE 5

Changes in deferred levy payments for quantities of hard coal stocked

Country	Deferred payments at 31. 12. 1975		Changes between 1. 1. 1976 and 31. 12. 1976		Deferred payments at 31. 12. 1976 (EUA)
	Rate of EUA at 31. 12. 1975	Rate of EUA at 31. 12. 1976	+	—	
Belgium	1 166	1 310	523	1 749	84
Germany	911 589	1 040 146	699 540	120 379	1 619 307
France	193 375	181 585	21 121	79 839	122 867
Netherlands	6 822	7 649	—	1 639	6 010
United Kingdom	223 887	191 086	164 145	127 454	227 777
Community	1 336 839	1 421 776	885 329	331 060	1 976 045

16.2 *Financial debtors* (9 033 214 EUA), which are up by 5 277 547 EUA, include redemption premiums (1 633 033 EUA) which are debts to be recovered by the Institution from the loan service account. These are also carried under liabilities, where they are added to total borrowings.

Financial debtors also include :

- a recoverable exchange difference of 526 100 EUA which is the result of converting a FF 50 million borrowing into a £5 550 000 loan, with an exchange guarantee from the agent bank ;
- 2 debts on loans, where the beneficiaries have not made their annual repayments for several years (973 162 EUA) ;
- overdue payments for coupons under portfolios held for the ECSC by a number of financial organization (26 939 EUA) ;
- advances given to the European Communities out of ECSC own funds to service loans to officials (165 058 EUA) ;
- sums owed by the Iron and Steel Scrap Compensation Office (2 938 EUA) ;

- fines owed by enterprises under the iron and steel scrap compensation system (2 956 EUA) ;
- 3 overdue loan payments (12 873 EUA) ;
- a debt in respect of rent for the property in Washington for the period 1972 to 1976. This debt is the result of converting into EUA an ECSC debt which was initially expressed in u.a. and covered by the administrative budget in US \$ at a parity of \$1 = 1 u.a. When entering this item in the balance sheet, the Institution considered 1 u.a. as equivalent to 1 EUA ;
- real estate advances paid in 1968 (2 191 EUA) ;
- levies imposed on coupons still to be recovered (219 425 EUA) ;
- current bank transfers plus banking errors to be corrected (179 804 EUA) ;
- borrowed funds receivable (5 256 684 EUA) as a result of a loan floated in the USA.

16.3 The heading '*deposits for coupons and bonds due but not yet presented*' (64 066 418 EUA) picks out those of the Institution's liquid assets which it deposits with the financial organizations responsible for servicing the institution's coupons and redeemable securities, for the purpose of meeting their expenditure on these two counts.

The rise of 13 143 098 EUA in this item is the result of increased borrowings, due dates close to the end of the year and numerous late presentations of coupons.

17 VIII — Accrued income

17.0 This heading (totalling 92 188 156 EUA) covers interest and fees accrued but not yet due at 31 December 1976 (84 977 920 EUA), together with sums declared for the levy (7 210 236 EUA) for December 1976 but not yet paid.

17.1 The former amount (84 977 920 EUA) results from the entering as receipts of interest, guarantee fees and assistance (under Articles 54 and 56 of the Treaty), which were accrued but not yet collected on 31 December 1976.

17.2 The second amount (7 210 236 EUA) is not shown among the sundry debtors because it is rather special in nature. Payment of this levy 'debt' is in fact legally due after the date of the balance sheet, but the amount of this debt is assessed on coal and steel production for the month of December 1976, the last month of the year (under Commission decision No 755/76/ECSC of 31 March 1976, payment for steel becomes due on the 25th of the third month following the month of production).

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 4 069 069 413 EUA. The balance outstanding at 31 December 1976, net of repayments, was 3 474 853 686 EUA.

Total initial borrowings and balances outstanding at 31 December 1976 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 and collected by the ECSC
Currency in which floated
Initial borrowings and balances outstanding at 31. 12. 1976

Currency	Initial borrowing	Balance outstanding at 31. 12. 1976
US \$ (US dollars)	1 715 059 425	1 499 349 552
DM (German Marks)	930 170 096	732 263 576
Lit (Italian lire)	156 677 547	132 417 797
FL (Dutch guilders)	149 988 303	97 473 862
FF (French francs)	228 771 435	215 419 017
Sfr (Swiss francs)	438 460 146	398 356 621
Lfr (Luxembourg francs)	178 430 890	161 439 943
Bfr (Belgian francs)	129 611 412	112 697 983
Units of accounts EPU (1)	29 567 079	19 957 778
£ (European units of account) (2)	68 555 226	61 699 703
Can. \$ (Canadian dollars)	43 777 854	43 777 854
Total	4 069 069 413	3 474 853 686

(1) This unit of account, with a value of 0.888 667 088 grammes of fine gold, is to be converted, for the 17 currencies of the Member States of the European Payments Union (EPU), on the basis of the gold parities declared to the IMF.

By reason of bearers' right to receive the currency equivalent of the gold value of securities, and given the different positions of the various currencies for which the gold parities have practically been abandoned, the choice of the Swiss franc as reference currency has been approved by arbitration. Thus the value in EUA has been calculated on the basis of the current ratio between the value of the Swiss franc in EUA (1 EUA = Sfr 2.7626) and that of one u.a. = Sfr 4.0841, the latest published parity.

(2) The fixed value of one £ is DM 3.66 — Bfr 50 — FF 5.55419 — Lit 625 — Lfr 50 — Fl 3.62, the choice of currency being left to the bearer. The reference currency chosen by the institution for arriving at the value in EUA of the amount expressed in £ is the DM, on account of the probability that bearers will resort to the most attractive currency. Thus the amount in EUA is a function of the value of the EUA in DM, i.e. DM 2 66938. Since 1 £ = DM 3.66, it also equals 0.72934 EUA.

During the 1976 financial year, the ECSC collected the product of 31 loans in DM, FF, Lfr, Fl, Sfr, US \$ and Canadian \$ to a total value of 1 030 456 072 EUA (compared with 22 loans in 1975 to a value of 702 million EUA). The main characteristics of each of these loans are set out in Table 7. If

TABLE 7

Borrowings*Individual characteristics of new loans floated in 1975*

Nature of loan	Date floated (signature)	Amounts in currency of issue	Amounts in EUA	Interest per annum	Term (years)
Private bond loan floated in Switzerland (open for subscription on 16. 1. 1976)	10. 12. 75	Sfr 50 000 000	18 098 892	7,75 %	7
Public bond loan floated in Germany (open for subscription in January 1976)	19. 12. 75	DM 150 000 000	56 192 824	8 %	7
Public bond loan floated in Switzerland	14. 1. 76	Sfr 100 000 000	36 197 785	7,25 %	6
Public bond loan floated on the international market	14. 1. 76	US \$ 125 000 000	110 620 448	8,75-9,25 %	5-10
Public bond loan floated on the international market	22. 1. 76	US \$ 50 000 000	44 248 179	9 %	7
Private bond loan floated for investors outside the Netherlands	26. 1. 76	FL 60 000 000	21 593 997	8 %	7
Private loan contracted in France	29. 1. 76	FF 40 000 000	7 121 290	10,25 %	5
Private loan contracted in France	3. 2. 76	FF 60 000 000	10 681 935	10 %	5
Private loan contracted in the Netherlands	5. 2. 76	FL 25 000 000	8 997 499	8,75 %	25
Private loan contracted in Germany	10. 2. 76	DM 80 000 000	29 969 506	7,75 %	10
Private bond loan floated in France	18. 2. 76	FF 50 000 000	8 901 612	10 %	7
Private loan contracted in the Netherlands	23. 2. 76	FI 30 000 000	10 796 998	8,625 %	25
Public bond loan floated in France	27. 2. 76	FF 250 000 000	44 508 061	10,2 %	18
Public bond loan floated in Canada	3. 3. 76	Can \$ 50 000 000	43 777 854	9 %	7
Private loan contracted in the Netherlands	15. 3. 76	FI 14 000 000	5 038 599	8,75 %	20
Public bond loan floated in the USA	30. 4. 76	US \$ 175 000 000	154 868 627	8,625-9 %	8-20
Private loan contracted in France	20. 5. 76	FF 50 000 000	8 901 612	10,5 %	7
Private loan contracted in Switzerland	10. 6. 76	Sfr 60 000 000	21 718 671	6,25-6,5 %	5-7
Private loan contracted in Germany	2. 7. 76	DM 45 000 000	16 857 847	8,625 %	10
Private loan contracted in Germany	2. 7. 76	DM 50 000 000	18 730 941	8 %	5
Private loan contracted on the international market	23. 7. 76	US \$ 23 000 000	20 354 162	8,5 %	10
Private bond loan floated in Switzerland	29. 7. 76	Sfr 20 000 000	7 239 557	6 %	6
Private bond loan floated in Switzerland	23. 8. 76	Sfr 25 000 000	9 049 446	6 %	7
Bond loan floated in Switzerland	28. 9. 76	Sfr 25 000 000	9 049 446	5,875 %	8
Public bond loan floated in Germany	29. 9. 76	DM 200 000 000	74 923 765	7,75 %	7
Bond loan floated on the international market	1. 10. 76	US \$ 30 000 000	26 548 908	7,875 %	5

TABLE 7 (contd.)

Nature of loan	Date floated (signature)	Aments in currency of issue	Amounts in EUA.	Interest per Gannum	Term (years)
Public bond loan floated in Luxembourg	11. 10. 76	Flux 500 000 000	12 297 098	9,5 %	8
Medium-term bank loan contracted in Luxembourg	26. 10. 76	Lfr 200 000 000	4 918 839	9,5 %	6
Public bond loan floated in Switzerland	5. 11. 76	Sfr 80 000 000	28 958 228	5,7 %	15
Private bond loan floated in the USA	10. 11. 76	US 150 000 000	132 744 538	8,125-8,875 %	8-20
Public bond loan floated on the international market	25. 11. 76	US 30 000 000	26 548 908	8 %	7
Total borrowings contracted in 1976			956 164 356		
Total collected in 1976			1 030 456 072		

allowance is made for these new receipts and for repayments made during the year (78 442 586 EUA), the loan total shown on the balance sheet is up by 952 013 486 EUA.

19 I — B — Outstanding redemption premiums (1 633 033 EUA)

This represents the sum of the premiums arising from the difference between the redemption price of certain loans and their face value at issue.

Thus, the total for heading I, including the two sub-headings A and B, i.e. 3 476 486 719 EUA, represents the total ECSC debt including all obligations contracted, whatever their payment or maturity dates.

20 II — Reserves

20.0 This heading contains :

20.1 The *guarantee fund*, which has been increased to 160 000 000 EUA as a result of the allocation of 10 000 000 EUA derived from management surpluses. 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 any extension of the Community's guarantee to sums borrowed directly by enterprises from non-Community credit institutions.

20.2 The *special reserve* constituted out of funds other than levy income (income on investments, fines and interest on arrears and interest on loans granted out of own funds), which increased by 19 000 000 EUA to a total of 122 000 000 EUA at 31 December 1976.

Since 1970, when sums earmarked for other purposes (interest reductions on loans for structural reorganization, assistance to coking coal, etc.) were separated and entered under the corresponding provisions, this fund has been used exclusively for the granting of loans to finance social housing construction programmes.

21 III — Provisions

21.0 This balance sheet item comprises two types of provision, financial assistance and other provisions.

TABLE 8

Rehabilitation assistance*New allocations and effects on employment*

Country and sector	Number of beneficiaries	New allocations
<i>Belgium</i>		
Coal	1 957	2 604 392
Steel	601	719 875
<i>Germany</i>		
Coal	7 942	8 268 011
Steel	2 286	726 877
<i>France</i>		
Coal	820	2 175 250
Steel	—	361 215
<i>Italy</i>		
Coal	—	—
Steel	—	—
<i>Netherlands</i>		
Coal	—	—
Steel	—	—
<i>United Kingdom</i>		
Coal	5 060	8 424 000
Steel	2 721	1 844 380
Total	21 387	25 124 000

21.1 A — *Financial assistance* (200 431 892 EUA) consists of *legally binding commitments* for:

- rehabilitation (128 200 818 EUA);
- research (50 080 281 EUA);
- interest reductions on loans already signed and intended either for industrial structural reorganization under Article 56 of the Treaty (9 046 757 EUA) or for financing investments under Article 54 of the Treaty (9 254 036 EUA);
- the residue (3 850 000 EUA) of the maximum sum of 6 330 000 EUA approved for Community aid to coking coal in 1976.

These may be analyzed as follows:

21.11 The *provision for the social rehabilitation of workers in the mining and steel industries* (128 200 818 EUA) shows an increase of 2 639 720 EUA compared with the situation at 31 December 1975.

Aid granted under decisions taken during the year was distributed as follows: United Kingdom, 40.9%; Germany, 35.8%; Belgium, 13.2% and France, 10.1%.

Table 8 gives details, by country and sector (coal and steel), of new assistance approved during 1976.

TABLE 9

Provision for rehabilitation

Breakdown by country and sector (1)

Country and sector	Amounts still covered in the provision at 31. 12. 1975		Amounts still covered in the provision at 31. 12. 1976
	Rate of EUA at 31. 12. 1975	Rate of EUA at 31. 12. 1976	
<i>Belgium</i>			
Article 56			
Steel	1 301 021	1 473 827	2 059 864
Coal	7 600 460	8 609 979	9 878 961
Belgium total	8 901 481	10 083 806	11 938 825
<i>Germany</i>			
Article 56			
Steel	1 556 755	1 780 957	2 346 693
Coal	49 195 303	56 280 334	56 247 835
Germany total	50 752 058	58 061 291	58 594 528
<i>France</i>			
Article 56			
Steel	3 874 846	3 600 874	3 787 853
Coal	12 577 266	11 687 983	13 222 317
France total	16 452 112	15 288 857	17 010 170
<i>Italy</i>			
Article 56			
Steel	165 644	133 576	115 758
Coal	98 995	79 830	—
Italy total	264 639	213 406	115 758
<i>Netherlands</i>			
Article 56			
Steel	450 988	508 227	508 227
Coal	18 518 920	20 869 317	16 467 377
Netherlands total	18 969 908	21 377 544	16 975 604
<i>United Kingdom</i>			
Article 56			
Steel	4 563 108	3 966 261	4 608 405
Coal	19 063 393	16 569 933	18 957 528
United Kingdom total	23 626 501	20 536 194	23 565 933
Community	118 966 699	125 561 098	128 200 818

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

Table 9 sets out, by country and sector (coal and steel), the sums remaining in the provision at 31 December 1976. These sums should be compared with those remaining at 31 December 1975, expressed in EUA at the rate obtaining on 31 December 1976.

21.12 The *provision for technical research* (50 080 281 EUA) shows a clear increase of 1 848 948 EUA compared with the situation at 31 December 1975.

New allocations to the various sectors were as follows:

Steel research	11 495 175 EUA
Coal research	17 068 958 EUA
Social research	2 361 856 EUA
Making available of research findings	1 069 357 EUA

Table 10 shows details, by sector, of the provision at 31 December 1976.

TABLE 10
Technical, economic and social research
Provisions by sector

Research sector	Amounts still covered in the provision at 31. 12. 1975		Amounts still covered in the provision at 31. 12. 1976
	Rate of EUA at 31. 12. 1975	Rate of EUA at 31. 12. 1976	
Steel	19 775 223	20 197 978	20 246 186
Ores	1 288 744	1 197 623	806 017
Coal	16 547 912	16 664 534	19 738 192
Industrial safety, health and medicine	9 630 569	9 856 244	8 533 747
Experimental social housing construction	75 308	85 311	85 311
Making available of research findings	222 064	229 643	670 828
Total	47 539 820	48 231 333	50 080 281

21.13 The *provision for assistance to industrial structural reorganization* (Article 56) (9 046 757 EUA) is designed to reduce the interest on loans granted for this purpose, whether by the ECSC out of borrowings or by third parties.

This provision is lower by 102 673 EUA than at 31 December 1975.

21.14 The *provision for assistance to investments* (Article 54) (9 254 036 EUA) is intended — under the same financial terms as for industrial structural reorganization — for reducing the interest on investment loans granted under Article 54 of the Treaty, subject to the fulfilment of certain requirements.

Compared with the previous year, this provision shows a decrease of 965 531 EUA.

21.15 The *provision for assistance to coke* (3 850 000 EUA) represents the residual financial allocation for the sales aid to be provided by the ECSC, at a rate of 0.422 EUA per tonne in 1976, in order to offset the purchase price discount granted to buyers of coking coal produced in the Community.

21.2 B — *Other provisions* (56 202 082 EUA) include :

- a reserve constituted from levy receipts in 1976 to cover research, rehabilitation and interest reduction commitments to be entered upon during the first half of 1977 (27 091 544 EUA) ;
- a provision to cover sundry risks amounting to 29 110 538 EUA.

21.21 *Future commitments* (27 091 544 EUA) represent a reserve reflecting all unilateral decisions already taken by the institution, a period of nine months being allowed for the other parties to the contracts to sign. These decisions cover :

technical research	13 882 029 EUA
assistance (Article 54)	3 229 610 EUA
assistance (Article 56)	9 979 905 EUA

21.22 *Sundry provisions* (29 110 538 EUA) comprise :

21.221 The provision for doubtful debtors in respect of borrowings (1 588 538 EUA) which represents, as previously, the total amount of interest and principal due from three recipients of loans granted out of borrowed funds.

21.222 The provision for depreciation of the securities portfolio (822 000 EUA), although the difference between the acquisition price and the current market value of the portfolio securities amounts to an increase in value of 497 499 EUA.

21.223 The provision for technical and social research (700 000 EUA), designed to permit the conclusion of a number of contracts delayed for administrative reasons.

21.224 A provision of 10 000 000 EUA for short-term economic and budgetary risks, to cover loan payments in the event of default by debtors and, up to 4 million EUA, to cover any shortfall on levy receipts.

21.225 A provision for the 1977 budget (16 000 000 EUA) designed to reserve income from interest and from loans granted out of own funds for allocation to budget expenditure in the coming financial year.

22 IV — **Former pension fund** (39 084 545 EUA)

The increase in this fund as compared with its total at 31 December 1975 is due to the allocation of interest payments totalling 553 046 EUA from beneficiaries of loans granted out of the fund.

23 V — **Miscellaneous** (69 132 123 EUA)

This heading includes the sum of 64 066 418 EUA payable on coupons due and redeemable bonds which are due but not yet presented, plus a variety of credit items to a total of 5 065 705 EUA.

23.1 The item 'coupons and bonds payable' (64 066 418 EUA) represents the debt arising from coupons and bonds which are due but have not yet been presented for payment. It represents the contra of the assets deposited with banks and serviced by them, and the same considerations thus apply as outlined under 16.3.

23.2 The item 'sundry creditors' (5 065 705 EUA) comprises various debts arising from :

- fines being recovered (5 895 EUA) ;
- sums deducted for insurance on loans granted to officials to finance their personal housing (24 214 EUA) ;

- correction of banking errors (212 391 EUA) ;
- sums repayable to EEC for payments made on behalf of ECSC for technical research (3 641 210 EUA) ;
- prepaid interest on loans granted out of borrowed funds (469 319 EUA) ;
- prepayment of symposium fees (2 088 EUA) ;
- the recoverable exchange difference of 526 100 EUA which is the result of converting a FF 50 million borrowing into a £ 5 550 000 loan, with an exchange guarantee from the agent bank. This item is also carried under assets (see No 16.2) ;
- an amount still payable in respect of aid to coking coal (184 488 EUA).

24 VI — Accrued liabilities (113 546 444 EUA)

This account, which includes the amount of interest and fees accrued but not due at 31 December 1976, increased by 38 834 645 EUA 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 similarly include the figure resulting from the entering as expenditure of interest and agents' fees payable by the Institution.

25 VII — Unallocated balance (47 862 EUA)

This amount represents a freely attributable provision.

26 SUSPENSE ACCOUNT

26.0 The sum of 20 604 035 EUA carried under this heading and covered by a right of recourse for the same amount represents the total of commitments undertaken by the ECSC as a result of extending its guarantee to loans granted to Community enterprises under Article 56, paragraph 2 and Article 54 of the Treaty. The balance concerns 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 1976. Total loans secured by the ECSC decreased by the amount of scheduled repayments during the year (3 277 915 EUA).

TABLE 11

Changes in items of the ECSC's balance sheets between 31 December 1975 and 31 December 1976
(in thousand EUA)

ASSETS	ASSETS			LIABILITIES		
	1975 (1)	1976	Changes	1975 (1)	1976	Changes
I. Disbursed loans						
A. Loans granted out of borrowed funds	2 380 612	3 345 998	+ 965 386	2 522 840	3 474 853	+ 952 013
B. Other loans	121 494	130 767	+ 9 273	1 833	1 633	- 200
Total item I	2 502 106	3 476 765	+ 974 659	253 000	282 000	+ 29 000
II. Cash and banks	406 567	422 984	+ 16 417	199 493	200 432	+ 939
III. Short and medium term investments	31 115	28 607	- 2 508	41 505	56 202	+ 14 697
IV. Portfolio	78 725	73 043	- 5 682	240 998	256 634	+ 15 636
V. Real estate	1	332	+ 331	36 679	39 085	+ 2 406
VI. Recoverable issuing costs	38 448	53 108	+ 14 660	50 923	64 066	+ 13 143
VII. Miscellaneous				116	5 065	+ 4 949
A. Debtors under the levy	4 405	16 805	+ 12 400	51 039	69 131	+ 18 092
B. Financial debtors	3 755	9 033	+ 5 278			
C. Deposits for coupons and bonds due but not yet presented	50 923	64 066	+ 13 143			
Total item VII	59 083	89 904	+ 30 821			
VIII. Accrued income						
A. Interest and fees accrued but not yet due on deposits, portfolio, loans and guarantees	61 850	84 978	+ 23 128			
B. Levy declared for December 1975 and 1976 production but payable after 31 December 1975 and 31 December 1976	5 954	7 210	+ 1 256	74 712	113 546	+ 38 834
Total item VIII	67 804	92 188	+ 24 384	2 748	49	- 2 699
TOTAL FOR BALANCE SHEETS	3 183 849	4 236 931	+ 1 053 082	3 183 849	4 236 931	+ 1 053 082
			SUSPENSE ACCOUNTS			
I. Due on bonds	74 292	—	- 74 292	74 292	—	- 74 292
II. Enterprises' liabilities under guarantees	23 882	20 604	- 3 278	23 882	20 604	- 3 278

(1) Rate of EUA on 31 December 1976.

Notes to the statement of income and expenditure (Management account)

EXPENDITURE

27 **I — Service of borrowings and guarantees** (263 310 404 EUA).

27.1 *Expenditure for the service of borrowings* (263 310 404 EUA) represents interest due on the ECSC's borrowings (252 705 646 EUA), fees to custodians and agent banks (2 383 280 EUA), miscellaneous expenditure (401 572 EUA) and repayments of issuing costs for borrowings (7 819 906 EUA).

Miscellaneous expenditure (401 572 EUA) comprises :

27.11 The premium on the 1976 scheduled repayment (184 234 EUA) on a French borrowing (12 % over the nominal value) ;

27.12 The abandoning (91 462 EUA), 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 1976 the accrued total of the claim abandoned by the Institution was 1 326 308 EUA ;

27.13 Direct costs for printing, publication, stock exchange quotation and safekeeping fees (61 498 EUA) ;

27.14 A loss on sale of ECSC securities (64 306 EUA) ;

27.15 Exchange differences (72 EUA).

28 **II — 'Budgetary' expenditure** (84 188 442 EUA)

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* (15 639 210 EUA) represents the accounting equivalent of currency provided to meet the ECSC's annual flat rate contribution to the administrative budget of the Commission of the European Communities. This annual amount was fixed by the

Merger Treaty at 18 million u.a. to be converted into currency on the basis of the exchange rates applying at the time of the Treaty.

28.2 *B — Rehabilitation expenditure* totalled 21 808 299 EUA. The percentage breakdown by country is as follows: Belgium 6 %, Germany 37 %, France 4 %, Italy 1 %, Netherlands 19 %, United Kingdom 33 %.

28.3 *C — Research expenditure* totalled 29 485 073 EUA and breaks down by sector as follows:

— technical research, iron ore	406 192 EUA
— technical research, iron and steel	11 089 052 EUA
— technical research, coal	13 879 416 EUA
— research on industrial safety, health and medicine	3 545 570 EUA
— expenditure on the dissemination of research findings	564 843 EUA

28.4 *D — Assistance granted under Article 56* (4 286 502 EUA) was largely used to reduce the interest on ECSC loans for industrial structural reorganization (3 630 090 EUA), while the rest (656 412 EUA) was allocated to enterprises to reduce the rate of interest on loans obtained from other sources.

