

COMMISSION OF THE EUROPEAN COMMUNITIES

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DRAFT ECSC OPERATING BUDGET FOR 1995

(presented by the Commission)

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FOREWORD

As usual, the views of Parliament will be sought before the Commission takes a decision on the levy rate and the ECSC operating budget for the financial year 1995.

The draft budget forms the basis for the consultation of Parliament. It is divided into the following chapters:

- I. General introduction***
- II. Draft ECSC operating budget for 1995***

The draft budget is also being sent, for information, to the ECSC Consultative Committee and to the Council, in response to the latter's request to be informed of future trends in the ECSC's financial activities.

I. GENERAL INTRODUCTION

This chapter summarizes the information needed to set the draft ECSC operating budget for 1995 in its economic, policy and financial context.

A. ECONOMIC AND POLICY CONTEXT

A.1. The economic outlook for the Community in 1994 and 1995

After three quarters of negative growth, real GDP has increased since the second quarter of 1993 at an annual rate of 1 to 2%. This rise marks a reversal of the recent trend in economic activity in the Community, although it can hardly be described as signifying a strong recovery.

There was a slight contraction of Community GDP in real terms in 1993 (-0.3%), as factors conducive to growth (the gradual easing of monetary conditions in the Community during the last eighteen months, improvement in the international environment due to a recovery in economic activity in the United States and EFTA, together with expectations of a rise in the value of the dollar against EC currencies and a moderate upturn in confidence in the private sector) were offset by factors having the opposite effect (tight monetary policy, the crisis in consumer confidence, lack of competitiveness, an increase in unemployment and, more recently, efforts at fiscal consolidation in some Member States). However, GDP may grow by 1.6% in 1994 and, as the recovery gradually takes hold, average growth for 1995 should be around 2.5%.

The sluggish rate of growth in 1994 will not make a major impact on the depressed labour market, but the expected decline in employment in the Community should be moderate (around 0.5%) compared with the 2% drop in 1993. As the recovery gathers pace in 1995, employment will grow again by around 0.3%. Unemployment, which affected 10.6% of the civilian working population in 1993, is expected to rise further in 1994 and is not likely to peak until mid-1995 at a level of around 11.5%.

Inflation, as measured by the private consumption deflator, continued to fall in 1993 to 3.75%. Influenced by moderate wage increases, improvements in unit labour costs and the Community's large production gap, it should fall further to below 3.5% in 1994 and around 3% in 1995.

Because of the lack of vigour of the recovery, the Community's budget deficit (which rose to around 6% of GDP in 1993) is expected to fall only slightly in 1994, despite the budgetary consolidation programmes implemented in many Member States. An improvement is expected for 1995, with the deficit probably dropping to around 5% of GDP -- the level recorded in 1992.

	GROSS DOMESTIC PRODUCT, AT CONSTANT PRICES (Percentage change over previous year)		
	1993	1994(*)	1995(*)
COMMUNITY	- 0.3%	1.6%	2.5%

(*) June 1994 forecasts.

A.2. Outlook for the coal industry

Community production fell by 13% from 183.7 million tonnes in 1992 to 160 million tonnes in 1993. Imports from non-member countries were down 15% on 1992 from 131.2 million tonnes to 116.2 million tonnes.

The outlook for 1994 suggests Community coal production will continue to decline, with a drop of at least 18 million tonnes (-11%). A maximum of 142 million tonnes would thus be produced, while imports could fall by 2% to 114 million tonnes.

In 1995 Community production is expected to decline further to around 131 million tonnes.

Demand on the international market is notoriously slack and coal prices have been falling constantly because of the resulting surpluses. International demand in 1994 is unlikely to be strong enough to push prices up again. At the end of 1993 the price of imported steam coal was USD 48 dollars per tonne of coal equivalent (tce), 8.4% down on 1992.

By way of comparison, production costs in the Community in 1993 were ECU 151 per tce in Germany, ECU 131 per tce in Spain, ECU 108 per tce in France and ECU 62 per tce in the United Kingdom.

		COAL INDUSTRY		
		1993	1994(*)	1995(*)
Production	millions of tonnes	160	142	131
Jobs	at 31.12.	184 000	167 000	153 000

(*) Estimate.

The Commission's prime objective in coal policy is still to ensure that production takes place in economically acceptable conditions and that economic and social cohesion measures continue in the declining coalfields. From this angle, the policy of monitoring State aid assumes considerable importance among the Community's activities and has been strengthened by the new Community rules for State aid to the coal industry adopted by the Commission.¹

The Commission observes that, despite the restructuring process which has been going on for many years and the granting of aid totalling over ECU 75 billion since 1965, the coal industry is still facing an extremely critical situation. Although some coalfields have managed to increase productivity and reduce production costs, the average cost of production in the Community is still ECU 110 per tce, compared with a price of around ECU 40 on the world market. That is why the Commission felt that the ban on State aid to the coal industry imposed under Article 4 of the ECSC Treaty should be suspended until 23 July 2002 subject to certain conditions, .

As the Treaty is due to expire in 2002, the new rules cover the transitional period required to integrate the coal industry fully into the EC Treaty. They will make it

¹ OJ L 329, 30.12.1993.

possible to pursue restructuring efforts, while taking into account social and regional constraints.

The aid granted under the new rules must help achieve at least one of the following objectives:

- to make further progress towards economic viability, in the light of coal prices on international markets, with the aim of running down aids;
- to solve the social and regional problems created by total or partial reductions in the activity of production units;
- to help the coal industry adjust to environmental protection standards.

To this end, aid is classified in various categories: operating aid, aid for the reduction of activity, aid to cover exceptional costs, aid for research and development and aid for environmental protection.