Assistance granted to reduce the interest on loans under Article 54 of the Treaty (3 743 852 EUA) was used to finance investments fulfilling certain specific requirements in coal and steel enterprises.

This assistance enables the Institution to grant a temporary (five-year) reduction in the theoretically standard rate of interest on loans granted out of its borrowed funds. Up to 30 June 1976 assistance was granted in the form of a reduction of three points in the rates laid down in the contracts. In order to balance the loan service account, the Institution drew the cost of this assistance from its own funds (so that it was charged to budgetary assistance) and transferred it to the loan service account, which was thus credited with the full standard rate of interest. For assistance granted since 1 July 1976, beneficiaries pay interest at the nominal rate and the Institution refunds the amount of assistance.

As for assistance for loans granted by other organizations, these payments are drawn directly on own funds and disbursed to beneficiaries.

28.5 *E — Community assistance to coking coal* (9 225 505 EUA) comprises the Community contribution earmarked for 1975 as well as that for the first half-year of 1976 (2 480 000 EUA), on the basis of Commission decision No 287/73/ECSC.

29 III — Other expenditure (38 625 EUA)

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

29.1	portfolio management costs	33 646 EUA
29.2	sundry banking fees	823 EUA
29.3	charges for the property in Washington (mainly for plumbing work)	4 156 EUA

INCOME

30 I — Service of loans and guarantees (269 314 897 EUA)

30.1 A — *Revenue from the service of loans granted out of borrowed funds* (269 206 903 EUA) is made up of interest levied on loans granted by the ECSC (246 994 064 EUA), interest credited to the loan service account (12 239 788 EUA) and sundry revenue (9 973 051 EUA).

30.11 The first item (246 994 064 EUA) is *the sum of all interest due* for 1976 on loans granted out of borrowed funds.

30.12 *Interest credited to the loan service account* (12 239 788 EUA) includes interest calculated on the basis of the average yield on borrowed funds received but not yet loaned (10 687 001 EUA) and the yield on investments (1 552 787 EUA) 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* (9 973 051 EUA), comprises :

- assistance payments for interest on loans granted by the Institution under Articles 56 (3 672 837 EUA) and 54 (3 742 761 EUA) 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 as such is discussed under No 28.4 ; any discrepancies compared with the amounts mentioned in that section derive partly from the implementation of the new system of direct repayments (see 28.4 above) and partly from adjustments concerning operations entered into the accounts prior to 31 December 1974.
- a profit of 2 019 836 EUA realized by the Institution on redemption of ECSC debenture bonds.
- issue premiums (458 329 EUA) due from subscribers to one DM loan and one loan in Canadian dollars.
- miscellaneous income amounting to 79 289 EUA (tax refunds, coupons become void, adjustments etc).

30.2 B — *Guarantee fees* (107 994 EUA) are those received by the Institution in return for acting as surety for loans contracted by enterprises in the Community.

31 II — Income from the levy

Income from the levy in 1976 was 92 609 414 EUA and comprises all sums declared for 1976, including those for December 1976 but not payable until 25 March 1977.

Table 12 gives a breakdown, by country and group of products, of levy amounts declared and recorded in 1976, together with the percentage of the whole accounted for by each of the countries for each group of products.

TABLE 12

Income from the levy

Breakdown by group of products and country
Amounts declared and recorded in the accounts in 1976

Country	Coal		Steel		Levy total per country	
	Amount	%	Amount	%	Amount	%
Belgium	547 827	3..	6 434 226	8.6	6 982 053	7.5
Denmark	—	—	387 999	0.5	387 999	0.4
Germany	7 501 756	41.7	24 020 884	32.2	31 522 640	34..
France	1 656 201	9.2	13 055 089	17.5	14 711 290	15.9
Ireland	3 623	0.1	34 424	0.1	38 047	0.1
Italy	—	—	13 138 671	17.6	13 138 671	14.2
Luxembourg	—	—	2 492 198	3.3	2 492 198	2.7
Netherlands	—	—	2 972 999	4..	2 972 999	3.2
United Kingdom	8 275 254	46..	12 088 263	16.2	20 363 517	22..
Community total.	17 984 661	100..	74 624 753	100..	92 609 414	100..

32 III — Other revenue

This heading totals 41 487 630 EUA and covers interest on bank deposits and portfolio (28 000 928 EUA), interest on loans granted out of own funds (1 746 705 EUA) fines and interest on arrears (1 171 EUA), miscellaneous income (371 781 EUA) and the product of adjusting income to the currency equivalents of the EUA (11 367 045 EUA).

32.1 *Revenue from bank deposits and portfolio* amounted to 28 000 928 EUA. The annual average yield ⁽¹⁾ overall for funds managed by the ECSC was 7.95 %, compared with 8.24 % in 1975.

Table 13 gives a breakdown by country of revenue generated in 1976 by the ECSC's investments. This includes income from bank accounts and portfolio securities, together with the product of redemptions and sales of bonds held by the Institution.

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

- the interest amounts shown include, as well as amounts received during 1976, from which must be deducted the interest accrued at 31 December 1975, the accrued total *pro rata* at 31 December 1976 on fixed deposits and portfolio securities ;
- the revenues shown in Table 13 are gross amounts. 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*, which are generally made at a very low rate of interest (1 %) for a fairly long term, amounted to 1 746 705 EUA.

32.3 *Interest on arrears* (1 171 EUA) was imposed on three outstanding debts.

32.4 *Miscellaneous income* (371 781 EUA) comprises the product of revaluing the property in Washington (331 917 EUA), the rent received for the property in Washington (37 864 EUA) and property tax (2 000 EUA).

⁽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 13

Interest yields and income on investments*Breakdown by country and type of income during 1976*

Country	Bank interest (current accounts and fixed deposits)		Interest from various portfolio securities		Total per country	
	Amount	%	Amount	%	Amount	%
Belgium	3 734 751	12.2	471 474	5.9	4 206 225	10.9
Denmark	73 342	0.2	—	—	73 342	0.2
Germany	3 271 055	10.7	5 166 132	64.8	8 437 187	21.8
France	3 605 360	11.7	704 376	8.8	4 309 736	11.2
Ireland	—	—	—	—	—	—
Italy	4 014 245	13.1	316 507	4.0	4 330 752	11.2
Luxembourg	4 953 447	16.1	169 141	2.1	5 122 588	13.2
Netherlands	832 551	2.7	149 877	1.9	982 428	2.5
United Kingdom	9 954 253	32.4	—	—	9 954 253	25.7
Switzerland	189 316	0.6	15 822	2.1	205 138	0.5
USA	87 832	0.3	978 448	12.3	1 066 280	2.8
Sub-totals	30 716 152	100	7 971 777	100	38 687 929	100
Interest to be credited to loan service account	— 10 687 001	— 34.8	—	—	— 10 687 001	— 27.6
Total	20 029 151	65.2	7 971 777	100	28 000 928	72.4

32.5 The monetary parity adjustment (11 367 045 EUA) represents the result of adjusting operations to the currency equivalents of the EUA at the end of the year.

33 IV — Excess of income over expenditure

As shown in Table 28 ('management account'), the excess of income over expenditure in 1976 totalled 55 874 470 EUA. This surplus was allocated to the various provisions.

PART TWO

PART TWO

REMARKS PROMPTED BY OUR 1976 AUDITING OPERATIONS

Introduction

34 In all sectors of the ECSC's financial activity audited by us we carried out either full or sample checks during and at the end of the year of audit.

During the year we maintained a close check on the financial activities of the European Coal and Steel Community, receiving and verifying the documents and vouchers which were sent to us regularly. 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 set out below. It is clearly essential to the performance of these duties that we should as promptly as possible be given documents which provide both information — *a priori* — and substantiation — *a posteriori*. We always receive decisions, accompanied by their explanatory memoranda, regularly in the form in which they were submitted to the Institution: it is essential to examine these documents if we are to understand the exact implications of the texts enacted and their political context. The forwarding of accounting documents relating to the management of financial assistance improved following the introduction of a computer system. This ought, however, to provide more information, to allow, like the procedure adopted by the loan service department, of the variety of monetary units in which the Community's commitments and entitlements are determined.

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 balance sheet and management account and we satisfied ourselves that all assets and liabilities 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 31 June 1976.

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 It was felt that this report, which will probably be the last drawn up by the independent Auditor on his own, should keep particularly closely to the principles entailed in the conduct of independent audits. It was also essential to take stock of the situation following the first year of the EUA's application to the operations of the ECSC. There are already numerous lessons to be drawn, and we made it our business to point these out promptly, in dialogue with the departments concerned.

Finally, the fact that our only A grade official left us during our busiest auditing period, though happily he was quickly replaced, meant that we were not able this year to examine any one sector in greater depth, since most of our available staff had been taken up by the increase in the amount of material to be audited.

Income from the levy

36 Extent of our audit

With regard to income from the levy, which is the ECSC's source of 'tax' revenue, we conducted :

- Checks of 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 1976 ;
- 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.

But in most cases the exact date on which the debtor enterprise paid its levy amount was not given, and this made it impossible for us — and for the Institution — to check whether the currency amount received was correct. Although levy debts are determined in EUA, they are collected in national currency at the rate obtaining on the last working day of the month preceding the month (from the 15th of one month to the 14th of the next) during which payment was made. It ought thus to be possible to determine this latter date exactly. At present it cannot be worked out sufficiently accurately, for bank transfers may involve delays of up to several weeks between the date of actual payment and the crediting of the Institution's account.

37 Remarks

37.1 In accordance with its Decision No 3378/75/ECSC of 22 December 1975, the Institution maintained the rate of the levy for 1976 at 0.29 % of the average values per tonne of the various categories of chargeable products. However, these values were redefined.

The updating of these production values takes account of new quantities of products subject to the levy and consumed in recorded chargeable production, which is diminished thereby. This consumption, by tonne and category of products, is fixed as follows :

Products	Consumption
Brown coal briquettes and semi-coke derived from brown coal	0.03 t brown coal briquettes and semi-coke derived from brown coal
Hard coal of all categories	0.14 t hard coal
Pig iron other than that used for making ingots	0.774 t hard coal
Steel in ingots	0.450 t hard coal
Finished products of iron and steel	1.262 t steel

The average values ⁽¹⁾ which constitute the assessment basis of the levy were brought up to date and the chargeable products were regrouped in five categories ⁽²⁾ as follows :

Products	Average value per tonne in u.a
Brown coal briquettes and semi-coke derived from brown coal	18.57
Hard coal of all categories	30.35
Pig iron other than that used for making ingots	138.40
Steel in ingots	157.52
Finished and end products of iron and steel	262.54

Table 14 traces, for each of the categories of chargeable products, changes since 1953 in the rate of the levy and the net scale per tonne.

TABLE 14

Rate of the levy and net per tonne scale from 1953 to 1976 for each category of chargeable products

A. In u.a.

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
1. 1. 1975	0.29	0.0448	0.0594	0.2241	0.2895	0.3636	0.1386 ⁽¹⁾

⁽¹⁾ This sum was calculated with weightings for the average values for the two categories Finished and end products of Basic Bessemer steel and Finished and end products other than Basic Bessemer steel

⁽¹⁾ Operation carried out annually since 1. 12. 1973 (Decision No 2691/72 of 18. 12. 1972), OJ L 286, 23. 12. 1972.

⁽²⁾ Under the terms of Decision No 1761/75/ECSC of 2. 7. 1975 the Commission simplified the list of chargeable product categories and deleted that of Basic Bessemer steel in ingots, on account of technical advances. As from 1976, steels will form a single chargeable category.

B. In EUA

Period	Rate %	Brown coal briquettes and semi-coke derived from brown coal	Hard coal	Pig iron other than in ingots	Steel in ingots	Finished and end products of iron and steel
1. 1. 1976	0.29	0.05385	0.08802	0.33324	0.41720	0.18487

37.2 Levy receipts for 1976 totalled 92 609 414 EUA.

The difference between 1975 and 1976 in the percentage of total levy receipts paid by each of the Member States appears as follows :

	1975	1976
Belgium	8.0 %	7.5 %
Denmark	0.3 %	0.4 %
FR of Germany	34.1 %	34.0 %
France	15.9 %	15.9 %
Ireland	—	0.1 %
Italy	14.5 %	14.2 %
Luxembourg	2.9 %	2.7 %
Netherlands	3.4 %	3.2 %
United Kingdom	20.9 %	22.0 %

Despite the fact that since the coal crisis of 1958 the contribution of the steel industry towards total levy receipts continued to increase each year, while that of the coal industry diminished, this trend has undergone a reversal in most of the coal-producing countries. This is due partly to the difficult economic situation in the steel industry despite a recovery in the first half of 1976 which did not, however, continue, and partly to the energy crisis which prompted a return to sources such as coal which had been abandoned because of their excessive cost.

37.3 It can be seen from Table 15 that the percentage of total levy receipts contributed by the *steel industry* (81.26 %) and that of the *coalmining industry* (18.74 %) have remained more or less the same as in 1975.

The share of *finished products* in the total levy income from steel has remained relatively constant since 1952. The anomalies pointed out in the 1973 report ⁽¹⁾, to the effect that the Treaty does not allow for technical progress in the concept of a finished products, still persist and discussion are under way to find a solution.

Lastly, the yield of the third category of steel products, i.e. foundry pig iron not intended for steel ingot manufacture, has remained stable since 1968, after having declined constantly during the period up to then.

Table 16 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 1976. It should be borne in mind that as from 1 January 1976, when a single category was created to cover all steels, this table refers only to three categories.

37.4 *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.

⁽¹⁾ 1973 Auditor's Report, No 37.3.

TABLE 15
 Changes by sector (coal — steel) in levy income from 1953 to 1976
 (expressed as a percentage of the annual product of the levy)

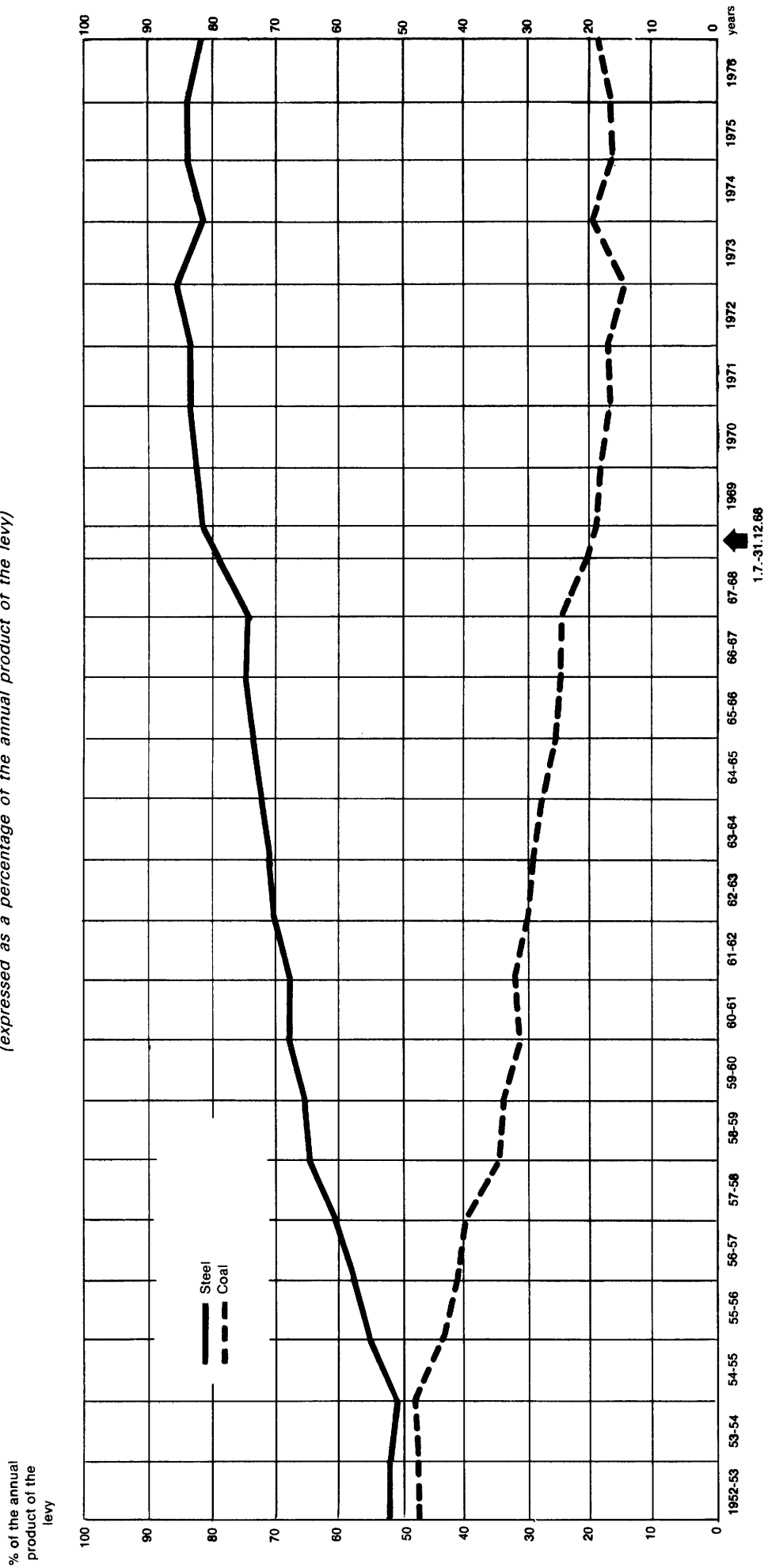
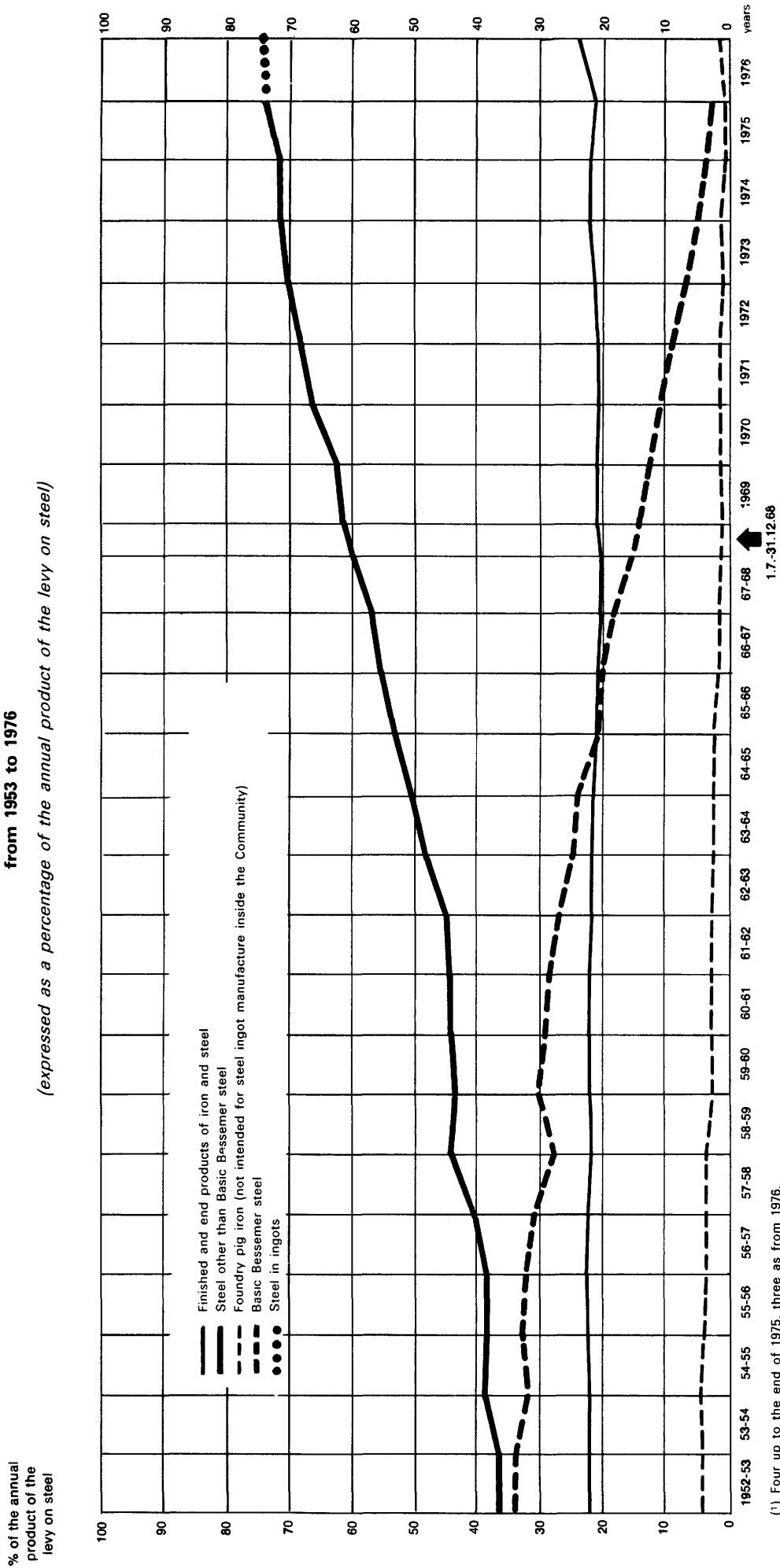


TABLE 16

Changes in levy income for the various categories of steel products (1)
from 1953 to 1976

(expressed as a percentage of the annual product of the levy on steel)



(1) Four up to the end of 1975, three as from 1976.

In previous reports we checked this allocation by verifying that total levy income since inception of the ECSC had in fact remained lower than the expenditure mentioned above. Since the income and expenditure items have been booked in EUA and for the reasons outlined in the introduction to this part of the report, this method based on cumulative values is extremely hard to apply.

Given this situation, we compared the annual allocations which may not be covered by the levy with the total of other resources collected during the year, which means that these cannot have come from levy receipts.

Expenditure in EUA (other than loan service)		Income in EUA (other than loan service)	
Interest reductions, Article 54	1 783 114	Interest on fixed deposits and portfolio	28 000 927
Interest reductions, Article 56	4 227 949	Fines and increases on arrears	1 171
Future commitments (for interest reductions)	9 475 910	Interest on own funds	1 746 705
Other expenditure	38 625		
	<hr/> 15 525 598		<hr/> 29 748 803

37.5 On 31 March 1976 the Institution, considering that the exceptionally marked fall in prices and the deterioration of the conditions of sale on the steel market had led to a fall in the receipts of undertakings such as to cause temporary cash flow difficulties, adopted a decision for the current year ⁽¹⁾ whereby the levy due on steel production is not payable until the 25th of the third month following the month of production.

Consequently, late payments for 1976 will only become apparent in 1977.

As in previous years, no use was made of the formal notice procedure owing to the time involved in taking and implementing the Institution's decision, the high cost of this procedure in relation to the amounts outstanding and the economic difficulties which are currently besetting the steel industry in all the Member States.

On the other hand the Institution collected *arrears increases* totalling 1 171 EUA in 1976 from three enterprises after sending a reminder and without having to serve the formal notice provided for in Article 36 of the Treaty, a procedure which was last used in 1970.

No fines were collected.

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.

37.6 We also checked that the *total product of the levy* was correctly collected. In the nine Member States the Institution carried out surveys of 430 undertakings comprising 584 works and pits, of which 47 were concerned with coal and 537 with steel.

This list is constantly updated. For the United Kingdom, as pointed out in previous reports, certain 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 not yet all been covered by the survey.

Together with the responsible officials of the Levy Office, we compared the tonnages declared and paid on under the levy in 1975 with the production figures collected for the same year by the 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

⁽¹⁾ Decision No 755/76/ECSC of 31. 12. 1976, OJ L 89, 2. 4. 1976.

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 1975 which were in general higher than those stated in the official statistics.

A summary of these findings is given in Table 17.

37.7 Twenty-nine checks, as against 35 in 1975 were carried out in 1976 on enterprises subject to the levy (5 in Germany, 2 in France, 1 in Belgium, 11 in Italy, 3 in the Netherlands and 7 in the United Kingdom).

By 31 December 1976 the reports for all these checks had been submitted.

Examination of these reports showed that 11 cases called for no special comment. Eleven others gave rise to comments or additional returns and the problems were settled. Seven dossiers are still being checked.

37.8 As was pointed out in our previous report, difficulties are encountered over the returns submitted by continuous casting enterprises, even though the High Authority published a communication regarding the procedure for the assessment, declaration and collection of the levy in the Official Journal of 6 November 1962. This communication ought to be supplemented, given that enterprises often fail to realize that they have to declare crop ends from continuous casting or 'seconds'.

Another dossier currently being dealt with concerns collection of the levy on job work and the reduction for manufacture of semi-finished products.

On the occasion of a third visit to an Italian enterprise, which previously incurred sanctions because it refused to be inspected by the Institution's inspectors, the firm's management agreed to be inspected but did provide the inspectors with all the assistance to which they were entitled. The enterprise in question is careless as regards keeping the documents needed to check production. In 1970, furthermore, a four-tonne furnace was replaced by a new one with three times the production capacity: the fact was not declared and no invoice was produced. In January 1976 the enterprise admitted that during a removal it had lost the accounting ledgers for 1971, 1972 and 1973.

This dossier has been submitted to the Institution for a decision on what action to take.

Another dossier currently being dealt with is that of an enterprise which does not compile the cast history cards required under Decision No 74/618/ECSC. Its levy payments, however, are in order.

In most cases where a discrepancy was found between production declared and that actually subject to the levy, additional returns were produced without prompting. Two enterprises were asked in writing, albeit late, to send additional returns. In another case, documentation supplied after the inspection showed that part of the enterprise's production was not chargeable, and inspection of one dossier gave rise to payment of a refund.

These observations indicate once more that inspections should be made more frequent and more thorough by the best possible use of the means at the Institution's disposal. Systematic machinery should be set up without delay whereby enterprises liable to the levy could be contacted at regular intervals.

TABLE 17

Overall comparison of five categories of production declared and paid on under the levy with the figures of the Statistical Office of the European Communities for 1975 (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
Hard coal	<p>236 970 — 33 176 (14 % for in-plant consumption)</p> <hr/> <p>203 794</p>	<p>194 097 + 15 184 (for stocks of coal granted temporary deferment of payment')</p> <hr/> <p>209 281</p>	<p>Our figure 5 487 000 tonnes higher for production declared for the levy, not counting non-chargeable declarations for:</p> <ul style="list-style-type: none"> — 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	<p>4 984 — 150 (3 % for in-plant consumption)</p> <hr/> <p>4 834</p>	<hr/> <p>4 834</p>	
Pig iron	<p>5 204 broken down into:</p> <ul style="list-style-type: none"> (a) phosphorus 293 (b) non-phosphorus 3 723 (c) spiegel and ferromanganese 888 (d) special pig irons 300 	<p>5 326</p>	<p>Our figure 122 000 tonnes higher for production declared for the levy despite the fact that:</p> <ul style="list-style-type: none"> (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 for the levy.
Steel in ingots	<p>123 514 comprising:</p> <ul style="list-style-type: none"> Basic Bessemer steels: 6 015 Other steels: 119 545 — 2 045 (liquid steels for casting) <hr/> <p>115 464</p>	<p>123 768</p> <ul style="list-style-type: none"> Basic Bessemer steels: 6 012 <hr/> <p>Other steels: 117 756</p>	<p>Our figure 254 000 tonnes higher for production declared for the levy.</p>
Finished products	<p>89 632 — 112 (for cold rolled sheets over 3 mm)</p> <hr/> <p>89 520</p>	<hr/> <p>89 238</p>	<p>Our figure 282 000 tonnes lower for production declared for the levy. This difference is due partly to the fact that tube rounds and squares produced by continuous casting are included in the official statistics but are not, as rolled finished products, declared for the levy, and partly, no doubt, to difficulties in deciding exactly what is covered by the category 'Coils & finished products'.</p>

Expenditure for rehabilitation

38 Extent of our audit

In this sector, our audit was concerned with checking :

- the correctness of all payments made for rehabilitation during 1976, ensuring both that payments were properly supported by vouchers and correctly entered in the accounts and that they were in accordance with the official decisions taken ;
- the existence of new decisions for assistance to be given in 1976, the texts of which are regularly communicated to us, and the entering in the provision of the amounts concerned.

These checks were carried out mainly with reference to the Directorate-General for Social Affairs, using the vouchers (various decisions and documents) and computer listings of accounting records for credits approved, disbursements and repayments for each category of assistance.

Finally, we satisfied ourselves that the mechanisms governing financial assistance for rehabilitation had been properly administered and checked.

39 Remarks

39.1 New commitments subscribed by the Community for rehabilitation in 1976 amounted to 25.1 million EUA. The main beneficiaries were the United Kingdom (10.3 million EUA), Germany (9 million EUA), Belgium (3.3 million EUA) and France (2.5 million EUA), and 85 % of the total was for the coal sector.

The provision for rehabilitation shown on the balance sheet at 31 December 1976 (128 200 818 EUA) represents a net amount, arrived at by deducting assistance already disbursed, any repayments made and commitments cancelled for various reasons from total commitments current at the beginning of the year plus those specifically approved in 1976.

Tables 8 and 9 in the first part of this report give details, by type, country and sector, of new assistance granted during the year and of sums still held in the provision at 31 December 1976.

Loans or advances granted to rehouse workers transferred to new jobs 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 subject to our audit related exclusively to Article 56, paragraph 2 of the ECSC Treaty. It totalled 21 808 299 EUA.

Cancellations of previous commitments for assistance no longer required totalled 102 433 EUA and were the result of the annual review of assistance estimates made jointly by the Directorate-General for Social Affairs and the departments responsible in each country.

39.3 After analysing the new decisions taken in 1976 and checking the accounting entries for commitments subscribed, cancellations and disbursements made, we are prompted to make the following remarks :

39.31 Our remarks in 1975 regarding the lack of detailed justification for decisions to grant assistance or increase credits still apply.

Decisions to grant assistance to workers dismissed when an enterprise shuts down or curtails its activities are generally substantiated by a report on the general position of the enterprise and the labour situation.

However, the motives which one may reasonably expect to have inspired the decision are usually lacking in the case of the coal sector, though less frequently in the steel sector.

The Commission departments, acting on the knowledge they have of specific situations, propose assistance on the ground simply that 'fundamental changes, not directly connected with the establishment of the common market . . . (have compelled) some undertakings permanently to discontinue, curtail or change their activities . . .' (Article 56, paragraph 2 of the Treaty). This, however, needs to be proved in each case. Before deciding, the Institution should have enough material to allow it to judge whether or not the situation meets the criteria which are applicable.

Properly substantiated decisions are more frequently found in the dossiers relating to steel, where details are given of the location of the enterprise in question, the type of main production and its market, the enterprise's plant and equipment and the reasons for the marketing difficulties experienced.

39.32 On 10 December 1975 (1) the Commission decided to fix its maximum contribution to miners' redundancy grants in each of the national currencies to prevent it from varying with the EUA conversion rate.

Following a request by one Member State, these currency amounts were fixed in December 1976 (2), to be effective retroactively from 1971.

39.4 We received from the Commission reports on 11 audits conducted in 1976, seven in France, three in Belgium and one in Germany. We also received, late, a report drawn up in January 1976 on applications by the United Kingdom for a period ended 28 June 1975. No discrepancies were found in this report.

39.41 In France the audits were carried out at the Direction Départementale du Travail et de la Main d'Œuvre of the départements of the Nord, Pas-de-Calais and Moselle and at the headquarters of the Houillères du Nord and the Houillères de Lorraine.

These audits prompted the following observations :

- there was a distinct improvement in the recording and filing of vouchers, an area which had previously been criticized ;
- a number of material errors, of minor importance, had occurred during computer processing of data ;
- a retraining grant was paid to a beneficiary who did not fulfil the conditions regarding length of service. The excess payment of FF 4 137.50 will be recovered ;
- the vocational training allowances are not always uniformly updated, and the bodies responsible should state a clear policy on the conditions governing the granting of these allowances ;
- when calculating the vocational training allowance, days of leave were sometimes erroneously added to the actual period of training.

39.42 In Belgium the audits were carried out at the headquarters of the Office Nationale de l'Emploi, which centralizes all rehabilitation assistance operations. The following anomalies were discovered :

(1) Written procedure No 3531/75.

(2) Written procedure No 1116/76, 1 June 1976.

- an application for 561 redundancy grants totalling FB 19 691 037 contained a calculation error of FB 5 000 to the worker's disadvantage ;
- an application for FB 10 014 730 in respect of 288 cases included 11 files of workers whose dismissal was not the result of the closure of the enterprise. An adjustment to the value of FB 405 076 was made ;
- in one application for reimbursement of redundancy grants, the Commission made an adjustment to the value of FB 75 000, following the rejection of two dossiers.

39.43 In Germany the audit was carried out at the Oberhausen labour office, which had not been inspected since 1972. In two cases, assistance totalling DM 2 000 (half of it borne by the ECSC) had been improperly disbursed and must be considered irrecoverable. The national administration considered that the excess could not be recovered from the workers concerned since the error was the fault of its own civil servants, who were not, however, guilty of serious negligence. Although in this case the interests at stake are not crucial, we consider that the ECSC should not have to suffer the consequences of errors committed by the national administrations.

39.5 Examination of the audit reports reveals that apart from a few calculation errors the discrepancies found are due, on the one hand, to situations not allowed for when the operations were put on to computer and, on the other hand, to differing interpretations of bilateral agreements.

These on-the-spot audits, although confined to the material and accounting aspects of the operations involved, are certainly responsible for a clearly decreasing rate of errors, and in view of this the institution would do well to increase the number of audits carried out.

39.6 We have often stated that the independent auditor needs to be able to base himself on efficient management supervision if he is to provide the competent authority with the elements it requires to judge the policies followed.

The errors and omissions discovered in the dossiers we hold confirm only too clearly the criticisms made in our 1974 report (No 39.82).

Firstly it is hard to accept that a decision has been judiciously arrived at when the Commission departments responsible state conformity with the Treaty as their only argument. This is the case, however, with most of the decisions taken for the coal sector (see 39.31).

This omission certainly does not permit a proper assessment of the cooperation between the Directorate-General for Social Affairs and the technical departments it consults. Only too often the latter's role is simply to mark 'agreed' on a text which has already, in effect, taken the decision. In a word, the work is too compartmentalized and it is too readily assumed that the general conditions prevailing in a sector are known and that there is no need to give them in detail for each individual case.

These missing data and substantiations should, of course, also be checked, if necessary, on the spot at the most opportune moment and, if this has not been judged necessary beforehand, during an audit extension.

Finally, unless the independent auditor can make use of a solid basis described in the dossiers and compiled via contacts with the administrations and enterprises concerned, he cannot carry out his overall duties to good purpose and collect all the elements which are to be reasonably expected of him.

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 made 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 financial inspection reports compiled by officials of the Directorate-General for Budgets, either during projects (interim reports) or on their completion ;
- The progress of current research work conducted under 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 on the basis of information and documents received from 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 in conjunction with officials of the authorizing technical departments.

We paid particular attention to :

- The register of research projects which the Institution drew up at our request at the end of 1973 ;
- The new contracts and riders signed in 1976, which were communicated to us regularly ;
- The final reports drawn up during the year and systematically sent to us ;
- The follow-up given to completed research projects under the measures to disseminate information promoted by the Directorate-General for Scientific and Technical Information and Information Management ;
- The findings of completed research projects which have been obtained and in some cases consolidated, thereby safeguarding the essential objective in the acquisition and dissemination of information.

41 Remarks

Table 18 shows the amounts held in the provision at 31 December 1976 for research projects overall and individually.

The amount still covered in the provision at 31 December 1976 represents the value of research agreements duly signed, less expenditure and any credits cancelled or repaid. It breaks down by sector as follows :

- Steel 20 735 978 EUA
- Coal 19 919 228 EUA
- Iron ore 806 017 EUA
- Social 8 619 058 EUA, comprising 8 533 747 EUA for industrial safety, health and medicine, and 85 311 EUA for the second experimental social housing programme.

All contracts signed in 1976 were drawn up in EUA.

42 In the coal sector, 45 new contracts and 4 riders were signed in 1976 (47 in 1975) to a total value of 17 068 958 EUA. A further sum of 195 573 EUA was allocated to cover related costs (publication and dissemination of reports and experts' travel expenses).

Of all disbursements during the year (13 931 656 EUA), 52 240 EUA were for related costs.

42.1 As we have pointed out before, there is always a time lag of several months between the Institution's decision to approve a research project and signature of the contract. In most cases this did not stop the work from beginning in the meantime. Twenty two projects were started at a date prior to that of the decision granting them financial assistance.

According to our information, this practice is due to the delays involved in translating and presenting the preparatory documents in six languages. This cannot be true, however, of the riders, the point of which of which is nearly always simply to extend the period of the research. There is generally a time lag of three to four months between the beneficiary's application and the signature of the rider. Sometimes the enterprise concerned even continues its work after the agreement has expired, and the Institution is thus obliged to draw up backdated riders in order for the situation to be correct. For example, in the case of a project which had expired on 30 June 1974, a rider was signed on 26 February 1976 extending the work until 30 June 1975.

42.2 During the period 1 July 1975 to 30 June 1976 24 research contracts expired, together with three dating from an earlier period. Final financial inspections were carried out on all except one. For five non-completed dossiers the beneficiaries sent in the final scientific reports, so these can be expected to be closed shortly. In the case of contracts where the final scientific reports have not yet been received, either the deadlines were extended or reminders were sent (three of them in writing).

42.3 We have the following comments arising out of our examination of 19 dossiers closed in 1976 and forwarded to us by the Institution.

42.31 It will be remembered that in general the residual value of equipment purchased by the beneficiary for the purposes of a research project is deducted from the financial assistance given when the final calculations are drawn up.

The depreciation rates whereby this residual value is determined do not obey predetermined rules and are fixed pragmatically on completion of each operation. The rates applied by the Institution are often very high. For example, in a project lasting 13 months on the chemical and physical upgrading of coal, the residual value of the equipment was fixed at 40 % of its initial value.

Although in this case fast depreciation is perhaps desirable — notably for all the coal getting equipment — more realistic rates ought to be applied for material which the beneficiary will be able to go on using, e.g. measuring apparatus. In some cases office supplies such as calculators or furniture were included in the final account.

Basing ourselves on the terms of a contract which allowed the beneficiary to charge depreciation which was fixed, as to its amount, rate and duration, in the contract, we wonder if it would not be possible to apply to a greater number of contracts a method whereby these would contain indications making it easier to calculate the residual value of equipment, which would be described and valued with sufficient accuracy in the clauses of the contract.

TABLE 18

Technical, economic and social research

Sums, by sector and project, covered in the provision at 31. 12. 1976

Description of research	Sums still covered in the provision at 31. 12. 1976
<i>Steel</i>	
Flame radiation IV and V	205 260
Calculation and construction method	31 543
Low shaft blast furnace VI	3 689
Service properties of steels	182 924
Steel ingot structure	4 304
Joint programme on measurement in the steel industry	50 093
Joint programme on the properties of steel in use	30 570
Fire resistance of metal structures	71 252
Cold forming	7 830
Corrosion	9 348
Fatigue and standard construction	64 562
Brittle fracture	160 816
Steel for heat treatment	60 280
Metal physics	54 425
Casting and solidifying of steel	210 213
Measurement techniques II	90 704
Wide strip hot rolling mill	161 455
S.E.P. III fatigue and standard construction	3 726
Automation of oxygen melting shop	211 059
Documentation for architects	8 429
Measurement techniques III	444 353
Metal physics — metallography atlas	11 227
Dispersoids	17 982
BF automation	52 460
Automation of tandem cold rolling mill	78 502
Industrialized building	30 306
Physical metallurgy — quantitative analysis	4 273
Direct reduction of iron ore	271 941
Rolling mills	2 753 109
Physical metallurgy — precipitation phenomena	8 466
Counterbending of the rolls	39 596
Element transfer	5 768
Radiant arch-roof furnace	6 409
Management of enterprises	41 208
Ladle steels	281 497
Sintering	162 000
Sampling mechanisms	8 977
Organization of slabbing mill soaking pits	91 018
Calcatro process control	91 404
Thermomechanical treatment	46 517
BF tuyeres	4 271
Structural mechanism	31 712
Creep in welded joints	142 005
Cold forming of steels	7 632
Cast iron	16 926
Creep	2 072
Corrosion	48 323
Sampling	28 109
Electronic monitoring	46 335
Electronic arc	52 359
Blast furnace	2 090 120
Melting shop	3 011 802
Measurements	2 305 342
S.E.P. — corrosion	733 483
S.E.P. — fatigue	659 611
S.E.P. — brittle fracture	331 654

TABLE 18 (contd 1)

Description of research	Sums still covered in the provision at 31. 12. 1976
<i>Steel (contd)</i>	
S.E.P. — creep	244 806
S.E.P. — heat treatment	340 060
S.E.P. — drawability	781 985
Service properties of steels	439 808
Service properties of steels	230 619
Physical metallurgy	155 219
Physical metallurgy	93 112
Uses of steels	60 344
Direct reduction	421 064
Physical metallurgy	1 264 866
Quantitative metallurgy	51 504
Uses of steel	381 021
Technical literature from eastern Europe II	200 527
Total steel	20 246 186
<i>Coal</i>	
Firedamp control	1 941 018
General services underground	339 508
Technical literature from eastern Europe II	108 192
Production and efficiency in workings	217 086
Coke manufacture	119 589
Coal preparation	236 531
Mechanized sinking and drivage operations	9 837
Roadway drivage	5 902
Physical and chemical upgrading of coal and coke	54 589
Thick seams	89 908
Upgrading of coal	10 797
High-output face	37 761
Deformation of mine workings	12 543
Rope and cable reliability	30 985
Method of preparatory work	3 876 235
Winning methods	4 342 303
Coal improvement and coking	2 399 314
General services underground	1 634 781
Upgrading of coal and coke	4 182 660
Winning and drivage methods	88 653
Total coal	19 738 192
<i>Iron ore</i>	
Iron ore extraction	78 983
Iron ore mining. Bassin Est, France	24 034
Total iron ore	806 017

TABLE 18 (contd 2)

Description of research	Sums still covered in the provision at 31. 12 1976
<i>Industrial safety, health and medicine</i>	
Rescue by means of boreholes	55 834
Stone-dust barriers	178 419
Mine fires	381 366
Occupational safety and medicine	13 712
Physiopathology and clinical studies I	20 348
Traumatology	23 865
Human factors — Ergonomics	84 525
Burns therapy and rehabilitation	18 742
Physiopathology and clinical studies II	481 947
Dust in mines	82 948
Steelworks dust	603 785
Health in mines	1 822 593
Ergonomics and rehabilitation	2 496 576
Pollution control in the iron and steel industry	1 860 555
Safety in mines	408 532
Total industrial safety, health and medicine	8 533 747
<i>Social housing</i>	
Second experimental programme	85 311
Total social housing	85 311
<i>Making available of research findings</i>	
Steel	489 792
Coal	181 036
Total, making available of research findings	670 828
Sum total	50 080 281

42.32 Under research agreements and advance of 30 % is usually paid at the time of signature, and consecutive payments are made on submission of six-monthly financial reports. These payments are made into a special interest-bearing bank account, and this interest is calculated on completion of the project.

The more behind-hand the work becomes, the higher the interest, because the beneficiary is not drawing the corresponding funds. The 1975 report (No 42.51) mentions sizeable credit interest on an interim fixed deposit at 6 %. The same case arose for the same beneficiary, over a contract completed in 1976. The initial advance of DM 1 900 000 fixed under the contract was placed on deposit and yielded interest of DM 157 880.

Although in this case the Community suffered no loss, since the interest was finally credited to it, we think that if research work is proceeding normally the charging of interest should be a marginal concern, applied for a short period and on small sums. If research work falls seriously

behind, for technical reasons, the Institution should take suitable measures in agreement with the beneficiary to ensure that large amounts of capital are not left unused for the project.

42.33 The Institution is experiencing difficulties in determining the interest on the bank account opened with a Member State's issuing bank and into which all assistance payments received by one nationalized enterprise are paid. The funds are paid into an account and have not yet yielded any interest. Negotiations are under way to settle this question.

43 In the steel sector, 59 new contracts and 25 riders were signed in 1976 to a total value of 11 495 175 EUA, plus 873 784 EUA to cover the dissemination of research findings and related costs.

43.1 There are still extremely long intervals (15 days to 11 months) between the date of the decision and the signing of the contract. In most cases, moreover, these contracts are signed between one and 12 months after the proposed starting date for the work. As in 1975, this situation creates frequent anomalies, whereby the contract may even specify a starting date for the work which precedes by several months not only the signing of the contract, but even the decision to authorize conclusion of the contract.

43.2 Examination of the contracts signed in 1976 reveals a number of features which indicate how the relevant administrative structures have developed recently.

43.21 Between the beneficiary's application and the signing of the rider there is still a fairly long interval (1 to 22 months). In the case of one rider designed to extend the research period, the beneficiary's application was not followed by the signing of a new contract until two months after the scheduled completion date of the work.

43.22 A number of contracts are for research work which is shared among research institutes in different countries. These contain an appendix which sets out exactly the tasks assigned to each of the parties. In these cases, however, each beneficiary should take care to respect absolutely the deadline given him, since if just one of the parties falls behind, this may have unfortunate consequences for the work of the others and thus for the entire project.

43.3 Expenditure for the year (11 601 656 EUA) included 512 604 EUA for related costs.

43.4 We received 26 of the 32 dossiers for which the final payment had been made.

In the iron ore sector, a final inspection was conducted on one project only, and this dossier had not yet been closed by 31 December 1976.

We have the following comments arising out of our examination of the dossiers which are forwarded to us :

43.41 There are still excessive delays in the closing of dossiers. Dossiers for 63 agreements should have been closed by 30 June 1976 at the latest, but for several of them the completion date of the work was considerably earlier than that, viz. one in 1969, one in 1970, one in 1971, five in 1973 and five in 1974.

These delays are sometimes the fault of the beneficiaries and sometimes of the Institution.

43.42 Thus three beneficiaries still have not sent in their final financial reports and 14 have yet to produce their scientific reports. Final on-the-spot checks are still outstanding for 12 agreements, but are planned for early 1977.

43.43 Even though 12 such operations are planned for early 1977, the Institution should nevertheless make additional efforts and give immediate priority to those cases which have been pending longest.

Thus, for one project on breaking mechanics, the final technical report was compiled in January 1975, i.e. immediately after the completion date for the work as scheduled on 31 December 1974, but the on-the-spot check was not carried out until 10 February 1976. The balance due to the beneficiary was not paid until 26 July 1976.

Improvement is also required in connection with final reports. In one case the final report, drawn up eight months after the on-the-spot inspection, stated that the beneficiary had repaid Lit 13 675 218, whereas in fact he had not repaid this sum and was informed by the Institution in a letter of 28 February 1977 that this balance had been transferred to another project under his supervision.

Delays of this kind — and our example is not the only one — end by affecting payment of the balance and are likely to create bad blood between the Institution and beneficiaries of research assistance.

43.44 In one case the final settlement operations were made difficult by the fact that they began after one of the contracting enterprises had been wound up. It was noted in this case that the substantiating documents required by the inspector were hard to obtain.

43.45 Sometimes beneficiaries present substantiating documents from which it is clear that value-added tax has been eluded. This dubious practice has been noted in other auditing work and should not, in our view, be tolerated by the Institution. It should also be borne in mind that this attitude is not reconcilable with the requirements of strict observance of legal provisions which will, in the near future, provide the rules for assessment of a common tax which, up to a variable percentage, will constitute a Community resource.

43.46 A calculator bought in 1972 was deemed to be totally written off on tax of the research project (31 December 1974), i.e. after less than two years in use.

This example — admittedly of small importance — adds weight to the suggestion made in connection with a similar finding in the coal research sector (No 42.31) where the depreciation criteria were determined *a priori* in an agreement.

This procedure should be adopted in cases similar to the above, i.e. cases of current or widely used moveable goods.

43.47 One project on atmospheric corrosion and weathering of steels, a joint project involving four participants, was originally scheduled for completion on 31 August 1972, though this date was regularly postponed on several occasions up to 30 June 1973. For two of the four beneficiaries the accounts were closed in 1974, in 1975 for the third, but the last on-the-spot check did not take place until 11 March 1976!

Staff costs for this same project tripled compared with the original estimates, though this did not affect the sums paid by the Institution since its contribution was for a fixed amount under the contract.

44 In the industrial safety, health and medicine sector, provisions for 1976 totalled 2 361 856 EUA, comprising credits committed under contracts duly signed under various general programmes or as part of special initiatives, which break down as follows:

— safety in mines		(585 635 EUA)
— mine fires		(979 641 u.a.)
— industrial 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.)

— air pollution control in the iron and steel industry		(4 000 000 u.a.)
— health in mines	3rd programme	(6 000 000 u.a.)
— explosion barriers		(432 420 u.a.)
— pollution control in the iron and steel industry	3rd programme	(10 000 000 u.a.)
— ergonomics and rehabilitation		(9 000 000 u.a.)
— rescue by means of boreholes		(218 299 u.a.)

In 1976, 21 contracts and 24 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).

44.1 For most of the 1976 contracts, the starting date of the work preceded the signing of the contract by between one and six months, compared to nine months in 1975).

A large number of riders are in general concerned either with an extension of the research period or with changes in the amount of assistance. Application is sometimes not made until several months after the end of the initial contract. In certain cases of extensions of the research period, the rider is not signed until a year after the beneficiary's application.

44.2 An analysis of the register shows that 84 research projects were due to end not later than 30 June 1976, 36 of them relating to a period prior to 30 June 1975. Of these 84 projects, 63 dossiers were in order in that the financial and scientific reports had been dispatched, and 53 underwent a final or interim on-the-spot check. Inspections are planned for 22 other projects which have so far expired in 1977.

Nineteen dossiers completed in 1976 were sent to us for verification by the Institution.

44.3 Total expenditure for the year (3 545 570 EUA) included 67 416 EUA for related costs (dissemination costs and experts' travel expenses).

44.4 The following remarks derive from the examination of the dossiers of 19 projects which were completed and forwarded (compared with 67 in 1975).

44.41 When closing the file on a project on clinical physiopathology carried out under the programme on chronic respiratory diseases, the beneficiary claimed he had incurred operating expenses of DM 90 717.05. However, since the relevant agreement stated that this expenditure would be calculated as a flat 46.25 % of staff costs, the Institution was obliged to agree to a sum of DM 299 786.73, considerably higher than the assistance applied for. Once again, there is too great a discrepancy vis-à-vis reality which is ignored when the agreement does not take precautionary measures to ensure a minimum of substantiation.

44.42 Under the same agreement DM 234 000 were to be allocated for the renting of equipment and plant. During the final inspection the Institution expressed reservations about these sums, since no substantiation of them was given, and the beneficiary simply said that the allocation was equivalent to a lump sum covering three years' rent. This expenditure was subsequently accepted by the Institution in its entirety. Examination of the dossier shows that the equipment purchased between 1960 and 1971 cost DM 265 528.21. In the absence of any proof that other equipment held by the beneficiary was also rented for the project in question, it appears inappropriate to speak of 'renting' in the case of equipment, some of it very old, whose total value, give or take 13 %, is the same as the rental price.

44.43 There were two cases of projects abandoned as a result of misunderstandings in scientific circles.

One concerned a project on burns. The amount of assistance was fixed by contract in 1969 at FF 95 098. The Institution paid advances of FF 31 000 in 1969 and FF 25 000 in 1970. Just one on-the-spot check was made in March 1971. Only in 1975 did the beneficiary confirm that the work had actually been discontinued at the end of 1971. When the final statement was drawn up, the Institution's contribution was set at FF 42 425.16, i.e. the beneficiary had repaid FF 13 574.84 (in 1976).

Two other projects in the field of chronic respiratory diseases, for which two advance payments of Lit 2 000 000 and Lit 2 350 230 were made in 1972, were never started, and the Institution claimed reimbursement of the sums advanced, though only after an inspection at the end of 1976.

44.44 In 1972 the financial controller expressed objections over five agreements where all the scientific equipment purchased was subsequently left to the beneficiary. Since then the Institution has decided that in the case of projects of a socially beneficial nature, any equipment purchased could be given to universities or institutes doing research relevant to the ECSC's activities. One of these dossiers was closed this year after applying this principle.

44.45 In three dossiers we observed that the Community's assistance covered all the expenditure, whereas it was limited under the contract to covering secretarial costs or other administrative expenses.

45 The ECSC assumes responsibility for the dissemination of information gained in the course of research projects it has helped to finance.

45.1 It pays part of the costs of filing, defending and renewing patents arising out 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 licences against payment.

In 1976 the Institution paid part of the costs, amounting to 47 780 EUA, for filing and renewing 42 patents in the steel sector. It did not collect any royalties during the year, and no payments were made in the coal sector.

45.2 Beneficiaries of Community assistance who take out patents on the findings of joint research projects are under certain obligations with regard to supplying equipment and granting operating licences. The latter are to be applied for directly from the patent holders or via the Institution.

In reply to an enquiry by one enterprise regarding its obligations in this matter, the Institution explained in greater detail the provisions of Annex V to research agreements.

45.21 If 'undertakings concerned' are to include not only those which are engaged in production in the coal or the steel industry under Article 80 of the Treaty but also any parties consulted under Article 46, i.e. undertakings, workers, consumers and dealers and their associations, and any experts, the Institution considers that no sufficiently precise definition of what constitutes an interested party is given in the Treaty for this particular context. This is why the provisions of research agreements state that in the event of disagreement as to whether or not an applicant for a licence is in fact an interested party, the question is to be settled by the Court of Justice of the European Communities.

45.22 In accordance with the terms of research agreements, beneficiaries must grant non-exclusive operating licences to anyone who applies for one, for his own use. The Institution's interpretation of the words 'his own use' depend on whether the result of a research project is a product or process or a machine or apparatus.

It considers that in the case of a product or process, i.e. direct use of the results of the research, all enterprises which have contributed towards the cost of the project via the levy — i.e. all enterprises subject to the levy — are also the direct beneficiaries of this project, either free of charge or against payment.

However, in the case of a machine or apparatus, i.e. indirect use of the results of the research, any interested party may acquire them by purchase, rent or lease provided they are used on his own industrial premises. Industrial manufacture of patented machines or apparatus is always carried out either by the aid beneficiary himself or by one or more manufacturers of his choice based within the territory of the Community and capable of manufacturing these machines and

apparatus under licence. These manufacturers must undertake to supply the machines or apparatus in question to all interested parties, without discrimination.

45.23 Whether a beneficiary has obtained industrial property rights over the results of a research project or whether he has not applied for or obtained these rights, the licences or information to be provided to interested parties applying for them are considered as services of equal value, provided the processes involved are the same. In other words royalties payable by a licence-holder based in one Member State for the use of a process patented in that country must be the same as those paid by a licence-holder based in another Member State for the use of that same process which is not patented in his country.

45.24 The Institution considers that in principle industrial property rights should be obtained in all countries of the Community, a step which will be made easier by the European Patent Convention.

If the aid beneficiary does not wish to, or cannot, declare industrial property rights in all the Community countries, he must resort to publication in those countries for the purpose of destroying the novelty of the process.

45.3 The present system of disseminating information, which we described in an earlier report (1974 Auditor's Report, No 45), continues to operate satisfactorily as regards publication of research topics, summaries of work done and the results obtained.

The department in charge of this pursues a policy which aims to use the most economical methods (microfiches, publications already issued by the research workers) and a system which ensures sufficiently rapid dissemination. Clearly it must cooperate with the technical experts in the various sectors, and we hope that this cooperation will remain (or become) total.

New efforts are necessary, however, to improve the current form of the synopsis of coal research activities which is published every year. This document provides an overall view of policy in this sector and a reflection of good management of that policy, and it also constitutes an essential working aid for the Community and for the sectors concerned.

46 In addition to the remarks made on each of the above research sectors individually, the following remarks apply to all of them together and have to do essentially with the organizing of good administrative supervision methods which the independent Auditor can then use as a basis.

46.1 Generally speaking, and for the three sectors, the number of current dossiers has continued to increase, a reflection *inter alia* of the Institution's desire to spread its assistance over a larger number of research workers and centres.

Nevertheless, and despite the efforts made — though made less systematically — the delays which occur are not always made up, and it is regrettable that excessive time lags are still observed, notably in the final settlement of dossiers and the decisions taken on them.

In a situation as complex as this one, it would be reasonable to expect that the means used or to be used should be applied in the best possible conditions. We note, however, that there are still several serious shortcomings.

46.11 Thus the register, an instrument of supervision and coordination between administrative departments, is still not kept fully up to date, except for its financial part as such. The reason given is that it is hard to organize the regular forwarding between departments of several hundred communications a year.

Not only is it clear that the centralizing of this information would be of value to the Institution itself : if those responsible for financial and technical matters were all able to draw on comprehen-

sive information, it would be possible to avoid the errors and omissions found in the various successive stages of the research procedure (riders, receipt of financial and technical reports, planning and organization of on-the-spot inspections, etc).

46.12 As regards coordination the 'internal rules on the drawing up and implementation of the operational budget of the ECSC' are extremely valuable in that the reader can identify in detail the different responsibilities of the 'technical administrator' and the 'financial administrator'. Despite this, however, true *de facto* coordination does not yet exist and it is thus difficult to know who is responsible for what.

We would also mention a few points noted when we took part in inspections of firms or institutes involving a longish journey. In most cases the competent representative had not even been informed that the inspectors were coming: the Institution had written to the authorities in charge but had decided on the date of the visit before their answer had been received. It seems to us that there is no explanation for this if the people in charge of research projects are really in close contact with the Commission's officials. This manner of proceeding means that inspection visits are made longer (it was even necessary to go back to one university), and the work research is also delayed, since documents are not always immediately available or are commented on by persons replacing the research worker in charge, who is absent.

The unexplained delay in compiling inspection reports leads to time lags, sometimes considerable in length, in payments both to the beneficiary and to the Community. In the former case, as we noted on the spot, the grievances voiced are fully justified, and in the latter case the Community is deprived of funds which are nevertheless available.

46.2 The quality of the work done should also be examined from the same aspects.

First of all we would repeat that the dossiers forwarded to us should contain a short explanation — for the benefit of the independent Auditor — of the main differences between estimates and actual figures. We consider that this should form an integral part of the final statement.

The final operations before closing a dossier should not be simply a checking of the financial reports against the substantiating vouchers produced by the beneficiary. An important role should be played by the technical administrator, who is supposed to monitor the progress of a research project via *ad hoc* meetings and to ensure that expenses are correctly charged to the operating accounts for the project. It is thus important that the Community delegation responsible for supervision is carefully chosen; it should not include any members who are not selected purely for their merits.

Similarly, the fact that certain categories of expenditure under contracts are determined on a lump-sum basis does not mean that the Institution does not need to check that they have in fact been incurred.

46.3 The well advised reform carried out as regards contracts limits considerably the work involved in drawing them up: most of the appendices are couched in standard terms and the special terms peculiar to each agreement can thus be concentrated in an annex and in the — very brief — body of the contract itself. Inter-departmental consultations should be reduced as much as possible as a result, and in the case both of riders and contracts it should be ensured that the legal instruments in question do actually bind the enterprise and the conduct of the research work. It is not surprising, here, that the Legal Service has protested on several occasions against the 'legal vacuum' caused by the fact that some instruments are backdated, sometimes totally.

46.4 Purely on the practical level, we should like to see a number of measures introduced in addition to the official instruments.

When the agreement is concluded with an enterprise with a complex hierarchical structure or with an institute of the university type, care should be taken to ascertain which service or preferably which individual will be responsible for keeping the accounts systematically and for supervising the research work.

The Community for its part could compile a very brief manual for the use of research workers, summarizing their obligations towards the Institution under the terms of the contract they have signed.

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 these assistance payments when these are disbursed, under Article 56, to beneficiaries of loans granted by non-Community bodies.
- 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 falls due.

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

48 Remarks

The amount of the interest reduction granted under Articles 54 and 56 of the Treaty is entered in the balance sheet provision at the time when entitlement to it becomes effective, i.e. when the loan agreement carrying the interest reduction is signed or, in the case of a loan granted by a non-Community body, when the Institution decides to grant an interest reduction. This practice is the same as that observed for assistance to research and rehabilitation, where the appropriate amounts are put to provision when the two parties have signed and the contract and acceptance thereof have thus acquired legal force.

48.1 The *provision for interest reductions on loans for industrial structural reorganization* (Article 56) totalled 9 046 757 EUA at 31 December 1976. New commitments approved during the year totalled 4 227 949 EUA for 16 signed loan agreements to a total value of 28 671 270 EUA. Sums disbursed totalled 4 286 502 EUA.

Up to 30 June 1976 the assistance took the form of a three-point reduction in the interest rates set in the contracts. As from 1 July 1976, beneficiaries pay the full nominal interest rate, and the Institution refunds the amount of the interest reduction to the beneficiary.

It should also be noted that four loans totalling 20 920 945 EUA were granted by non-Community bodies for the same purpose of industrial structural reorganization as that provided for in Article 56. In accordance with its constant practice in this matter, the Institution paid out the interest reduction for 1976 (656 412 EUA) directly to the beneficiary enterprises.

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 9 254 036 EUA at 31 December 1976. New commitments for the year totalled

1 783 114 EUA and concerned 11 loans for which agreements were signed. Total disbursements were 3 743 852 EUA and all related to loans granted directly by the ECSC.

48.3 The amounts shown in these provisions — 1 068 204 EUA down on those for 1975 — represent binding commitments but no longer comprise exclusively the part of levy income for the year which is earmarked for this type of financial assistance. As in the past, 'future commitments' include a sum 13 209 515 EUA, for which loan decisions had been taken but the loan agreements not yet signed at 31 December 1976.

48.4 The movements which resulted in the total amount of future commitments at 31 December 1976, viz. 13 209 515 EUA in the case of interest reductions, break down as follows:

Future commitments	Article 54	Article 56	Total
Position at 31. 12. 1975 in EUA at rate obtaining on 31. 12. 1976	4 378 934	7 250 194	11 629 128
Withdrawals corresponding to loan agreements signed in 1976	— 492 673	— 2 699 666	— 3 192 339
Unused provisions	— 1 773 651	— 2 929 533	— 4 703 184
Provision remaining 1975	2 112 610	1 620 995	3 733 605
Provision constituted 1976	1 117 000	8 358 910	9 475 910
Total allocations at 31. 12. 1976	3 229 610	9 979 905	13 209 515

48.5 Contrary to its practice in previous years (1975 Auditor's Report, No 48.4) the Institution no longer automatically enters residual sums from its 'operational budget' under 'future commitments'. Now that the internal rules on the drawing up and implementation of the ECSC's operational budget are applied, the portion of this item which concerns interest reductions only reflects decisions by the Institution which have not yet been followed by the final act of legal commitment, in this case signature of the loan agreement for which an interest reduction is to be granted.

Assistance to coking coal and coke

49 Extent of our audit

Our audit of this sector for the financial year 1976 was concerned with checking the contributions paid by the ECSC, the iron and steel industry and the Member States under the second system instituted by decision No 73/287/ECSC, which came into force on 1 January 1973 and is to continue until 31 December 1978. This decision, however, was amended by that of 1 December 1976 (No 2963/76/ECSC) (1) which is effective retroactively from 1 January 1976 and which replaces the maximum assistance amounts and the other rates and amounts previously expressed in u.a. by EUA equivalents arrived at by the flat-rate addition of 5.5 % to all sums shown in the initial decision.

Broadly speaking, and in so far as all the documents were readily available, the following aspects were checked :

- the accounting entries for 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 calculate this sales assistance ;
- that the declarations made by coke suppliers were consistent with those made by consumers.

These checks were carried out chiefly by examining documents from the Directorate-General for Energy, which administers the assistance machinery for the Institution, from the Directorate-General for Budgets with regard to contributions paid by the ECSC and from the Directorate-General for Credit and Investments with regard to payments by Member States and enterprises.

50 Remarks

50.1 Current financial operations are limited, as of this year, to the second system (decision No 73/287/ECSC). They began on 1 January 1974 and will end on completion of the last settlement, which will be after, but close to 31 December 1978, when the system itself comes to an end.

50.11 The following table sets out the amounts of ECSC assistance for 1973 and 1974, in final figures. For 1974, however, settlements between the countries and the special fund have not always been completed.

(1) OJ L 338 of 7. 12. 1976.

Countries	Tonnage declared	Tonnage eligible for assistance	Maximum tonnage eligible for assistance	ECSC contribution	
				u.a. (reference period)	u.a. (at time of payment)
<i>1973</i>					
Germany	18 201 149	16 889 519	14 796 692	3 935 920	4 474 053-43
Belgium	227 138	—	—	—	—
France	304 091	232 064	203 308	54 080	61 473-84
Community	18 732 378	17 121 583	15 000 000	3 990 000	4 535 527-27
<i>1974</i>					
Germany	19 898 970	18 289 285	14 797 770	4 927 657	4 927 657
France	315 605	249 946	202 230	67 343	67 343
Belgium	231 248	—	—	—	—
Community	20 445 823	18 539 231	15 000 000	4 995 000	4 995 000

50.12 In this table, the column for the ECSC contribution comprises two sets of figures. The first, calculated on the basis of the exchange rates for the unit of account at the time to which the operations relate, is the one used and recorded in the accounts by the Institution. The second set of figures, in accordance with Article 6 of decision No 3542/73/ECSC, is based on the exchange rates for the unit of account applying at the time when payment was made.

The difference observed for 1973 arises from the fact that in 1973, the reference year for the operations, the unit of account was worth DM 3.66, whereas in 1974 and 1975, the years during which the payments were made, the unit of account was worth DM 3.21978. There is no comparable difference in respect of the operations concerned in the 1974 statement, as these were carried out as before exclusively in currencies whose conversion rate showed no change.

In 1976 Italy paid its contribution for 1973 and thus still owes its contributions for the years after that.

50.13 The two disbursements for 1975 made in 1976 underwent a twofold conversion when they were entered in the accounts. First, the amount of assistance, expressed in u.a., had to be converted into DM, the currency in which it was paid out, and second, it had to be converted into EUA, the unit used in the accounts.

These conversions give the following picture :

Amount of assistance in u.a.	Rate of u.a. against the DM for the reference period	Amount of assistance in DM	Rate of EUA against the DM on the date of payment	Amount entered in the accounts (EUA)
2 888 400	3-21979	DM 9 300 041-44	2-81642	3 302 079-04 EUA
3 031 600	3-21979	DM 9 761 155-36	2-83471	3 443 426-44 EUA
5 920 000				6 745 505-48 EUA

For 1976 the rates are expressed in EUA and the assistance amounts are thus obtained directly, without conversion. Consequently, the table shown in 50.11 above is as follows for the years 1975 and 1976. The tonnages declared below should, however, be taken as provisional.

Countries	Tonnage declared	Tonnage eligible for assistance	Maximum tonnage eligible for assistance	ECSC contribution	
				reference period	at time of payment
<i>1975</i>				u.a.	EUA
Germany	16 468 857	14 632 458	14 632 458	5 920 000	6 745 505
Belgium	221 909	—	—	—	—
France	132 000	102 095	102 095	—	—
Community	16 822 766	14 734 553	14 734 553	5 920 000	6 745 505
<i>1976 (first half)</i>				EUA	EUA
Germany	6 200 000	6 200 000	6 200 000	2 480 000	2 480 000
France	4 000	4 000	4 000	—	—
Community	6 204 000	6 204 000	6 204 000	2 480 000	2 480 000

Administrative expenditure

51 Extent of our audit

Administrative expenditure totalled 15 639 210 EUA. This was the ECSC's annual contribution to the administrative operating costs of the Commission of the European Communities under Article 20 (2) of the Treaty merging the Executives. As an integral part of the budget of the 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 ECSC's contribution to the general budget of the European Communities, fixed under the Treaty of Merger at 18 million u.a., continues to be paid in currency on the basis of the parities of the various currencies as declared to the IMF.

Under the terms of the Treaty the ECSC must pay this contribution exclusively out of its levy income. This income is still received in currency since, although the amount which enterprises owe is compulsorily fixed in EUA, the Institution notifies them of it in the currency equivalent. The product of the levy is also placed among the overall liquid assets which are all held in currency.

Our repeated suggestion that the percentage of each currency making up the contribution payment should reflect as closely as possible the respective proportions of those currencies received as levy income is designed to 'neutralize' the transfer operation, so that there is no benefit or disadvantage to the ECSC or to the general budget.

The Institution applied this method in 1975, and an excess payment had to be corrected in 1976.

52.2 As is clear from the table below, however, the ECSC contribution in 1976 was paid from four currencies only.

Amounts paid in individual currencies	Equivalent in u.a. (general budget)	%	Equivalent entered in ECSC accounts in EUA
FB	—		
DKr	—		
DM	8 699 900	13-20	3 200 840-35
FF	29 159 497-50	29-17	5 469 850-30
£ Irl	—		
Lit	3 229 986 337	28-71	3 383 501-96
Flux	—		
Fl	—		
£	2 168 750	28-92	3 585 017-70
	18 000 000—	100—	15 639 210-31

As long as levy income is collected and held in currency, the Institution should keep to the method we suggest, which would have shown the following result.

Country	Levy receipts by country in 1975		Proportion in u.a. budget	Payable in currency		in EUA, parities at 31. 12. 1976
	Amounts	%				
Belgium	5 608 300	8.-	1 440 000	FB	72 000 000	1 770 782
Denmark	247 400	0.3	54 000	Dkr	405 000	61 930
Germany	23 913 230	34.1	6 138 000	DM	22 465 080	8 415 842
France	11 168 671	15.9	2 862 000	FF	15 896 092	2 830 017
Ireland	35 964	—	—	£Irl	—	—
Italy	10 162 890	14.5	2 610 000	Lit	1 631 250 000	1 648 905
Luxembourg	2 009 691	2.9	522 000	Flux	26 100 000	641 909
Netherlands	2 371 192	3.4	612 000	Fl	2 215 440	797 337
United Kingdom	14 681 616	20.9	3 762 000	£	1 567 500	2 365 516
Community total	70 198 954	100	18 000 000	—	—	18 532 238

The excess payment previously made must, of course, be recovered irrespective of the method applied.

52.3 The internal rules on the drawing up and implementation of the ECSC's operational budget, which have been in force since 2 August 1976, have not yet been applied to payment of this year's contribution. These rules stipulate that the sums payable in each national currency for each u.a. budget must be proportional to the amounts of the national currencies which make up the EUA. This breakdown of the 18 million u.a. into national currencies must remain valid until such time as the EUA is adopted for the general budget. Given that the EUA is of fixed composition and that the conversion rate of the u.a. against the national currencies is fixed, the equivalent of this contribution would remain invariable, at 17 608 480 EUA. But this practice is not neutral and will not in our view be acceptable until all operations involving the levy are expressed in EUA.

52.4 The practice we have hitherto condemned, whereby administrative expenditure items were improperly charged to recoverable financial costs relating to the ECSC's borrowing and lending operations, has to all practical intents and purposes been abandoned since the middle of the year. The only expenditure of this kind, viz. DM 1 508.30 and Lit 473 300, was entered in the accounts at the beginning of 1976.

Borrowing, lending and guarantee operations

53 Scope 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 :

- the Institution's decisions to grant loans ;
- 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 the 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 in respect of remuneration of agent banks in the various countries for their assistance and operations connected with the 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 19 shows, in currency and EUA, the main characteristics of each loan contracted by the ECSC from its inception to 31 December 1976, with the initial amounts borrowed and the balance outstanding at the end of the 1976 financial year.

The ECSC has contracted 154 loans on the international market and various national markets since its inception, to a value of 4 069.1 million EUA. Less repayments, this sum was 3 475 million EUA at 31 December 1976.

54.11 ECSC borrowing activities increased even further in 1976. 29 loans were floated (against 22 in 1975), 10 on the open market in the USA, Germany, the Netherlands, Grand Duchy of Luxembourg, France, Canada, Switzerland and on the international market, plus 19 private loans floated in Germany, Switzerland, the USA and the Netherlands. The total amounted to more than 956.2 million EUA, mostly in US \$ (516 million), DM (140.5 million), Sfr (112.2 million), FF (80.1 million), FL (46.4 million), Canadian \$ (43.8 million) and Lfr (17.2 million).

These loans carried various interest rates between 6 % and 10.5 %, the highest rates applying to two operations in FF (10.25 % and 10.5 %) and two in Lfr (9.5 %).

Our analysis and the characteristics of loans floated are shown in Tables 7 and 19 of this report.

54.12 The product of these loans (956.2 million EUA) was received in full in 1976, plus a sum of 74.3 million EUA collected from two loans floated at the end of 1975.

Taking into account borrowed funds not yet relaned on 1 January 1976, namely 142.2 million EUA, the Institution had available to it in the course of the year borrowed funds to a total of 1 172.7 million EUA.

54.13 The Institution keeps a loan service account which records interest payable, interest due, issuing costs throughout the term of the loan and management and collection costs. Until 1973 the balance was always positive and was entered on the balance sheet as an unallocated reserve. In 1974, since eight loans had been granted at rates of interest lower than those of the loans raised to cover them, the Institution had made provision for the anticipated deficit on these loans in the form of a reserve for *compensation of borrowing costs*. Loans floated in 1975 and 1976, however, were invested at rates which, with two exceptions, were covered by the corresponding loans granted. Given this fact, and in the light of estimates for the loan total overall, this reserve was not maintained in the balance sheet.

Since the beginning of the 1976 financial year the Institution has kept a record for each individual borrowing, which shows throughout the term of the loan the recoverable issuing costs to be written off, interest plus management and collection fees payable and receipts on the corresponding loans, in such a way that the net financial result can be picked out year by year.

54.2 *Loans*

54.20 A — Loans granted out of borrowed funds.

Compared with the previous year, loans granted out of borrowed funds totalled nearly 1 050 000 000 EUA, reflecting a clear increase in operations in this field.

Table 1, showing the use made of loans granted out of borrowed funds, reveals that the greater part of the 1 049 594 667 EUA disbursed in 1976 was accounted for by loans to finance industrial investments under Article 54 of the ECSC Treaty (93.6 % of the total amount), followed by loans for industrial structural reorganization (6 %) and for social housing (0.4 %).

TABLE 19

ECSC borrowings

Characteristics, initial amounts and balances outstanding for each borrowing at 31. 12. 1976

Floated, maturing in	Initial amount currencies	Description of loan	Balances outstanding at 31. 12. 1976 currencies	Balances outstanding at 31. 12. 1976 (EUA)
	in \$		in \$	
1954/1979 (1)	100 000 000	3.875 % private loan	19 100 000	16 902 804
1957/1975 (1)	25 000 000	5.5 % debenture loan	—	—
1957/1962 (1)	10 000 000	5 % bearer bonds and private loan	—	—
1958/1978 (1)	35 000 000	5. % debenture loan	5 100 000	4 513 314
1958/1963 (1)	15 000 000	4.5 % bearer bonds	—	—
1960/1980 (1)	25 000 000	5.375 % debenture loan	6 850 000	6 062 001
1960/1965 (1)	10 000 000	4.75 % to 5 % bearer bonds	—	—
1962/1982	25 000 000	5.25 % debenture loan	10 150 000	8 982 380
1964/1984	30 000 000	5.25 % debenture loan	16 000 000	14 159 417
1966/1986	15 000 000	6.5 % debenture loan	10 000 000	8 849 636
1966/1986	20 000 000	6.5 % debenture loan	13 250 000	11 725 767
1967/1987	25 000 000	6.5 % debenture loan	18 200 000	16 106 337
1967/1987	20 000 000	6.625 % debenture loan	14 600 000	12 920 468
1971/1986	20 000 000	7.75 % debenture loan	20 000 000	17 699 272
1973/1988	30 000 000	7 % private loan	30 000 000	26 548 908
1974/1989	50 000 000	7.75 % private loan	50 000 000	44 248 179
1974/1979	20 000 000	8.25 % private loan	20 000 000	17 699 272
1974/1982	100 000 000	9.25 % private loan	100 000 000	88 496 358
1974/1984	100 000 000	9.5 % private loan	100 000 000	88 496 358
1974/1984	200 000 000	10 % private loan	200 000 000	176 992 717
1974/1979	100 000 000	8.75 % debenture loan	100 000 000	88 496 358
1975/1983	150 000 000	8.375 % debenture loan	150 000 000	132 744 538
1975/1982	50 000 000	8.75 % debenture loan	48 000 000	42 478 252
1975/1980	30 000 000	9.25 % debenture loan	30 000 000	26 548 908
1975/1982	25 000 000	9.25 % private loan	25 000 000	22 124 090
1975/1980	125 000 000	8.875 % debenture loan	125 000 000	110 620 448
1976/1986	125 000 000	8.75 % and 9.25 % debenture loan	125 000 000	110 620 448
1976/1983	50 000 000	7 % debenture loan	50 000 000	44 248 179
1976/1996	175 000 000	8.625 % and 9 % debenture loan	175 000 000	154 868 627
1976/1986	23 000 000	8.5 % private loan	23 000 000	20 354 162
1976/1981	30 000 000	7.875 % debenture loan	30 000 000	26 548 908
1976/1996	150 000 000	8.125 % and 8.875 % debenture loan	150 000 000	132 744 538
1976/1983	30 000 000	8 % debenture loan	30 000 000	26 548 908
	1 938 000 000		1 694 250 000	1 499 349 552
	in Fl		in Fl	
1961/1981 (1)	50 000 000	4.5 % debenture loan	16 500 000	5 938 349
1961/1966	10 000 000	4.5 % private loan	—	—
1962/1987	6 000 000	4.75 % private loan	2 640 000	950 136
1962/1982	25 000 000	4.75 % private loan	10 150 000	3 652 985
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	996 000	358 460
1964/1984	25 000 000	5.75 % debenture loan	13 450 000	4 840 654
1965/1985	40 000 000	5.75 % debenture loan	24 100 000	8 673 589
1967/1972	20 000 000	6.375 % private loan	—	—
1975/1990	60 000 000	8.5 % debenture loan	56 000 000	20 154 397
1975/1985	20 000 000	8.625 % private loan	18 000 000	6 478 199
1976/1983	60 000 000	8 % debenture loan	60 000 000	21 593 997
1976/2001	25 000 000	8.75 % private loan	25 000 000	8 997 499
1976/2001	30 000 000	8.625 % private loan	30 000 000	10 796 998
1976/1996	14 000 000	8.75 % private loan	14 000 000	5 038 599
	416 750 000		270 836 000	97 473 862

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

TABLE 19 (contd.)

Floated, maturing in	Initial amount currencies	Description of loan	Balances outstanding at 31 12 1976 currencies	Balances outstanding at 31 12 1976 (EUA)
	in DM		in DM	
1956/1981 ⁽¹⁾	50 000 000	3.75 % private loan	9 684 300	3 627 921
1957/1977 ⁽¹⁾	2 977 450	4.25 % private loan	205 444	76 963
1964/1976	100 000 000	5.75 % private loan	—	—
1964/1979	100 000 000	5.5 % debenture loan	25 300 000	9 477 856
1964/1976	30 000 000	5.75 % private loan	—	—
1965/1983	150 000 000	5.5 % debenture loan	80 500 000	30 156 815
1965/1970	23 000 000	5.5 % private loan	—	—
1967/1972	120 000 000	6.75 % private loan	—	—
1968/1978	120 000 000	6.5, 6.75 and 6.875 % private loan	30 000 000	11 238 565
1968/1981	60 000 000	6.25 % private loan	30 000 000	11 238 565
1969/1984	40 000 000	6.25 % private loan	32 000 000	11 987 802
1969/1982	50 000 000	6.5 % private loan	30 000 000	11 238 565
1969/1984	50 000 000	6.75 % private loan	40 000 000	14 984 753
1971/1986	100 000 000	7.5 % debenture loan	100 000 000	37 461 883
1972/1987	100 000 000	6.5 % debenture loan	100 000 000	37 461 883
1972/1988	150 000 000	7 % debenture loan	150 000 000	56 192 824
1973/1988	150 000 000	6.5 % debenture loan	150 000 000	56 192 824
1973/1988	100 000 000	7.75 % debenture loan	100 000 000	37 461 883
1974/1979	20 000 000	10 % private loan	20 000 000	7 492 376
1974/1979	30 000 000	10 % private loan	30 000 000	11 238 565
1974/1981	50 000 000	10 % private loan	50 000 000	18 730 941
1974/1981	150 000 000	9.75 % debenture loan	150 000 000	56 192 824
1975/1985	56 000 000	8.5 % private loan	56 000 000	20 978 654
1975/1982	20 000 000	8.5 % private loan	20 000 000	7 492 377
1975/1985	150 000 000	8.5 % debenture loan	150 000 000	56 192 824
1975/1980	16 000 000	8.5 % private loan	16 000 000	5 993 901
1975/1980	60 000 000	8 % private loan	60 000 000	22 477 129
1975/1982	150 000 000	8 % debenture loan	150 000 000	56 192 824
1976/1986	80 000 000	7.75 % private loan	80 000 000	29 969 506
1976/1986	45 000 000	8.625 % private loan	45 000 000	16 857 847
1976/1981	50 000 000	8 % private loan	50 000 000	18 730 941
1976/1986	200 000 000	7.75 % debenture loan	200 000 000	74 923 765
	2 482 977 450		1 954 689 744	732 263 576
	in Lit		in Lit	
1963/1983	15 000 000 000	5.5 % debenture loan	7 000 000 000	7 075 760
1966/1986	15 000 000 000	6 % debenture loan	10 000 000 000	10 108 229
1966/1986	15 000 000 000	6 % private loan	10 000 000 000	10 108 229
1968/1988	15 000 000 000	6 % debenture loan	12 000 000 000	12 129 874
1968/1988	15 000 000 000	6 % debenture loan	12 000 000 000	12 129 874
1972/1987	20 000 000 000	7 % debenture loan	20 000 000 000	20 216 458
1972/1987	20 000 000 000	7 % private loan	20 000 000 000	20 216 458
1974/1989	10 000 000 000	7 % private loan	10 000 000 000	10 108 229
1975/1985	30 000 000 000	10 % private loan	30 000 000 000	30 324 686
	155 000 000 000		131 000 000 000	132 417 797
	in FF		in FF	
1964/1984	150 000 000	5 % debenture loan	75 000 000	13 352 418
1971/1989	150 000 000	8.5 % debenture loan	150 000 000	26 704 837
1972/1987	150 000 000	7.25 % debenture loan	150 000 000	26 704 837
1973/1988	60 000 000	7.5 % private loan	60 000 000	10 681 935
1973/1980	50 000 000	7 % debenture loan	50 000 000	8 901 612
1973/1991	150 000 000	7.5 % debenture loan	150 000 000	26 704 837
1975/1982	125 000 000	10 % debenture loan	125 000 000	22 254 031
1976/1981	40 000 000	10.25 % private loan	40 000 000	7 121 290
1976/1981	60 000 000	10 % private loan	60 000 000	10 681 935
1976/1983	50 000 000	10 % debenture loan	50 000 000	8 901 612
1976/1994	250 000 000	10.2 % debenture loan	250 000 000	44 508 061
1976/1983	50 000 000	10.5 % private loan	50 000 000	8 901 612
	1 285 000 000		1 210 000 000	215 419 017

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

TABLE 19 (contd.)

Floated, maturing in	Initial amount currencies	Description of loan	Balances outstanding at 31. 12. 1976 currencies	Balances outstanding at 31. 12. 1976 (EUA)
	in FS		in FS	
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	19 500 000	7 058 568
1969/1987	60 000 000	5.5 % debenture loan	51 000 000	18 460 870
1972/1984	50 000 000	7.25 % private loan	50 000 000	18 098 892
1973/1988	80 000 000	6.25 % debenture loan	80 000 000	28 958 228
1973/1978	65 000 000	6.75 % private loan	65 000 000	23 528 560
1973/1980	75 000 000	7 % private loan	75 000 000	27 148 339
1973/1978	50 000 000	7.25 % private loan	50 000 000	18 098 892
1974/1979	20 000 000	9.25 % private loan	20 000 000	7 239 557
1975/1982	100 000 000	8 % private loan	100 000 000	36 197 785
1975/1990	80 000 000	7.75 % debenture loan	80 000 000	28 958 228
1975/1983	50 000 000	8 % private loan	50 000 000	18 098 892
1975/1983	100 000 000	8 % private loan	100 000 000	36 197 785
1975/1982	50 000 000	7.75 % debenture loan	50 000 000	18 098 892
1976/1982	100 000 000	7.25 % debenture loan	100 000 000	36 197 785
1976/1983	60 000 000	6.25 and 6.5 % private loan	60 000 000	21 718 671
1976/1982	20 000 000	6 % debenture loan	20 000 000	7 239 557
1976/1983	25 000 000	6 % debenture loan	25 000 000	9 049 446
1976/1984	25 000 000	5.875 % debenture loan	25 000 000	9 049 446
1976/1991	80 000 000	5.75 % debenture loan	80 000 000	28 958 228
	1 211 290 000		1 100 500 000	398 356 621
	in Flux		in Flux	
1957/1982 ⁽¹⁾	5 000 000	3.5 % private loan	—	—
1957/1982 ⁽¹⁾	100 000 000	5.375 % private loan	40 419 424	994 083
1961/1986 ⁽¹⁾	100 000 000	5.25 % private loan	60 818 219	1 495 775
1961/1986	100 000 000	5 % private loan	60 226 510	1 481 222
1962/1977	300 000 000	4.75 % debenture loan	30 000 000	737 826
1962/1987	250 000 000	5.125 % private loan	162 683 941	4 001 081
1964/1984	150 000 000	5.375 % private loan	80 000 000	1 967 536
1971/1979	150 000 000	6.5 % debenture loan	113 000 000	2 779 144
1971/1986	250 000 000	7 % debenture loan	250 000 000	6 148 549
1971/1983	300 000 000	7.75 % private loan	300 000 000	7 378 259
1972/1984	300 000 000	6.75 % private loan	267 000 000	6 366 650
1972/1987	400 000 000	6.75 % debenture loan	400 000 000	9 837 678
1973 1988	300 000 000	6.75 % private loan	300 000 000	7 378 259
1973/1985	800 000 000	7 % private loan	800 000 000	19 675 357
1973/1988	800 000 000	7 % private loan	800 000 000	19 675 357
1973/1985	300 000 000	8 % private loan	300 000 000	7 378 259
1973/1985	200 000 000	8 % private loan	200 000 000	4 918 839
1973/1988	500 000 000	7.25 % debenture loan	500 000 000	12 297 098
1973/1981	250 000 000	7.5 % private loan	200 000 000	4 918 839
1974/1981	400 000 000	10 % debenture loan	400 000 000	9 837 678
1975/1985	500 000 000	9 % debenture loan	500 000 000	12 297 098
1975/1984	100 000 000	9 % private loan	100 000 000	2 459 419
1976/1984	500 000 000	9.5 % debenture loan	500 000 000	12 297 098
1976/1982	200 000 000	9.5 % private loan	200 000 000	4 918 839
	7 255 000 000		6 564 148 094	161 439 943
	in UA		in UA	
1966/1986	20 000 000	5.75 % debenture loan	13 500 000	19 957 778

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

TABLE 19 (contd.)

Floated, maturing in	Initial amount currencies	Description of loan	Balances outstanding at 31. 12. 1976 currencies	Balances outstanding at 31. 12. 1976 (EUA)
	in FB		in FB	
1957/1982 (1)	200 000 000	3.5 % private loan	66 000 000	1 623 217
1957/1982 (1)	20 000 000	3.5 % private loan	6 600 000	162 322
1962/1982	300 000 000	5.25 % private loan	126 000 000	3 098 869
1963/1983	300 000 000	5.5 % private loan	147 000 000	3 615 347
1968/1983	750 000 000	6.75 % debenture loan	570 000 000	14 018 691
1970/1990	500 000 000	8.75 % private loan	466 700 000	11 478 111
1971/1986	700 000 000	7.75 % debenture loan	700 000 000	17 215 937
1973/1985	1 000 000 000	7.75 % debenture loan	1 000 000 000	24 594 196
1975/1985	1 500 000 000	8.25 % debenture loan	1 500 000 000	36 891 293
	5 270 000 000		4 582 300 000	112 697 983
	in £		in £	
1970/1990	50 000 000	8 % debenture loan	45 000 000	61 699 703
	in \$ Can		in \$ Can	
1976/1983	50 000 000	9 % debenture loan	50 000 000	43 777 854
			Total	3 474 853 686

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

54.20.1 The following comments are prompted by an analysis based on the Institution's decisions to grant loans during the year, bearing in mind that there is inevitably an interval of time between the decision to grant a loan and the subsequent disbursements.

54.20.11 New decisions to grant *industrial loans under Article 54* of the Treaty were taken in 38 cases involving investments of some 2 525.49 million EUA. Loans granted by the ECSC were 875.97 million EUA, and on average the Community contribution accounted for 34.69 % of the total cost.

54.20.111 The following table gives a breakdown of loans approved in 1976 by sector of activity, which are either for investment programmes for the production of coal or steel (Article 54, Paragraph 1), or works and installations which contribute directly and primarily to increasing the production, reduction costs or facilitating the marketing of those products (Article 54, Paragraph 2). The table also shows the total amount of loans carrying interest reductions.

Sector	Article 54, Paragraph 1 with no reduction (million EUA)	Article 54, Paragraph 1 with reduction (million EUA)	Article 54, Paragraph 2 with no reduction (million EUA)	Article 54, Paragraph 2 with reduction (million EUA)	Total by sector (million EUA)
Coal	566.—	30.98	42.26	11.23	650.47
Steel	160.24	14.83	21.67	28.76	225.50

In descending order there were :

- 15 loans to a value of between 0 and 10 million EUA
- 11 loans to a value of between 10 and 20 million EUA
- 7 loans to a value of between 20 and 40 million EUA
- 5 loans to a value of more than 40 million EUA.

The largest loan was 226.36 million EUA. This will enable a steelmaking complex to modernize and rationalize its pig production facilities and improve its melting shops and rolling mills.

54.20.112 The policy followed by the Institution when it grants loans must, of course, be based on the General Objectives defined periodically by the Community under Article 46, Paragraph 3 of the Treaty.

The General Objectives for Steel 1980 to 1985, published on 4 October 1976, (1) do not indicate when the text was compiled, but consultations with the relevant departments inform us that it was drafted in 1974-1975.

Given the speed with which economic trends change, especially in the iron and steel industry, we find that the Commission departments are obliged to match the criteria for granting loans against a reality which changes extremely rapidly: thus a whole body of precedents are created, which are used in practice to make up for the fact that the General Objectives are not sufficiently up to date.

Consequently it is not surprising that one cannot, in the explanatory memoranda on loan decisions, find the link with the General Objectives which ought to be discernible there and which should provide the justification for the action proposed.

We would thus like to see the Institution adopt a system, as simple but as prompt as possible, whereby its policy objectives can be kept up to date. Unless this is done, we cannot see how it can possibly be fully informed in adopting proposals put to it by its departments.

This shortcoming makes it impossible for the independent Auditor to judge whether the investments for which the loans are given in fact meet the general policy criteria on the basis of which Community financial aid is granted.

Were it not for the absence of details on the investments concerned, the independent Auditor could make this judgment on the basis of data collected by the relevant departments for the regular and permanent supervision of investments.

Only in this way would it be possible to examine the proper financial management of the ECSC's lending activities, which are now particularly extensive.

54.20.113 The documentation compiled prior to loan decisions continues to be forwarded to us regularly. It is fairly complete as regards analysis of the financial position of the beneficiary enterprise and the resulting social and economic indices, but it ought to be supplemented by references to the General Objectives.

54.20.114 Interest reductions on loans approved in 1976 for certain categories of investments (see No 90.3) total 3 400 500 EUA for the five years over which they will be given.

54.20.115 In the case of 12 loans approved in 1976, the decision provided for an interest reduction on all or part of the sum loaned. Five decisions were prompted by the fact that the investments were for environmental protection or to fulfil obligations imposed by the public authorities; three were motivated by the possibility of clearing a bottleneck in coking coal supplies; three loans were designed to set up or consider training centres and one loan was concerned with investment in a research centre.

54.20.116 In our 1975 report (No 54.112.13) we mention the loan granted to permit enterprises to contribute to works and plant in an iron ore mine in a country associated with the Community. Two new loan decisions were taken in 1976 to invest or give other assistance in non-Community countries, one loan being to collieries in the USA. This decision was prompted by the desire to guarantee coking coal supplies.

54.20.117 Under Article 54, Paragraph 1, loans totalling 4.54 million EUA were granted to four steelworks in the Friuli disaster area. The interest rate is 4 %, and any part of the principal repaid in the first five years will be free of interest.

Two of the beneficiaries, however, who are in arrears with their levy payments, will not receive the loan until they have paid off their debt.

(1) OJ No C 232, 4. 10. 1976.

TABLE 20

Loans granted out of borrowed funds

Breakdown by country and type of security obtained
Balances outstanding at 31. 12. 1976

Type of security	Belgium	Denmark	Germany	France	Ireland	Italy	Luxembourg	Netherlands	United Kingdom	Total
1. Government guarantees and negative clauses	1 622 789			3 663 749						5 286 538
2. Guarantees of Member States	67 619 920		107 496 471	108 568 673	539 828	19 762 882	1 108 187		828 080 379	1 133 176 340
3. Indemnity bonds of financial establishments	87 788 042		88 775 253	318 261 882		58 696 631		43 115 525	2 341 900	598 979 233
4. Indemnity bonds of financial establishments and mortgages			5 109 621					1 021 298		6 130 919
5. First mortgages			713 375 824	346 112		1 782 520		36 609 618		784 981 507
6. Second mortgages			21 608 319					5 635 088		27 243 407
7. Indemnity bonds of industrial groups and negative clauses	1 690 281		3 746 188	5 711 993		79 900 265			14 677 637	105 726 364
8. Indemnity bonds of industrial groups	23 179 950		18 440 729	65 316 712		330 843 436	737 826	7 241 675	18 388 155	464 148 483
9. Negative clauses and miscellaneous	1 094 078		6 330 127	3 139 644		67 523	2 193 768	5 132 113		17 957 253
10. Registered mortgage bonds			3 627 921					438 646		4 066 567
11. Bank guarantees			14 831 607	137 967 702				13 980 111		166 779 420
12. No guarantee	72 514		20 354 162	423 432		458 021			4 202 847	25 510 976
13. Subsequent public sector guarantees			6 011 110							6 011 110
Total per country and for the Community	183 077 313	32 857 694	1 009 707 332	643 399 899	539 828	491 511 278	4 039 781	113 174 074	867 690 918	3 345 998 117

54.20.12 Loans in 1976 for *industrial structural reorganization under Article 56* of the Treaty were approved for 11 loans for investments totalling 223.36 million EUA. The funds provided by the ECSC were 54.66 million EUA, i.e. 24.47 % of the investment total. According to information supplied by the loan beneficiaries, the investments financed will permit the creation, preservation or conversion of 5 595 jobs.

54.20.121 All these loans carry interest reductions which, in the five years for which they are granted, will total 6 512 300 EUA.

54.20.122 Three investment projects are directly concerned with the production of steel, four cases are for projects in the steel processing industries and four are for investments in other sectors of the economy with, however, the provision that jobs created are reserved first and foremost for workers in the ECSC industries.

54.20.13 On all loans granted out of borrowed funds the interest rates are matched, on a case-by-case basis, with those on the corresponding borrowing and they vary according to market fluctuations and the market on which the borrowings were contracted. These interest rates varied between 6.35 % and 10.8 %. For one operation the rate, exceptionally, was 12.3 % .

54.20.2 Three loans totalling 4 039 380 EUA for the *construction of social housing* were granted out of borrowed funds in 1976 as part of the seventh programme in Germany, Italy and Belgium. (1)

With regard to loans for the construction of social housing, the normal interest rate is still applied, but it must be noted that the beneficiaries receive more favourable conditions owing to the method of combining funds, whereby the greater part of the loan is provided from the ECSC's own resources, which carry only a very low interest rate. (1)

54.20.3 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 20 for all loans at 31 December 1976. 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.

54.20.4 No disputes have arisen since 1968. (2)

Under the terms of a rationalization plan agreed in 1968 between the ECSC and an enterprise receiving an industrial loan, the Institution took over during the year a sum of 91 462 EUA, representing 31.6 % of the repayment instalment (principal and interest) normally due at 31 December 1976. The total amount abandoned under this debt is 1 326 308 A EUA.

According to information we have received, the debtor will, as from 1977, resume his normal payments at the due dates initially set.

There has been no change as regards the other doubtful debts mentioned in our 1975 report (No 54.216).

Recovery of the debt of 910 472 EUA, which was guaranteed by a mortgage on a piece of land, is made difficult by the fact that the land has been expropriated.

The third doubtful debt (62 690 EUA) would appear irrecoverable even though it was guaranteed by a first mortgage, since the sum obtained from sale of the property concerned was barely enough to cover the legal costs. The file on this affair should now be closed.

At 31 December 1976 all loans still outstanding from defaulting debtors represented only 0.06 % of all loans granted out of borrowed funds. To cover these risks the Institution has constituted a provision of 1 588 538 EUA.

(1) See No 57.

(2) 1974 Auditor's Report, No 54.25.

54.21 B — Loans granted out of non-borrowed funds

In 1976 loans were granted out of own funds to a total of 27 729 663 EUA, bringing the loan total to 130 766 996 EUA at the end of the year.

54.211 Allocations out of the special reserve.

Fourteen of these loans are intended for the financing of social housing construction programmes and amount to 25 281 292 EUA. Current loans of this kind, totalling 112 274 091 EUA, represent 86 % of total loans from 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 (see No 57).

Table 21 shows the various types of security obtained by the Institution.

TABLE 21

Loans granted out of the special reserve

*Breakdown by country and type of security obtained
Balances
outstanding at 31. 12. 1976*

Country	Government guarantee	Registered mortgage bond	Mortgage	Indemnity bond and other guarantees	No guarantee	Total
Belgium	2 113 893	—	—	—	3 616 257	5 730 150
Denmark	—	—	—	—	723 915	723 915
Germany	1 381 782	30 010 951	117 945	15 515 653	20 163 890	67 190 221
France	901 466	—	424 109	11 226 032	9 681 148	22 232 755
Ireland	295 331	—	—	—	—	295 331
Italy	—	—	35 631	4 923 746	417 243	5 376 620
Luxembourg	2 484 314	—	—	—	—	2 484 314
Netherlands	—	1 821 134	—	4 103 920	—	5 925 054
United Kingdom	2 315 731	—	—	—	—	2 315 731
Total	9 492 517	31 832 085	577 685	35 769 351	34 602 453	112 274 091

54.212 Allocations out of levy funds.

Earlier long-term loans at very low interest rates had been granted out of levy funds in 1959 and 1966 respectively for the social rehabilitation of workers workers (total now outstanding 304 962 EUA) and for research (total now outstanding 2 391 438 EUA). Since then these activities have been financed exclusively by outright grants, and our comments on these may be found in the relevant chapters of this report.

54.213 Allocations out of the former pension fund.

In 1976, 201 loans were granted to officials of the Community Institutions for the construction or purchase of personal housing. The total at the end of the year was 15 796 505 EUA or 12.1 % of the total loans from non-borrowed funds. They are thus below the present ceiling of 18.2 million EUA.

By 31 December 1976, 1 251 loans had been granted to 1 139 officials. Since the current system Since the current system came into operation, we have checked a total of 869 dossiers, 193 of them during 1976. Our comments are as follows :

54.213.1 As a result of the new criteria for the selection of applications (see Annex I, No 104.2) the proportion of loans granted to officials in categories B, C and D has risen considerably. They accounted for 246 out of a total of 265 loans, i.e. 92 %, whereas for the period from 16

August 1971 to 31 July 1972 this proportion was only 57 %. As a further indication of the 'social' nature of the new selection criteria, it may be noted that the only high-grade officials receiving loans in 1976 were four officials of grade A/4.

54.213.2 There has been clear progress compared with last year in the way in which the dossiers are kept. The details they contain are also supplemented by others contained in an alphabetical index which can be consulted on the spot.

We consider that supervisory operations by the department administering these loan operations, which are already strict, should nevertheless be even more thorough as regards checking that the conditions under which a loan was initially granted are still valid.

The priority criteria include, for example, the obligation which the purchaser has to *live* in the property, and under the contract concluded with the beneficiary, the loan agreement becomes void if the property is sold.

The loan administration department enquires from the competent administrations of the Community Institutions whether or not the beneficiary's private address is the same as the location of the property. (1) Checks of this kind are only conclusive if the parties concerned take care to notify any change of address.

The department does not, however, check whether the property has been sold during the term of the loan. This could be checked — without undue formality — by asking to see the official documents which owners receive every year in connection with liability to property tax. Given the amount of assistance which the Institution gives its personnel in the form of building loans, we consider it not unreasonable to ask staff to complete certain formalities which would not cost much and would not take up much time.

54.213.3 As regards disputes, the problems are limited, in the few cases there are, to recovering payments made. So far the Institution is not owed any debt which has proved irrecoverable.

54.213.4 A number of dossiers contain supporting documents sent in by beneficiaries which show, however, that VAT has not been paid though this is payable, also on invoices for advances. We would repeat our remarks under 43.45, i.e. that the Institution should only accept as substantiating documents those which are perfectly in order from the tax point of view.

54.213.5 Commitments for that part of the pension fund which is used for loans to Community staff observe special rules of conversion and up-dating. The Institution considers that loans granted to officials and payable in Belgian or Luxembourg francs should be shown on the balance sheet in EUA at the rate obtaining on 31 December 1976. Furthermore, the contribution by the new Member States, set at 40 % of 7 million u.a., was worked out on the basis of 1 u.a. = 1.07128 EUA. The portion of the pension fund which covers loans to officials is thus 18 188 575 EUA, and the amount of cover for social housing, obtained by subtraction, is thus 20 895 970 EUA.

54.213.6 In 1976 the budgetary authority granted a credit of one million charged to the administrative budget, of the Communities. There were 67 loans granted out of this credit, which was not renewed in 1977. The Institution classified the dossiers on these loans separately, and since the expenditure concerned comes out of the administrative budget, it is not subject to our audit.

54.3 *Guarantee operations*

Under Article 51, Paragraph 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 at 31 December 1976 of 20 604 035 EUA.

Our examination of these guarantees extended by the ECSC for commitments entered into by companies receiving non-Community loans does not give rise to special comment.

(1) One such check revealed that an official had used his loan funds for other purposes. The loan was cancelled and the amount paid is being recovered by deduction from his salary.

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-term deposits and the various operations (e.g. arbitrage) connected with portfolio assets. We thus examine systematically all revenues other than levy income: interest, income from 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 fully 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 1973 and 1976 the average annual return on liquid assets rose from 6.7 to 7.95 %. This rate is based on the ratio between such returns and the arithmetical average of the assets which yield them. In 1976 the average liquid assets were 508 million EUA.

At 31 December 1976 the ECSC held liquid assets of 524 634 493 EUA, which are shown as balance sheet assets under the headings 'Cash and banks' (422 984 312 EUA), 'Short and medium-term investments' (28 607 183 EUA) and 'Portfolio' (73 042 998 EUA). The greater part of these funds (422 984 312 EUA) is held at banks in current accounts at sight and at notice, in fixed-term deposits running for less than one year or in the form of other short and medium-term investments.

Fixed-term deposits (FF 9 500 000) bearing a low rate of interest (3.785 % and 4.04 %), which were shown in the 1974 report, still existed in 1976. These funds, deposited on these terms for a long period, were entrusted between 1963 and 1966 to a bank which was to reloan them to coalmining enterprises for boiler construction. The normal maturity date of these investments was to be 10 years after consolidation of the loans by the beneficiaries. Since this period has in most cases expired, the Institution should ascertain from the agent bank why the loans have not been repaid, as we already suggested in our last report. Once more, we would suggest that this be done.

By way of illustration, Table 22 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 23 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 twofold breakdown is clearly shown as a percentage of total liquid assets available at sight and at notice.

TABLE 22

Breakdown by country and currency of funds held by the ECSC at 31 December 1976
(in thousand EUA)

Country	Currency													Total per country	%
	FB	DKr	DM	FF	£ IrI	Lit	Lfr	Fl	£	Sfr	US \$	u.a.	Can. \$		
Belgium	14 187			6 498		6 722	2	399	16 223		81			44 112	8.41
Denmark		1 134						20						1 134	0.21
Germany			154 175	29 131		606				399	8 162			154 195	29.39
France					27									38 298	7.3
Ireland														27	0.01
Italy						30 671				4 341	35 415			66 086	12.60
Luxembourg			7 680	15 465	6 018	15 450					31 024	1 094		84 731	16.15
Netherlands	3 659							17 939			88			18 027	3.44
United Kingdom				3 009					37 511	2 404	56 412		1 964	113 802	21.69
Switzerland	615			890	11 887					20				910	0.17
USA											3 305			3 305	0.63
Canada													7	7	—
Total per currency	18 461	1 134	161 855	54 993	27	55 904	15 452	18 358	53 734	7 164	134 487	1 094	1 971	524 634	100
%	3.52	0.21	30.85	10.48	0.01	10.66	2.95	3.50	10.24	1.36	25.63	0.21	0.38	100	

TABLE 23

Breakdown of investments held with banks in current accounts and fixed deposits at 31 December 1976, by currency and rate of interest
(in thousand EUA)

Rate of interest %	Currency											Total	%	
	DKr	£ Irl	DM	FB	FF	Lit	Lfr	FL	£	Sfr	\$			Can. \$
Current accounts														
0 — 0.5	3	27	222	157	71	11	54	30		7	423	7	1 012	0.24
0.5 — 1.5			138	436	1	201	389	442		13			1 230	0.29
1.5 — 3			1 874	36			7	47					2 347	0.55
3 — 4													7	—
4 — 6					608	1 248							5 901	1.40
6 — 7.5					1 011				312				1 011	0.24
7.5 — 10													312	0.07
Total current accounts														
	3	27	2 234	629	1 691	1 460	450	519	312	20	4 468	7	11 820	2.79
Fixed deposits														
1 — 3					2 992			936		7 144			8 080	1.91
3 — 4					356								2 992	0.71
4 — 5			48 889								79 909		129 154	30.53
5 — 6			47 913								30 973		78 886	18.65
6 — 7								4 565			8 805		13 370	3.16
7 — 8					445			1 080					1 525	0.36
8 — 9					2 760			4 156					11 208	2.65
9 — 10				1 230	9 934			720				1 964	15 303	3.62
10 — 11	153			1 352	5 102			1 871					13 705	3.24
11 — 12	153			3 074	11 001	606		1 440					24 365	5.76
12 — 13	260			1 353	10 416				9 055				16 949	4.01
13 — 14	260			2 263	890				3 395				12 542	2.97
14 — 15				1 058					8 149				19 219	4.54
15 — 16	306			1 026					3 018				6 458	1.53
16 — 17									3 018				12 264	2.90
17 — 18									3 018				8 154	1.93
18 — 20									13 959				15 475	3.66
20 — 25													11 145	2.63
25 — 31													10 370	2.45
Total fixed deposits														
	1 132	—	96 802	11 356	43 896	49 950	11 043	14 768	53 422	7 144	119 687	1 964	411 164	97.21
Sum total														
	1 135	27	99 036	11 985	45 587	51 410	11 493	15 287	53 734	7 164	124 155	1 971	422 984	100.00
% of sum total														
	0.27	0.01	23.41	2.83	10.78	12.15	2.72	3.62	12.70	1.69	29.35	0.47	100	

During 1976 the interest rates of fixed deposits with notice, shown in Table 23, varied considerably. The following changes occurred from one day to next :

from 4.5 % to 10.5 %
 from 9.0 % to 10.5 %
 from 5.0 % to 10.5 %

56.2 It is interesting to compare the changes between 1975 and 1976 in both the size of investments and their interest rates for each currency.

Currency	<i>Investments as % of whole</i>			<i>% interest yield</i>		
	1975	1976	Difference	1975 between	1976 between	Difference
DM	25.8	30.9	+ 5.1	4 and 5	4 and 5	—
Lit	17.9	10.7	— 7.2	7 and 8	13 and 14	+ 6
FF	10	10.5	+ 0.5	7 and 8	11 and 12	+ 4
US \$	24.9	25.6	+ 0.7	6 and 7	4 and 5	— 2
Fl	2.6	3.5	+ 0.9	5 and 6	6 and 7	+ 1
BF	3	3.5	+ 0.5	6 and 7	10 and 11	+ 4
SFr	0.9	1.4	+ 0.5	3 and 4	1 and 3	— 2
Flux	2.1	3.0	+ 0.9	6 and 7	10 and 11	+ 4
£	12.4	10.2	— 2.2	11 and 12	18 and 20	+ 7

This table shows that the volume of holdings in £ and in Lit fell off considerably, mainly in favour of DM holdings. The reason for this is that during the second half of 1976, expenditure for financial assistance was paid and entered in EUA by the Directorate-General for Budgets, which administers the budgetary funds of the European Communities and which obtained reimbursement of this expenditure in £ and in Lit from the Directorate-General for Credit and Investments, which holds the overall liquid assets of the ECSC.

This procedure and the use of the EUA thus prevent the EUA from being 'neutral' in intracommunity financial relations.

The above table also shows that there has been a reversal in last year's trend towards lower interest rates, except for the dollar and Swiss franc.

56.3 To assist us in our audit we have been in regular receipt of monthly computer print-out statements of the ECSC's entire liquid assets (with dates and movements for all accounts, by currency and country) and of the securities portfolio, market prices, par values and interest due dates.

56.4 A certain number of points noted in the 1975 report still apply in 1976.

56.41 The statements of interest due from banks did not always appear to be correctly drawn up, either because the date of effect was wrong or because the date when amounts were credited was wrong.

Thus, 3.3 % interest due on 31 December 1975 on two FF holdings (see our 1975 report, No 56.52) was not credited until 27 January 1976.

56.42 The Institution still holds a number of sight accounts which contain only small amounts and have not been used for some years now. We recommend that these be closed.

56.43 The purchases and sales of ECSC securities on the Belgian market mentioned in our last report (No 56.54) continued in 1976 and, on purchases to the value of BF 220 900 000 and sales to the value of BF 114 445 000, entailed losses of BF 2 763 607 (64 306.20 EUA), to which must be added management costs of 250 000 (5 833.18 EUA) and financial costs of BF 329 604 (7 621.88 EUA).

According to the Institution, these operations are normal under Belgian legislation and constitute an effective measure for adjustment of market rates. Nevertheless the management cost for the ECSC is considerable, and one wonders here if the system provided for by government transactions is truly applied to the Community. If, furthermore, this procedure is an important factor in market stability, the Community might perhaps suggest it to the Member States.

56.44 In France the Institution also bought back some of its own securities under particularly costly conditions. Costs involved were brokerage fees of 0.5 %, a tax of 0.3 %, a fee to the bank of 0.12 %, a financial activities tax of 0.09 % and a loss of interest for three days. These items are equivalent all together to a loss of 60 days' interest, and the profit on redemption operations is thus reduced by that amount.

56.45 There were no developments as regards payment to the ECSC of the rent for the property in Washington (1974 Auditor's Report, No 56.53). The administrative budget continues to cover the initial rent of US \$ 42 000 instead of 42 000 u.a., as if there had been no change in the rate of the \$ in relation to the u.a. previously used by the ECSC. As a result, and for the fourth year in succession, the ECSC suffers a loss which, for 1976 alone, amounted to 4 137.76 EUA.

The ECSC also pays the insurance premium and spent 4 156 EUA in 1976 for various maintenance work, largely plumbing.

56.5 Introduction of the EUA in the ECSC's financial operations also prompts us to mention a few practical problems.

56.51 The rate of the EUA as published in the Official Journal is rarely applied by the relevant banks. Whereas the Institution publishes it to four decimal places, the banks calculate it to eight or to ten decimal places, and this could, in some cases, lead to exchange differences.

56.52 Some days the rate of the EUA against a given currency is not available and is thus not published.

56.53 An error in the publication of one exchange rate was rectified in a rather dubious manner. Official Journal No C 14 of 1976 gives the rate for the Lit as 'not available'. OJ No C 16 publishes a corrigendum giving the rate as 802.073, and OJ No C 18 of 1976 corrects No C 14, giving the rate as 815.873.

56.54 On 22 October 1976 the rate for the Danish krone was fixed at 5.58653. This was clearly wrong and should have been 6.58653. This error was never rectified.

Financing of social housing construction

57 Extent of our audit

ECSC assistance in this sphere currently takes the form 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 draw 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 schedules 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.

58 Remarks

From its inception up to 31 December 1976 the ECSC has helped finance the implementation of eight 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 (72 %) and borrowed funds (28 %). 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 eight standard programmes and the three experimental programmes, 137 305 dwellings had been completed by 31 December 1976 out of the 147 327 receiving aid. The total cost of this housing, paid out in each Member State in the national currency, was 2.018 thousand million EUA (1). Of this amount, the ECSC paid 157.4 million (1) out of own funds and 61.3 million (1) out of borrowed funds.

Table 24 shows the amounts of assistance granted to the eight programmes financed, grouped according to the nature and origin of the funds disbursed. In the case of the eighth programme,

(1) Figures obtained by converting the currency amounts into EUA at the rates obtaining on 31 December 1976.

TABLE 24

ECSC assistance to social housing construction

Breakdown by programme and type of assistance
Position at 31. 12. 1976

	Outright subsidies (¹)	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
<i>Social housing construction</i>					
— 1st programme		25 380 044			
— 2nd programme		3 344 383	17 740 263		
— 3rd programme		4 618 819	15 221 004		
— 4th programme		13 072 312	21 401 565		
— 5th programme (standard and special)		7 327 318	32 308 470		
— 6th programme		530 005	23 378 097		
— 7th programme (standard and special)		6 979 375	34 643 460		
— 8th programme			12 167 564		
<i>Housing for rehabilitated workers</i>					523 895
<i>Assistance to the Friuli region</i>			202 165		
<i>Experimental social housing construction</i>					
— 1st programme	995 838 (¹)				
— 2nd programme	904 173 (¹)		357 842	3 629 526	
Total	1 900 014 (¹)	61 252 256	157 420 430	3 629 526	523 895

(1) Statistics drawn up in u.a., values as per the time when the subsidies were entered in the accounts.

only the first instalment of 25 million EUA has been taken up, though most of it has already been committed.

During 1976, loans were paid out of the special reserve and borrowed funds for the fifth, seventh and eighth programmes and for the special programme of aid to the Friuli region (18 214 557 EUA).

The breakdown of these loans by country is as follows: Germany 9 667 161 EUA, France 4 278 471 EUA, Italy 914 795 EUA, Luxembourg 75 160 EUA, United Kingdom 45 923 EUA, Belgium 2 688 500 EUA, Netherlands 394 090 EUA and Ireland 150 457 EUA.

59 A number of decisions were taken in 1976.

59.1 On 15 November 1974 the Institution decided to implement an eighth programme to finance housing for workers in the coal and steel industries, spread over the years 1975 to 1978.

This would be implemented in two instalments each lasting two years — 1975-76 and 1977-78. Work has begun on the first, the amount of which was fixed on the same occasion and following the assent of the Council (¹) at 25 million u.a., to be drawn out of the special reserve. In the case of the second instalment, the decision of 20 December 1976, granting an allocation of 30 million EUA, is awaiting approval by the Council.

(¹) OJ C 103 of 7. 5. 1975.

59.2 On 25 May 1976 the Institution decided to implement a special programme for steel workers in enterprises affected by the Friuli earthquake. This aid totals 6 million EUA. The Council gave its approval on 20 September 1976 ⁽¹⁾. As in the case of standard programmes, the funds will be made available through a local credit institution specializing in long-term credit operations for social housing.

59.3 All decisions taken in 1976 concerned the financing of construction projects in Belgium, France, Italy, Luxembourg and Ireland under the fifth, sixth and seventh programmes and the first instalment of the eighth programme. In general, a full list of projects for each borrower is appended to the decision. This gives details of the developer, the site, the employer, details of the dwellings financed (number, type, intended use), the construction cost and the various sources of funds (ECSC, government, employer, personal contributions and loans various).

For standard programmes the ECSC's contribution is between 4 and 25 % of the total cost for new constructions and between 15 and 35 % for modernizations.

The aid given to the Friuli region may be as much as 50 % of the cost, both for new construction work and for repairs.

For experimental programmes this percentage is sometimes as high as 60 %, whilst for loans granted out of a combination of own funds and borrowed funds it may be 50 %.

60 The special reserve which guarantees these loan operations totalled 122 000 000 EUA at 31 December 1976.

Under a decision of 22 December 1972 ⁽²⁾ the Commission made provision for the allocation of 60 % of the former pension fund, i.e. the part hitherto uncommitted ⁽³⁾, as extra security on social housing commitments.

If we calculate the amount to be covered by adding total loans for social housing out of the special reserve at 31 December 1976 (112 274 091 EUA) and amounts still to be disbursed at the

TABLE 25

Progress achieved in social housing construction projects at 31. 12. 1976

Breakdown by country (standard and experimental programmes)

Land	Number of dwellings financed	comprising dwellings		
		in preparation	under construction	completed
Belgium	7 843	344	155	7 344
Denmark	126	28	16	82
Germany	90 134	1 475	2 646	86 013
France	29 758	3 211	1 236	25 311
Ireland	122	—	—	122
Italy	6 966	338	405	6 223
Luxembourg	1 064	28	22	1 014
Netherlands	5 445	81	37	5 327
United Kingdom	5 869	—	—	5 869
Total for the nine countries	147 327	5 505	4 517	137 305

⁽¹⁾ OJ C 227 of 28. 9. 1976.

⁽²⁾ 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.

⁽³⁾ 40 % of the pension fund existing at the time of merger of the Executives (25 509 351 u.a.), plus 40 % of the 7 million u.a. contributions by the new Member States, plus the interest added to these sums since then guarantee the building loans granted to officials of the European Communities. The pension fund, which is shown on the balance sheet as 39 084 545 EUA, breaks down into a guarantee capacity of 20 895 970 EUA for loans to social housing construction and 18 188 575 EUA for officials' housing.

same date for social housing programmes not yet completed (13 192 335 EUA), we arrive at a figure of 125 446 426 EUA.

Allocations approved and paid are thus not entirely covered by the funds secured by the special reserve, far from it, since the deficit is 3 466 426 EUA. The situation has improved compared with that at 31 December 1975, when the deficit was 24 million EUA and was not covered by the 60 % of the former pension fund.

Table 25 shows details of progress achieved in the eight construction programmes financed by the ECSC up to 31 December 1976, as revealed in the dossiers kept by the authorizing departments.

61 In our previous reports ⁽¹⁾ we discussed the checking procedures followed for construction programmes. There has been nothing new in the meantime, The only material item shown in the files here is still the postcard sent to each worker on the project via his employer. These documents, on which are entered the dates on which the work begins and ends, are returned, again via the employer, to the appropriate departments of the Institution which keep a record of them. If a postcard is not returned, the Institution sends a reminder to the employer and manages in this way to complete nearly all its dossiers. This information, plus contacts with responsible national officials and borrowers, is the only form of check carried out by the Institution. One wonders whether it would not be a good thing to carry out direct, on-the-spot checks, if only occasionally, in order to compare the dossiers with the real situation. Auditing operations are not enough in themselves to make up for the absence of a systematic verification to ensure that the specific conditions required by the general objectives of aid programmes in this sector are in fact observed.

⁽¹⁾ 1974 and 1975, Auditor's Reports, No 63.

General conclusions

64 Our *summary* of the main features of the *ECSC's financial activities* in 1976 is subject this time to the restrictions caused by use of the EUA as a means of statistical expression. Nevertheless, it is possible to outline here the main conclusions drawn from our principal observations.

64.1 1976 was marked by a steady increase in the volume of borrowings. The Institution floated 29 loans to a sizeable total of 956 million EUA (as opposed to 702 million EUA in 1975), bringing total loan issues since the ECSC's inception to more than 4 000 million EUA. Loans granted out of borrowed funds totalled more than 3 980 million EUA 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 1976 were again for industrial programmes under Article 54 of the Treaty.

Taking into account the steady increase in market interest rates and without prejudice to the *ad hoc* decisions taken by the Institution to recover from beneficiaries of its loans the real cost of the corresponding borrowings, the rate of interest on loans varied, generally speaking, between 6 and 10.8 % during 1976. Assistance for loans subject to selective decisions brought the interest rate to 3 points lower than the standard rate. Other loans granted out of ECSC own funds, as shown under the 'special reserve', totalled more than 14 million EUA. These were long-term loans granted at moderate rates of interest for purposes of a social nature (social housing construction).

64.2 Receipts from loan service and guarantee operations were 269.3 million EUA, whilst the corresponding expenditure was 263.3 million EUA, largely accounted for by interest due on ECSC borrowings.

64.3 Levy resources reached more than 92 million EUA in 1976 despite the fact that the rate of the levy had remained unchanged since 1972 (0.29 %) and despite adverse economic conditions.

Other receipts totalled 41.5 million EUA, including 28 million EUA as income on fixed deposits and the portfolio and 11.3 million as the result of converting operations to their EUA equivalent and conversions at the end of the year. The latter sum, which is not representative or understandable otherwise, must be seen as the result of an algebraic sum of differences resulting from these conversion operations, and it cannot be broken down by type and sector of income because of the accounting insufficiencies previously pointed out.

64.4 Budgetary expenditure was more than 84 million EUA, including 29.5 million EUA for technical and social research, 21.8 million for rehabilitation, 15.6 million for administrative expenditure, 9.2 million for assistance to coking coal and 8 million as interest reductions under Articles 54 and 56.

64.5 The excess of income over budgetary and financial expenditure was about 56 million EUA, thus giving the ECSC substantial liquid assets.

64.6 As regards provisions for financial assistance the ECSC continued to set aside sums for which binding commitments had been subscribed, either in the form of contracts signed (research), agreements between the parties concerned (rehabilitation), contracts for loans in connection with interest reductions under Articles 54 and 56 or financial assistance officially approved for coking coal.

'Other provisions', virtually reserves which are not legally compulsory, are still shown on the balance sheet, viz. :

- Those constituted out of the levy and reflecting the total of unilateral aid decisions taken by the Institution in 1976, though contracts for them will not be until 1977 (almost 28 million EUA) ;
- 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 debtors in respect of loans granted out of borrowed funds, this being amply justified on account of the poor chances of recovering the debt in question ;
 - are designed to cover, as of 1977, eventualities such as depreciation of the portfolio (provision 0.822 million EUA), although the wide margins existing at present give no indication of such an eventuality in the short or medium term ;
 - set aside miscellaneous income which is to be allocated to assistance (16 million EUA) ;
 - are designed to cover any payments on borrowings in the event of default on the part of the debtor or any shortfall in levy receipts (10 million EUA).

The balance sheet thus shows, on the balance sheet date, 'unallocated reserves' totalling 54.8 million EUA, which are added to the total of the usual funds and reserves (guarantee fund, special reserve, former pension fund).

65 On the basis of a series of observations on the ECSC's activities, the relative number of which is not itself conclusive, it is difficult to obtain an exact idea of the quality of the Institution's financial management. Similarly, faced with the sheer volume of the Community's financial operations, the independent Auditor — who has not been able to reorganize his methods completely to deal with the fact that his function is to cease shortly, a fact announced in June of this year — feels obliged to express a more detailed opinion which takes account of the relative nature of his findings.

This final year, then, we have opted for a summary which concentrates on a number of major points.

We shall thus consider one by one the conclusions which emerge from the following :

- introduction of the EUA ;
- the position of the management auditing conducted by the Institution, which conditions not only the work of the independent Auditor but also the very functioning of the Community in terms of political responsibilities ;
- the ease with which a system of flexible internal organizational measures would solve a number of problems which we have repeatedly raised.

65.1 As explained in the Foreword, the EUA is used as a monetary unit for certain operations, particularly for assistance payments made after 1 January 1976. But it is also the unit used in all the accounting documents, irrespective of the currency in which the relevant contracts or other documents are drawn up.

In this latter case, the methods adopted by the Institution deprive us of a certain number of analysis channels, so that no overall coherent picture is possible. The basis of the EUA is not a fixed one — the 'basket' of currencies which have themselves lost their stability. Consequently the EUA only has a convertible value from day to day. There is no point in adding together the EUA resulting from conversions on different days, as was done for the management account, hence our very brief analysis of this account.

The remedy is simple, however: the accounting system, which does not create any rights but ought rather to provide a faithful reflection of all actions taken, should continue to record day by day not only the value in EUA but also the corresponding amount in the currency of the contract or operation. We must be able to base ourselves on verifiable data taken directly from the accounts and statements. Procurement of information from sources other than the books does not give us sufficient guarantees and would also mean work which was tiresome and unnecessary.

Thus, from now on the levy should not only be calculated but also collected in EUA accounts held for the Community. Disbursements under new contracts drawn up in EUA would be made out of these accounts, leaving the exchange problems to normal banking business. However, for operations which continue to be conducted in currency, it is pointless and an unnecessary complication to convert them into EUA. The EUA amount is supposed to represent at any given moment the exact equivalent of a currency amount, and should thus be used only for statistical purposes (balance sheets, accounts, tables as per a specific date). Only in this way could the user, knowing exactly the rate applying on the relevant date, calculate correctly the values represented by the amounts in EUA.

As long as past operations still current in respect of assistance contracts or loan service, including investments, mean that legal instruments drawn up in currency have to be consulted — and this will be so in the majority of cases for a long time yet — it will be necessary to maintain a dual system, whilst at the same time progressing towards a coherent system.

65.2 In our reflections on the work of the independent Auditor in Annex III to our previous report (No 109.4) we wrote that 'External auditing of the ECSC is thus closely bound up with efficient internal management auditing and with the existence of an infrastructure (documentation, coordination) which ensures that the financial activity is carried out in a manner consistent with the objectives to be attained.'

Our main criticisms about the current state of internal management auditing will be made one by one for each of the different stages involved.

65.21 The Institution should introduce suitable administrative machinery which would take account of the volume of work involved. In the case of activities where the trend has for several years been clearly upward, one wonders whether it is still possible to conduct management operations using means which are largely unchanged. Alternatively one must suppose either that an earlier reserve of unexplored possibilities existed or, as our observations have led us to conclude, that management operations are no longer carried out altogether properly.

In any event, optimum use must be made of those means which do already exist. On those occasions, unfortunately too few in number, when we took part in on-the-spot checks, we noticed that these were far from being properly organized as regards time-saving and efficient use of the expertise present.

Similarly, it is extremely useful, both for the conduct and supervision of a policy, to have data which can show the position of the work at any given moment. This is the case with the register of research contracts which is more and more essential as the contracts become more numerous and more diversified. In order to keep it correctly up to date, all that is needed is to insist on cooperation between the various departments concerned.

If the independent Auditor is to check the duties performed by the administrative departments, he must be able to find traces, as brief but also as clear as possible, which substantiate the role actually played by the Community in management operations (representation on management committees in the various research sectors, mention of contacts with the national bodies responsible for social housing, etc.).

65.22 Given that full powers for the internal organization of the ECSC rest with the Institution, the ECSC's decisions are not arrived at by joint consultation. As a result its own policies are only discernible in the reasons it gives for decisions or in the objectives it sets itself.

We established that the General Objectives, on which the Community's loan policy is based, are distinctly out of date. We should like to see them regularly updated, for it is impossible for us to

describe how decisions are made since the relevant departments are themselves obliged to work on the basis of a kind of 'case law' built up from previous specific decisions.

Likewise, in other sectors, such as rehabilitation, we regret that the reasons and documents given in support of decisions to grant assistance are inadequate, so that we cannot know the true implications of the decision. If the independent Auditor does not have this kind of material as his starting point when he has to assess a financial activity he is likely, when trying to form an opinion, to be led towards a judgment founded purely on expediency.

65.23 Management control cannot be fully efficient unless it allows a third party to pick out quickly conclusions regarding the smooth conduct of operations and information needed to pursue the policy implemented.

We have made criticisms here in several chapters of our report (research, social housing, rehabilitation, loans to officials, the levy). Checking of the relevant administrative departments is too often confined to the accounting aspects, the significance of which is not always verified in enough detail. The work is undertaken too late, furthermore, and thus loses most of its value. Because of a lack of systematic procedure and preparation, time and effort is wasted, and one sometimes has the impression that it is a formality, rather than a serious study which is being completed.

65.3 Our reports contain observations which are several times repeated and which are very often simply requests to have certain administrative practices or shortcomings rectified or avoided.

In many cases these problems could be solved simply by interdepartmental cooperation. Yet we note each time how difficult it is to coordinate operations within the Institution.

The following reminders, though they do not need to be particularly sharp at this stage, are nevertheless evidence of a situation which should be corrected without delay.

65.31 The delays in drafting and signing contracts and riders could be shortened more than at present. The progress made in recent years in the structure of these documents, whereby most of the annexes are in the form of a standard text, means that the various departments required to give an opinion can do so simultaneously and speedily, since all they have to study is a number of specific conditions.

65.32 The centralized accounting system we have called for is compatible with the separate keeping of accounts if an accounting plan offering the same information potential were adopted by those in charge, whatever the computer system used.

65.33 As we have previously pointed out, the keeping of the register of research loans is made difficult by the problem of setting up a reliable information 'circuit' between departments.

65.34 The endless discussion of the application of the financial terms of a lease for the renting of an ECSC-owned property to the European Communities goes beyond the bounds of all common sense when one considers the size and simplicity of the matter.

66 As a result of our investigations and auditing activities conducted during and at the end of the 1976 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 1976 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 1976 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 Commission of the European Communities 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 We would not wish to close this last report without stressing the value of the relationships which have been established and continued between the Auditor and the body audited : considerable progress has been achieved thanks to a fruitful dialogue inspired by the desire to improve things even further.

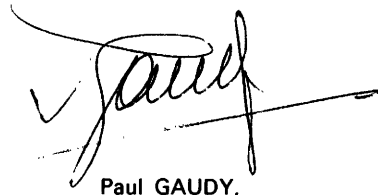
We wish to thank the Institution for the courtesy it has always shown us.

We are also grateful to the members of the European Parliament who have played an active part in seeing that optimum use was made of our work. Their assistance has been most valuable.

Lastly, thanks are due to our own staff for their unflagging cooperation despite the increased volume of work and the uncertain prospects due to the fact that the office of the body to which we belong is shortly to cease.

We offer sincere thanks to all those who have helped in the preparation of this report.

Luxembourg, 30 June 1977

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

Paul GAUDY,

Auditor

ANNEXES

ANNEX I

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 :

- No 1, 30. 12. 1952 (Decisions Nos 2/52 and 3/52 of 23. 12. 1952)
- No 18, 1. 8. 1954 (Decision No 30/54 of 25. 6. 1954)
- No 21, 28. 11. 1955 (Decision No 29/55 of 3. 11. 1955)
- No 21, 28. 11. 1955 (Decision No 31/55 of 19. 11. 1955)
- No 4, 22. 2. 1956 (Decision No 4/56 of 15. 2. 1956)
- No 5, 27. 1. 1959 (Decision No 3/59 of 21. 1. 1959)
- No 5, 27. 1. 1959 (Decision No 4/59 of 21. 1. 1959)
- No 5, 27. 1. 1959 (Decision No 5/59 of 2. 1. 1959)
- No 39, 22. 6. 1959 (Decision No 34/59 of 10. 6. 1959)
- No 94, 12. 6. 1964 (Decision No 13/64 of 3. 6. 1964)
- No 46, 22. 3. 1965 (Decision No 5/65 of 17. 3. 1965)
- No 46, 22. 3. 1964 (Decision No 6/65 of 17. 3. 1965)
- No 104, 14. 6. 1965 (Decision No 8/65 of 2. 6. 1965)
- No 108, 16. 6. 1966 (Decision No 10/66 of 8. 6. 1966)
- No L 312, 28. 12. 1968 (Decision No 2145/68/ECSC of 18. 12. 1968)
- No L 322, 24. 12. 1969 (Decision No 69/490/ECSC of 18. 12. 1969)
- No L 284, 30. 12. 1970 (Decision No 2650/70/ECSC of 22. 12. 1970)
- No L 282, 23. 12. 1971 (Decision No 2733/71/ECSC of 15. 12. 1971)
- No L 286, 23. 12. 1972 (Decision No 2691/72/ECSC of 18. 12. 1972)
- No L 297, 30. 12. 1972 (Decision No 2821/72/ECSC of 22. 12. 1972)
- No L 299, 31. 12. 1972 (Decision No 2853/72/ECSC of 29. 12. 1972)
- No L 299, 31. 12. 1972 (Decision No 2854/72/ECSC of 29. 12. 1972)
- No L 361, 29. 12. 1973 (Decision No 3543/73/ECSC of 29. 12. 1973)
- No L 357, 31. 12. 1974 (Decision No 3329/74/ECSC of 20. 12. 1974)
- No L 333, 30. 12. 1975 (Decision No 3378/75/ECSC of 22. 12. 1975).

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. Although this fund increased to 112 million u.a. in 1973, 120 million u.a. in 1974, 140 million u.a. in 1975 and 160 million EUA in 1976, the levy rate itself was not affected by these increases, which were covered by management surpluses.

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 units of account, the average per tonne value of the five 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 consumption by 18 % before claiming any flat-rate reduction.
- (3) Pig iron other than that for making ingots.
- (4) Steels in ingots.
- (5) 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 applied to each of the products subject to the levy is that calculated on the basis of net receipts ex-works. It is, however, reduced by the value of the average quantities of products subject to the levy used in producing one tonne of the product in question. 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 representative 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.

The average production values are determined in EUA on the basis of the average rate of the EUA over the period of reference for calculation of those values. The average rate for the EUA is the average of the day's rates for the same period.

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 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, take-overs 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 will be based.

On the first form they calculate the sums payable by multiplying the tonnages produced by the scale fixed for the five categories in EUA and per tonne.

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

The rate of the levy per tonne of each type of production is determined and expressed in EUA on the declaration and collection forms.

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 cancellation 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 EUA.

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 (maximum 1 %), the latter as 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. Since 1 March 1976, however, and for 1976 only, the

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

levy on steel becomes due in the third month following that of production, under the terms of Commission Decision No 755/76/ECSC.

Levy amounts are expressed in the EUA equivalent of the national currencies at the conversion rates obtaining on the day preceding the date of payment.

However, for a transitional period ending on 31 December 1976, this conversion rate, for each payment made from 15th of a given month to the 14th of the following month, is the rate obtaining on the last working day of the month preceding that period.

Late payments are made at the conversion rate obtaining at the time of payment.

If, in order to enforce a claim, the Commission is obliged to take a special decision against an enterprise, this claim, expressed in EUA, is converted into the appropriate national currency at the rate obtaining on the day preceding the date on which the decision was taken.

As a transitional arrangement, levy amounts for the month of December 1975, which become due as from 25 January 1976, are paid on the basis of the conversion rate for the unit of account which obtained throughout the second half of 1975. Similarly, all payments of arrears due in respect of the levy and made after 31 December 1975 will, if the assessment basis for them refers to a period before this date, be converted at the rate obtaining during the earlier period.

The average values used as a basis in calculating levy amounts for the years 1976 (for the period July 1974 — June 1975) and 1977 (for the period July 1975 — June 1976) are calculated and expressed in EUA.

On the basis of daily records, the Levy Office draws up two copies of a list of statements from 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 and must be effected after the enforcement order in the form used in that State 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.

As from 1 January 1959 ⁽¹⁾, the ECSC has authorized a number of coal mining enterprises to defer, without arrears interest or penalty, payment of sums due under the levy for tonnages stockes as a result of marketing difficulties which led in the Community coalfields to exceptional stockpiling of hard coal, coke derived from hard coal and hard coal briquettes. 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 stocks occurred. Stocks held on 31 December 1957 were considered as the normal level: in fact it was from 1958 onwards that the coal crisis caused marketing difficulties which became widespread and led to exceptional stockpiling of hard coal, coke derived from hard coal and patent fuels.

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

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 ⁽¹⁾, therefore, the Institution recognized as normal any stockpiling up to 3% of the production liable to the levy ⁽²⁾.

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 enterprises 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.

It is also laid down that with effect from the same date ⁽¹⁾ in order to facilitate the transition from the old system to the new, any subsequent withdrawals from stock by undertakings which, on 31 December 1972, continued to hold goods in respect of which payment of the levy had been temporarily deferred shall, until such stocks have been totally disposed of, be set against the stocks to which these deferments relate, thereby making payment due in respect of the goods withdrawn from stock.

73 Levy collection procedure

As from 1 July 1967, when the Merger Treaty 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 structure.

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 document 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*, which forms part of the Directorate-General for Competition, 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

⁽¹⁾ OJ L 299, 31. 12. 1972 (Decisions Nos 2853/72/ECSC and 2854/72/ECSC of 29. 12. 1972).

⁽²⁾ This 3% represents stocks held at 31. 12. 1957 in relation to total chargeable production in 1957

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 arisen 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.

With effect from 1 January 1975 ⁽¹⁾, iron and steel undertakings are required to make available to the Institution's officials or authorized agents carrying out checks regarding the levy, technical and accounting documents, as exactly defined in the Decision, for the current calendar year and for not less than the three preceding calendar years.

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 up this group are put into effect by the levy Office.

⁽¹⁾ OJ L 340, 19. 12. 1974 (Decision No 74/618 of 4. 12. 1974).

Rehabilitation

74 General

The only provisions of the Treaty of Paris which at present permit the ECSC to take action for 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 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 was carried out under Article 96.

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 not be foreseen by the authors of the Treaty prompted the addition, in 1960, of the present 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 thus grant assistance for rehabilitation only if a formal request is made by the government and if certain economic and technical conditions are met.

75 Types of financial assistance for rehabilitation

75.1 Financial assistance for worker rehabilitation has thus been 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 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 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 labour market is in a difficult situation ; the criteria for fixing 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 : payment, in one or more instalments, of a compensatory lump sum, of which the ECSC will pay up to 750 u.a. ;
 - for workers re-employed in or transferred to another region :
 - payment of a flat-rate resettlement grant and reimbursement of travel and removal expenses for the worker and his family ;
 - payment of a flat-rate resettlement grant and reimbursement of travel and removal expenses 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 : ECSC contribution to costs of vocational retraining (wages of workers attending retraining 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 2 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 rehousing of workers displaced in France. Only one of these loans is still being paid off.

75.2 Lastly, mention should be made of the special decisions taken under Article 95 of the Treaty ⁽¹⁾ with 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-year 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 coal-mining enterprises in the Community. Assistance of this kind, both repayable and non-repayable, has virtually ceased since 1963-64.

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. Several changes have been made in the course of recent years to the method of calculating the sums to be entered in this provision.

Up to the financial year 1961/62, the Institution allocated to this provision each year the approximate sum it expected to pay out, in proportion to the social assistance which the various governments proposed to provide.

From 1962/63 onwards, the Institution was led to lay down and to follow a stricter policy aimed at financial equilibrium not just for one year but for a period of several years, by means of more rigorous limitation of the sums tied up under its commitments. This financial policy, under which the amounts allocated to the provision have been as listed below, is the result of the widening gap between the Community's revenues and requirements as determined by the economic situation, and of the difficulties inherent in estimating rehabilitation commitments precisely.

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

- the part not yet disbursed of commitments subscribed by the ECSC in accordance with the agreements on Community financing, which have been the subject of a decision by the Institution and have been accepted by the governments ;
- a sum equal to the loans granted for rehabilitation. After 1965/66, however, this practice was discontinued, as the Institution deemed it unnecessary to maintain sums corresponding to

⁽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.

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 ;

- a buffer reserve fixed in the first instance at 10 million 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 periodically cancels commitments or parts of commitments subscribed for the benefit of workers affected by the closure of coal mines or 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 The procedure for the granting and disbursement 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 the United Kingdom, with which the ECSC concluded a general agreement in 1973 for a limited period of three years, in order to give that country a transitional period in which to adjust. General agreements are then supplemented 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 employees 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, date of dismissal, nationality, last gross wage, etc.) and enable the Institution subsequently to check that payments have been 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.

77.11 The decisions taken under Article 56, Paragraph 2b of the ECSC Treaty for assistance to workers in the coal and steel industries who lose their jobs as a result of the final closure of a plant or a cutback in its activities, are accompanied by a memorandum on the overall position of the enterprise which contains the reasons for the application, details of the work force, the opinion of the various departments consulted within the Institution, and the details and amount of assistance. The Directorate-General for Social Affairs is responsible for proposing each decision, which must first be approved by the Legal Service and, depending on the particular case, by the competent departments of the Institution — Industrial Affairs (Directorate for Steel), Energy (Directorate for Coal), Regional Policy, Financial Control, Budgets, and Credit and Investments.

77.2 Procedures for ECSC rehabilitation assistance always involve the departments of five Directorates-General : Social Affairs, Budgets, Financial Control, the Legal Service, and Credit and Investments.

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 examined 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 government bodies in the countries concerned are carefully vetted from computer listings. For those countries which do not 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 of beneficiaries.

Checking operations also examine the efficiency of the assistance machinery and thus ensure a minimum of delay between the granting of 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. These rehabilitation estimates are based on data supplied by the Directorate-General for Social Affairs. The Directorate-General for Budgets cooperates with the latter department in a regular assessment of available Institution funds and may settle legal matters or disputes (debt collection, over-payments, etc.).

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

77.24 Up to the end of the first half of 1976 the Directorate-General for Credit and Investments was responsible for all the financial operations (payment and reimbursement of assistance amounts). The Directorate-General for Financial Control kept the accounts, in which it also entered movements affecting the amounts held in the provision (commitments for and cancellations of credits). In future these operations will be handled by the Directorate-General for Social Affairs, with the exception of payments which will be made by the Directorate-General for Budgets.

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 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.

The procedure applicable to the lodging and consideration of applications for assistance, the terms and conditions of aid and the provisions on dissemination of the research findings were set out in a communication published in the Official Journal of the European Communities of 12 November 1974 (No C 139).

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 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. conferences, 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, in 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 assessor 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 contracts' resolatory 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, is the only body with 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, Switzerland and Canada.

87 Guarantee operations

The ECSC was not provided with any initial capital by the Member States. Moreover, Member States are not obliged to guarantee loans floated by the ECSC, even when the latter considers it necessary to seek such a guarantee after consulting the Council and the governments concerned (Article 51, paragraph 1, sub-paragraph 3 of the Treaty). In fact, the ECSC has always issued its loans without making use of a guarantee from 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 and servicing of borrowings and of the corresponding loans granted by the ECSC. To this end the BIS obtained the assistance of financial institutions in each member country, which 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 proof of debt and the related securities. The same applied to the annual repayments on loans, which debtor enterprises paid directly 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, which was increased to 160 million EUA by the alloca-

tion of part of the new Member States' accession contributions and by management surpluses, 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 relending, 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 ECSC's credit capacity, 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, paragraph 1, sub-paragraph 2 of the Treaty, the floating of ECSC loans on the market 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 on which they are floated. These are medium-term and more particularly 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 legal framework 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 loan is kept separate, so that the operating balance between these parallel operations can be ascertained at any time.

Recurring costs connected with the service of loans contracted by the ECSC (annual payment of interest and fees) 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 against the special loan operating account. The final 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 set aside on the liabilities side of the balance sheet (other provisions).

89 Use

Under Article 51, paragraph 1, sub-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 from which they are provided. 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 ECSC pension fund.

90 Loans granted out of borrowed funds

90.1 Apart from the fact that the proceeds of borrowings are generally speaking used to grant loans (Article 51, paragraph 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, paragraphs 1 and 2, and Article 56, paragraphs 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 assent of the Council, works and installations which are primarily concerned with making a direct contribution to :
 - increasing production ;
 - lowering production costs ;
 - facilitating the marketing of products subject to the jurisdiction of the ECSC ;
- c) in the industries subject to the ECSC's jurisdiction or, with the assent of the Council, in any other industry, programmes to create new and economically sound activities capable of ensuring the productive re-employment of workers discharged following the introduction of new technical processes or equipment ;
- d) in the industries subject to the ECSC's jurisdiction or, with the assent of the Council, in any other industry, programmes for the creation of new and economically sound activities or for the conversion of enterprises, so as to ensure the productive re-employment of workers discharged as a result of far-reaching changes in marketing conditions in the coal and steel industries.

90.2 From the *accounting* point of view, and to underline the fact that borrowed funds are used exclusively for granting 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, on the one hand, funds borrowed under liabilities and, on the other hand, the same funds under assets, 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 to finance particular loans.

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. The 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 to those of loans contracted (same currency, duration, principal, repayment terms). The rate of interest on loans granted has often been slightly higher than that on the corresponding loan contracted in order to offset its cost.

Loans for structural reorganization (under Article 56 of the Treaty), which are increasing considerably, were initially granted at more or less the same rate of interest as that on the corresponding funds borrowed, then at a lower rate thanks to the combining of funds from different sources (own funds at very low interest and higher-interest borrowed funds). Since 1967, loans for structural reorganization granted out of borrowed funds qualify for a 3-point reduction in their rate of interest. As from 1 July 1976, loan beneficiaries pay the nominal rate of interest and the Institution refunds to them on each due date the difference between the nominal and reduced interest rate.

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 are eligible for a reduced rate of interest similar to that for structural reorganization loans granted under Article 56 of the Treaty, provided they fulfil certain requirements. 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 of ECSC enterprises within the Community, 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, as a result of the guidelines adopted by the Commission of the European Communities on environmental policy (and particularly the upholding of the 'pollutor pays' principle) (1), to set out in detail the conditions under which these should be granted (2). Accordingly, 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, the proportion of the cost corresponding to extensions of capacity not, however, being 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) insofar 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 do not, however, apply to the financing of investments relating to the industrial utilization of new technical processes, provided that 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 and guarantees from Member States, industrial groups and banks.

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 investments in accordance with the general objectives periodically defined 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 prior notification of individual programmes. Whenever the plan involves a basic investment, the Institution delivers, within three months, a reasoned opinion based on the general objectives. Approval means that Community loans may, in principle, be granted, 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 inter-

(1) OJ C 146, 25. 11. 1974, page 1.

(2) OJ C 112, 20. 12. 1974 and OJ No C 68, 12 Jun. 1974, page 1.

mediaries responsible for submitting loan applications, or by circulars sent to professional organizations or even to individual concerns.

90.7 For the management of loans for industrial investment and structural reorganization and of guarantees granted in accordance with Articles 54 and 56 of the ECSC Treaty, the Institution designates agent banks paid on a commission basis. Their task is basically to sign loan contracts on behalf of the ECSC — after checking the validity of borrowers' signatures and the existence of guarantees — manage the loans and keep the original contracts. The designation of the agent banks to carry out these operations is the subject of an agreement made for an indefinite period applying to operations in seven Community countries (Belgium, France, Germany, Italy, Luxembourg, the Netherlands and the United Kingdom). In the United Kingdom the agent banks' activities are concerned only with private concerns, loans granted to nationalized concerns being guaranteed by the government.

90.8 Since 1975 the Institution may include in the contract an extension clause for the benefit of the borrower. This clause applies to loans which, because of the need to match the terms of the Institution's corresponding borrowing, had to be granted for a shorter period than that originally planned, and permits successive renewals of the loan so as to approximate to or equal the total period originally intended by the Institution.

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), 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 and technical and social research* are few in number and date from the years 1958-59 and 1965-66. The fact that operations in these areas have been reduced is mainly due to a change in the methods of financing projects in these two sectors: loans have given way to subsidies.

91.2 Loans granted out of ECSC own funds are thus primarily used 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 bear (1 %), these establishments usually undertake in turn to lend the sums received from the ECSC to industrial concerns 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 financial establishments and banks which grant the loans to beneficiaries.

Programmes receiving assistance must be approved and checked by the ECSC, which also requires security on the loans it grants. This security may be one of many types but is often either a government guarantee given by public sector 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 moderate.

Loans of this type are always paid in the currency of the country in which the borrower is established. This eliminates all exchange risks for the borrower 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 pension fund was built up from contributions paid by the ECSC and employees covered by the ECSC Staff Regulations 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 % for the purpose either of guaranteeing social rehabilitation commitments or of 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 elsewhere in this annex (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 given in accordance with the terms of Article 54 of the Treaty, i.e. with due regard to the objectives envisaged (loans to assist the implementation of investment programmes, or with the assent of the Council, works and installations which contribute to increasing production, reducing production costs or facilitating the marketing of products).

In accordance with normal banking procedure, the ECSC receives remuneration for the guarantees it grants 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 specified that the Institution may not itself engage in banking operations relevant to its financial activities and Article 52 requires all Member States to take 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, 1974 and 1975 when it received allocations (2 x 10 million u.a. and approximately 20 million u.a.) from Denmark, Ireland and the United Kingdom as part of their accession contribution. Expressed in EUA, this amount was 150 million EUA in 1975 and had been increased to 160 million EUA at 31 December 1976 out of management surpluses.

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.

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 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 1976 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 a joint 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) (1), 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 (2).

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

96.0 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 and,

(1) This decision was amended by that of 1 December 1976 (2963/76/ECSC) which laid down the rates and amounts of assistance to be given.

(2) 1972 Auditor's Report, Nos 200 to 202.

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 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., for the third year 0.400 u.a. per tonne, or not more than 6 million u.a. and, for subsequent years, 0.422 u.a. per tonne, or not more than 6.33 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 three years be 1.107 u.a. per tonne, or not more than 16.6 million u.a. per annum, for the fourth year 1.168 u.a. per tonne, or not more than 17.513 million u.a., for the fifth year 1.083 u.a. per tonne, or not more than 16.353 million u.a. and, for the sixth year, 0.626 u.a. per tonne, or not more than 9.284 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., and for the third year 0.493 u.a. per tonne, or not more than 7.4 million u.a. For the fourth year it will be 0.52 u.a. per tonne, or not more than 7.807 million u.a., for the fifth year 0.288 u.a. per tonne, or not more than 4.326 million u.a., and for the sixth year 0.218 u.a. per tonne, or not more than 3.271 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 sales) 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 73/287/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 30 December 1974 to associations of coal and of iron and steel undertakings states the implication of provisions relating to long-term contracts. ⁽²⁾

⁽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.

⁽²⁾ OJ C 160 of 30. 12. 1974.

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 procedures 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 which take account of the proportion of coal consumed in production intended for use in Community blast furnaces. These are based on standard questionnaires drawn up by the Institution to ensure easy comparability and which ask for economic data (origin of supplies and breakdown of production) and financial details (calculation of the coefficient). In the case of an enterprise which operates its own blast furnace, the tonnage of coke used is converted into the tonnage of coal processed in this way by application of the ratio 1.33:1.

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 pays its own contribution into the special fund.
- 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 out of the special fund.

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 eight 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 appro-

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 of 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 year's 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 FB 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 17 June 1971, which came into force the following day, the Commission set out the provisions for implementation of a new system of loans 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 4.3 %, including the cost of insuring the balance outstanding (0.3 %). 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. This period was reduced to three years on 10 June 1976 on condition that the beneficiary is covered, until such time as he *has* completed five years' service, by an insurance against his leaving the service ;
- 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 current Commission rate ;
- 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.

104.2 A number of measures were subsequently taken, either to establish and apply stricter priorities in the choice of beneficiaries, since the funds available were insufficient in view of the number of applicants, or to amend certain aspects of procedure in the payment and repayment of loans in view of difficulties caused by monetary fluctuations.

As from 25 July 1975 the selection criteria previously applied to favour lower-income borrowers were replaced by a scale operating on a 'bonus-malus' basis.

This system may be summarized as follows :

Each applicant has a basic index of 100 points to which 'malus' points are added if the property is not being built at the place where he is posted or if the property is a second property. Points are also given, depending on his basic salary (scales applying on 1 July 1974), and these are also weighted to take account of his grade. The result varies from 16 points for an employee of grade D/4, 1st step, to 337 points for the employee of grade A/1, 6th step.

Points deducted ('bonus' points) are determined on age, length of service, marital status and number of dependent children.

The result of these 'bonus-malus' calculations is a classification in which the lowest number takes priority.

These objective criteria may be amended by the Loans Committee which can add or deduct up to 20 points, depending on how deserving it considers the applicant's case to be or in consideration of his financial or family circumstances.

It was also decided that, as from 25 July 1975, loans would be expressed and paid in Belgian francs and that sums retained and interest payments and repayments due, plus any repayments made to the Institution, would also be expressed in Belgian francs.

In the case of earlier contracts, expressed in another currency and under which the funds had been disbursed in whole or in part by the Institution, service of the loan continues as before, unless the official has asked for his capital debt to be converted into Belgian francs within two months of the new procedure's coming into force. Conversion into Belgian francs is done at the average rate for the third currency on the Brussels foreign exchange market on the relevant transaction date.

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.

Internal rules for the drawing up and implementation of the operational budget of the ECSC

106 The ECSC was not endowed under the Paris Treaty with a conventional budget structure and procedures. This is due to the structure of the Institution which vested both legislative and executive powers in the High Authority. It is thus not possible, as it is in the other Communities, to distinguish between these powers and to separate the budgetary authority from the administrative executive or to establish real financial rules — a form of instrument not provided for in the Treaty — from which the budgetary authority can organize the applicable budgetary laws.

Since the merger of the Executives, management of the ECSC's operating expenditure has been entrusted to the European Communities and forms part of the general budget. In the financial statements of the ECSC this appears as a single expenditure item of an annual flat-rate amount of 18 million u.a., representing its contribution to the resources of the European Communities. The legal justification of all its other expenditure is always a contract, which is clearly more appropriate to a commercial-type activity than to one of a public nature.

The ECSC's financial activities may be divided into two major sectors, the service of borrowings and loans and the granting of financial aids. The former is administered in accordance with normal banking practice, whilst the latter is dealt with by administrative departments, the most important of which, for financial matters, is a department of the Directorate-General for Budgets. This Directorate-General has adopted a presentation which constitutes an internal budget, as its name 'operational budget of the ECSC' suggests.

Since the inception of the ECSC this 'budget', which may only be used for the granting of assistance paid out of levy income, has been drawn up and implemented by different departments in accordance with a series of *ad hoc* decisions taken by the High Authority. Under a decision of 2 August 1976, all previous practices were codified and supplemented in the form of the 'Internal rules for the drawing up and implementation of the operational budget of the ECSC'. These Rules do not interfere with the financial autonomy of the ECSC and its particular mechanisms, but have taken over the essentials of the general budgetary principles of the financial rules which govern the administrative budget.

107 The 'Internal Rules' may be analysed briefly as follows.

107.1 Title I, 'General Principles', defines the concepts of 'requirements' (expenditure) and 'resources' (income), the nomenclature of the operational budget and the functions of the authorizing officer, the internal financial controller and the accounting officer. These two latter functions are exercised respectively by the financial controller and the accounting officer responsible for implementation of the administrative budget.

Title I also details the respective responsibilities of the 'technical administering officer' and the 'financial administering officer'.

The 'technical administering officer' holds extensive management powers, from the organizing of meetings to the drafting of decisions to constitute provisions (commitments), checking the due implementation of agreements or contracts and the authorizing of payments.

The 'financial administering officer' acts as advisor to the technical administering officer. His main responsibility is for implementing the financial terms of agreements or contracts.

The *resources* allocated to this activity are themselves specified in such a way that one discerns a budgetary equilibrium which is created by the rules, given in the Treaty and restated in Title I, whereby resources have to be allocated to certain specific types of *expenditure*.

107.2 Title II describes the procedure leading to the presentation of the operational budget.

107.3 Title III deals with the implementation of this 'budget'. It provides for subdelegations of powers and the apportioning among the Directors-General of the responsibilities of the technical and financial administering officers for the various categories of expenditure. A second section lays down the administrative procedures for expenditure operations, principally the creating of provisions, the contracting of legal commitments and payments out of provisions.

107.4 Title IV deals with the organization of the accounts.

107.5 Title V, defining the responsibilities of the delegated authorizing officers, administering officers, the financial controller and the accounting officers, restates the general principles which are also given in the financial rules applicable to the administrative budget.

107.6 Title VI, which contains one article only, stipulates that the Institution must draw up the implementing account for the operational budget by 30 April at the latest.

ANNEX II

The iron and steel scrap compensation system

108 General

The settlement account of the single Office in charge of the compensation machinery was instituted under Decision No 19/65 and has been in operation since 1 January 1966. It records the operations involved in winding up the system :

- The pursuit of claims against defaulting debtor enterprises for recovery of contributions in arrear ⁽¹⁾ and against scrap dealers for compensation amounts improperly received for 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 arising from changes in the basis for assessment of contributions.

We refer you to the condensed management account at 31 December 1965 ⁽²⁾, on the basis of which the final rates of contributions and of interest were set by Decision No 19/65 of the High Authority dated 15 December 1965.

109 Extent of our audit

As regards operations for winding up the iron and steel scrap compensation system, our audit is confined to ensuring that the settlement account at 31 December 1976 is correct and balanced. To this end we conducted examinations at the Directorate-General for Internal Market and Industrial Affairs (Directorate for Steel) of the state of the settlement account at 31 December 1976 and, in the case of bank holdings, checked that the balances shown in the ECSC's accounts tallied with the statements of account issued by the banks.

110 Condensed account of settlement operations at 31 December 1976 and notes

The position of the settlement account as at 31 December 1976 is as follows :

Assets		Liabilities	
	u.a.		u.a.
Enterprises' current account	54 175	Provision for debtor enterprises subject to a court order	47 600
Banks	176 225	Accounts payable	6 575
		Temporary account	7 235
		Unallocated balance	168 990
	230 400		230 400

⁽¹⁾ These amounts can be found on the assets side of the statement of account given in No 110 (enterprises' current account).

⁽²⁾ 1965-66 Auditor's Report, No 99.

As we explained last year, it is not possible to consider as valid a statement of account which combines units of account of different values.

On the basis of the amounts given in the currency used for the operations and of the binding provisions of Decision No 21/60 of 20 July 1960 (1), the following table may be taken as a precise and realistic presentation of the state of the account at the end of 1976.

Assets		Liabilities	
	u.a.		u.a.
Enterprises' current account	54 175	Provision for debtor enterprises subject to a court order	47 600
Banks	278 108	Accounts payable	6 575
		Temporary accounts :	
		Administrative expenses payable in 1976	7 235
		Amount available for distribution	270 873
	332 283		332 283

110.1 There was in fact no change from the situation at the end of 1975, except for an eighth distribution of settlement refunds and a very small amount (81 u.a.) recovered from an enterprise which went bankrupt.

Otherwise there is only the case of this same enterprise whose outstanding debt (54 175 u.a.) is thought to be probably irrecoverable, hence the equivalent total (47 600 u.a. + 6 575 u.a.) which is covered under liabilities. The first of these two sums — anticipating the chances of recovering the debt by the time bankruptcy proceedings are concluded — represents the net loss to be charged to the Compensation Office, while the second represents the Office's debt to the ECSC, which provisionally repaid the fines previously collected. This method of presentation is explained by the fact that it was agreed that successive payments should be used to discharge liabilities in the following order: interest on arrears, then the principal of the contribution and lastly penalties, while any deficit — as in this case — was to be charged in the opposite order.

(1) OJ No 54, 24. 8. 1960 :

Article 2

The amounts in units of account

(a) to be paid to undertakings established in

- the Federal Republic of Germany, excluding the Saar ;
- Belgium ;
- Italy ;
- Luxembourg ;
- the Netherlands, and

(b) to be paid by the undertakings referred to in (a) above.

... are converted to national currency at the following respective rates : DM 4-20, BFr 50, Lit 625, LFr 50 and Fl 3-80 for one EMA unit of account.

Article 3

For undertakings in France and the Saar, statements are drawn up in French francs in accordance with the following procedure : ...

4 ... The parities to be applied for one EMA unit of account are as follows :

- for the period from 1 April 1954 to 31 October 1957 inclusive : FF 350
- for the period from 1 November 1957 to 31 December 1958 inclusive : FF 420
- for the period 1 January to 30 April 1959 inclusive : FF 4-93706

Thus, bank deposits (278 108 u.a.) less administrative costs due at 31 December 1976 (7 235 u.a.) will provide the sum available for a subsequent distribution (270 873 u.a.), though this may again be reduced by the amount of further costs or exchange differences on the operation.

These accounts should ideally be closed without delay, before the amounts remaining in them are reduced any further.

110.2 The following table summarizes all amounts granted to beneficiary enterprises, either in the form of cash payments or by way of writing off their debt to the iron and steel Compensation Office.

Distributions per settlement period		Amounts actually distributed u.a.	Amounts credited to debtor enterprises u.a.	Amounts paid to other enterprises u.a.	Rounding-off of individual statements u.a.	Amounts shown in statement published in the Official Journal u.a.
1st	10. 3. 1967	1 549 991.79	97 118.40	1 452 873.39	8.21	1 550 000
2nd	8. 3. 1968	1 359 921.58	50 120.54	1 309 801.04	78.42	1 360 000
3rd	26. 4. 1969	664 885.—	12 555.51	652 329.49	115.—	665 000
4th	29. 6. 1971	959 058.65	14 684.50	944 374.15	— 58.65	959 000
5th	28. 1. 1972	1 917 867.37	27 250.77	1 890 616.60	132.63	1 918 000
6th	31. 12. 1972	1 167 286.84	14 716.01	1 152 570.83	13.16	1 167 300
7th	30. 4. 1974	891 339.29	8 524.51	882 814.78	60.71	891 400
8 ^e	14. 9. 1976	566 507.73	3 295.59	563 212.14	— 7.73	566 500
Total		9 076 858.25	228 265.83	8 848 592.42	341.75	9 077 200

TABLE 26

Conversion into ECU, at the rate obtaining on 31 December 1976, of the balance sheet at 31 December 1975

ASSETS		LIABILITIES	
EUA		EUA	
I. <i>Disbursed loans</i> (1)		I. <i>Borrowings</i> (1)	
A. Loans granted out of borrowed funds		in US dollars	1 001 911 521
— to finance industrial investments	2 039 162 532	in German marks	563 013 709
— for industrial structural reorganization	317 561 209	in Italian lire	137 471 912
— to finance social housing construction	23 888 460	in Dutch guilders	56 660 488
		in French francs	136 973 559
B. Other loans		in Belgian francs	116 285 293
— out of the special reserve, to finance social housing construction	104 337 455	in Luxembourg francs	148 786 458
— for rehabilitation	331 480	in Swiss francs	271 302 396
— for research	2 498 766	in units of account	68 555 226
— miscellaneous (out of the former pension fund)	14 325 899		21 879 638
	121 493 600		2 522 840 200
II. <i>Cash and banks</i>		B. <i>Outstanding redemption premiums</i>	
A. Current accounts	12 533 347	in French francs	10 125 000
B. Fixed deposits	394 034 277	in Belgian francs	1 250 000
	406 567 624		2 524 673 519
III. <i>Short and medium-term investments</i>		II. <i>Reserves</i>	
IV. <i>Portfolio</i>	31 114 831	A. Guarantee fund	150 000 000
V. <i>Real estate</i>	78 724 841	B. Special reserve	103 000 000
	1		253 000 000
VI. <i>Recoverable issuing costs</i>	38 448 302	III. <i>Provisions</i>	
VII. <i>Miscellaneous</i>		A. Financial assistance	
A. Debtors under the levy	4 404 749	— Rehabilitation	125 561 098
B. Financial debtors	3 755 667	— Research	48 231 333
C. Deposits for coupons and bonds due but not yet presented	50 923 320	— Assistance under Article 56	9 149 430
	59 083 736	— Assistance under Article 54	10 219 567
VIII. <i>Accrued income</i>		— Assistance to coke	6 331 372
A. Interest and fees accrued but not yet due on deposits, portfolio, loans and guarantees	61 850 292		199 492 800
B. Levy declared for December 1975 production but payable after 31. 12. 1975	5 953 617	B. Other provisions	
	67 803 909	— Future commitments	15 002 693
		— Sundry provisions	26 502 000
			41 504 693
		IV. <i>Former pension fund</i>	240 997 493
			36 679 361
		V. <i>Miscellaneous</i>	
		A. Coupons and bonds payable	51 038 383
		B. Sundry creditors	115 753
			74 711 799
		VII. <i>Unallocated balance</i>	2 748 490
	3 183 849 045		3 183 849 045
SUSPENSE ACCOUNT		SUSPENSE ACCOUNT	
I. Enterprises' liabilities under guarantee	23 881 950	I. ECSC's liabilities under guarantees	23 881 950
II. Due on bonds	74 291 716	II. Bonds payable	74 291 716

(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 : 52 917 400 — Item II : 108 574 — Item VIII : 1 066 660

(1) Borrowings secured by the Act of Pledge total 52 917 400 ECU

(2) Of which secured notes 976 385 ECU

TABLE 27

Financial position of the European Coal and Steel Community at 31 December 1976

ASSETS

(Balance sheet)

		EUA		EUA	
I. Disbursed loans (1)					
A. Loans granted out of borrowed funds		2 963 093 831			
— to finance industrial investments		359 120 189			
— for industrial structural reorganization		23 784 097		3 345 998 117	
— to finance social housing construction					
B. Other loans		112 274 091			
— out of the special reserve, to finance social housing construction		304 962			
— for rehabilitation		2 391 438			
— for research		15 796 505		130 766 996	
— miscellaneous (out of the former pension fund)					
II. Cash and banks		11 820 468		3 476 765 113	
A. Current accounts		411 163 844		422 984 312	
B. Fixed deposits				28 607 183	
III. Short and medium-term investments				73 042 998	
IV. Portfolio				331 917	
V. Real estate				53 107 717	
VI. Recoverable issuing costs					
VII. Miscellaneous		16 804 639			
A. Debtors under the levy		9 033 214			
B. Financial debtors				89 904 271	
C. Deposits for coupons and bonds due but not yet presented		64 066 418			
VIII. Accrued income		84 977 920			
A. Interest and fees accrued but not yet due on deposits, portfolio, loans and guarantees		7 210 236		92 188 156	
B. Levy declared for December 1976 production but payable after 31. 12. 1976					
				4 236 931 667	
				20 604 035	
				20 604 035	

SUSPENSE ACCOUNTS

I. Enterprises liabilities under guarantees 20 604 035

I. ECSC's liabilities under guarantees 20 604 035

I. A. Borrowings (1)
in US dollars (US \$)
in German marks (DM)
in Italian lire (Lit)
in Dutch guilders (fl)
in French francs (FF)
in Belgian francs (FB)
in Luxembourg francs (Flux)
in Swiss francs (Sfr)
in Canadian dollars (CAN \$)
in £ (£)
in units of account (u.a.)

1 499 349 552
732 263 576
132 417 797
97 473 862
215 419 017
112 697 983
161 439 943
398 356 621
43 777 854
61 699 703
19 957 778

1 694 250 000
1 954 689 744
131 000 000 000
270 836 000
1 210 000 000
4 582 300 000
6 564 148 094
1 100 500 000
50 000 000
45 000 000
13 500 000

B. Repayment premiums to be paid
in French francs (FF)
in Belgian francs (FB)

3 474 853 686
1 633 033

II. Reserves
A. Guarantee fund
B. Special reserve

160 000 000
122 000 000

III. Provisions
A. Financial assistance
— Rehabilitation
— Research
— Assistance under Article 56
— Assistance under Article 54
— Aid to coke

128 200 818
50 080 281
9 046 757
9 254 036
3 850 000

B. Other provisions
— Future commitments
— Sundry provisions

200 431 892
27 091 544
29 110 538

IV. Former pension fund

56 202 082

V. Miscellaneous
A. Coupons and bonds payable
B. Sundry creditors

64 066 418
5 065 705

VI. Accrued liabilities (2)
Interest and fees accrued but not yet due on borrowings and guarantees

113 546 444

VII. Unallocated balance

47 862

4 236 931 667

(1) Up to July 1961, claims and related surties 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 Basle in favour of the Holders of secured notes and coupons holders by the ECSC and indicated in note (1) to the balance sheet liabilities. The amounts pledged were:
Item I : 41 396 750 — Item II : 37 944 — Item VIII : 797 674

(1) Borrowings secured by the Act of Pledge total : EUA 41 396 750
(2) Of which secured notes total : EUA 756 498

TABLE 28

Management account of the European Coal and Steel Community for the year 1976
(Statement of income and expenditure)

EXPENDITURE	EUA	INCOME	EUA
I. <i>Service of borrowings and guarantees</i>		I. <i>Service of loans and guarantees</i>	
Borrowings		A) Loans granted out of borrowed funds	
— Interest on borrowings	252 705 646	— Interest on loans	246 994 064
— Fees to custodian and agent banks	2 383 280	— Interest on borrowed funds not disbursed	12 239 788
— Miscellaneous expenditure	401 572	— Sundry revenue	9 973 051
— Payment of recoverable issuing costs	7 819 906	Total revenue from loans granted out of borrowed funds	269 206 903
Total expenditure for borrowings	263 310 404	B) Guarantees	
II. <i>Budgetary expenditure</i>		— Fees credited	107 994
— Administrative expenditure	15 639 210	Total revenue from loans out of borrowed funds and guarantees	269 314 897
— Rehabilitation expenditure	21 808 299	II. <i>Levy</i>	
— Research expenditure	29 485 073	— German enterprises	31 522 640
— Assistance under Article 56	4 286 502	— Belgian enterprises	6 982 053
— Assistance under Article 54	3 743 852	— British enterprises	20 363 517
— Assistance to coke	9 225 505	— Danish enterprises	387 999
Total budgetary expenditure	84 188 441	— French enterprises	14 711 290
III. <i>Other expenditure</i>		— Irish enterprises	38 047
— Financial costs	38 626	— Italian enterprises	13 138 671
IV. <i>Excess of income over expenditure</i>		— Luxembourg enterprises	2 492 198
	55 874 470	— Dutch enterprises	2 972 999
		Total from levy	92 609 414
		III. <i>Other Income</i>	
		— Interest on bank deposits and portfolio	28 000 928
		— Interest on loans granted out of non-borrowed funds	1 746 705
		— Interest on arrears	1 171
		— Miscellaneous income	371 781
		— Adjustment for monetary parities	11 367 045
		Total other income	41 487 630
		Sum total	403 411 941
	Sum total		
	403 411 941		