A.3. Outlook for the steel industry

Since the Commission communication of 23 November 1992 presenting a set of measures to encourage and facilitate the restructuring process,² the situation in the Community steel market has seriously deteriorated. Domestic consumption fell by 9% between 1992 and 1993; the biggest drop was for hot-rolled products (down 13% in the first half of 1993).

1993 was a year of general recession (with GDP down by 0.3%), but, according to the Commission's present forecasts, economic growth in 1994 and 1995³ will probably be too weak to enable demand for steel to recover and exceed its 1992 level. It will only reach that level in 1995 if the economic recovery in sectors which use large quantities of steel, in particular the motor vehicle and building industries, speeds up from the second half of 1994 onwards.

In the first half of 1993 there was a considerable improvement in the balance of trade with non-member countries, in particular with China and -- from the second quarter onwards -- with North America. There was also a sharp fall in imports from Central and Eastern Europe and the CIS.

However, this improvement was exceptional and is unlikely to be repeated in 1994, although a modest recovery is expected in 1995 (a positive balance of 10 million tonnes compared with 8 million in 1992).

² SEC(92) 2160.

³ See table on page 4.

		STEEL SECTOR		
		1993	1994(*)	1995(*)
Gross steel production	(million tonnes)	132	133.5	135
Jobs		320 000	288 000	260 000

(*) Estimate

In a Communication to the Council in November 1992 on the competitiveness of the Community iron and steel industry, the Commission concluded that there was a need for new restructuring.

The Council endorsed the Commission's approach in its conclusions of 25 February 1993. The overall concept of the restructuring policy runs on along two parallel lines: the drawing up of a programme of reduction of capacities on the part of industry and a variety of support measures to assist the programme.

During 1993, all the support measures have been put into effect. They cover:

- measures of support in the social field under the social dimension of steel policy with a total budget of ECU 240 million for the period 1993-95;
- improvement of structures through the authorization of specialization agreements and/or mergers;
- authorization of financial arrangements under Article 53(a) ECSC. In this context, the Commission authorized three agreements on coils, heavy plate and beams in December 1993. These will be eligible for ECSC loans;
- market stabilization measures. To this end, since April 1993 the Commission has formulated overall quarterly guidelines on production and deliveries in the Community, broken down by product category, in addition to its six-monthly forward programmes;
- external measures, including an *ex ante* monitoring system based on import documents and an *ex post* system based on import statistics. In June 1993 the Commission also negotiated an increase in tariff quotas with the Czech Republic and Slovakia up to the end of 1995. The Commission will resume negotiations on the Multilateral Steel Agreement (MSA) as soon as possible and bilateral agreements will be negotiated with Russia and Ukraine, at the express request of those two countries.

The overcapacity in hot-rolled products is estimated at between 19 and 26 million tonnes.

On the basis of the Commission's intermediate report, the Council, at its meeting of 22 April 1994, noted that capacity for hot-rolled products has already been reduced by a total of around 11 million tonnes, divided equally between subsidized firms and the remainder of the industry in the private sector. The closures compensated by State aid, under Article 95 ECSC, concern the restructuring or privatization of six firms for which the Council gave its assent on 17 December 1993, establishing, among other things, a strict monitoring system.

On 15 June 1994 the Commission stressed that the minimum closure target of 19 million tonnes would be maintained and it confirmed its commitment to reaching this target. Guidelines were laid down to make way for the authorization of aid to compensate the closure of iron and steel works in the private sector for a total capacity in hot-rolled products of around 5 million tons, thus making a considerable step towards reaching the intended minimum target for closures.

The Commission also called on private industry's sense of responsibility to implement the further closures that would be needed to complete the restructuring process required to reform the sector on a lasting basis.

In its conclusions of 22 June 1994 the Council reaffirmed its support for the approach put forward by the Commission.

A.4. Future of ECSC budgetary aids

The ECSC's budgetary instruments, as provided in the Treaty and subordinate legislation, need to be deployed by the Community on a basis which takes account not only of the economic and policy constraints indicated above, but also of more specific budgetary constraints.

These budgetary constraints spring from the Commission's approach, as developed in dialogue with the other interested parties, to the tapering off of financial operations under the Treaty of Paris in anticipation of the expiry of that Treaty in 2002.

These transitional arrangements, outlined below, necessarily concern both the borrowing and lending activity of the Community, the level and scope of which directly affect the availability and potential use of budget resources and the level and scope of the budget itself.

The transitional arrangements for ECSC borrowing and lending are covered in a document promulgated by the Commission last October (COM(93)512 of 20 October 1993) to which Parliament reacted in its Resolution (A3-223/94) of 21 April 1994 and the Council in the conclusions adopted at its 1750th meeting on 22 April 1994. Very broadly, during an initial period, borrowing and lending activity, while remaining sensitive to needs specially connected with the restructuring effort, is to be kept down to a level which avoids increasing the reserves. Thereafter, as from 1997, there should be a progressive decline, at a rate to be examined annually in connection with the budget procedure, in the volume of outstanding loans and, consequently, in the reserves.

The main point affecting the level and scope of the operating budget is the recent sharp decline in annual resources, which have fallen from an outturn of nearly ECU 600 million in 1993 to a recently revised forecast outturn of ECU 427 million in 1994. For 1995, on present information, if the proposals set out in Chapter II below are put into effect, the forecast level will undergo a further reduction to just ECU 291 million.

The reasons for this decline are simple. The two industries which pay to the ECSC levies, on which the Community's specific regime of budgetary aid is grounded have made clear, with support from the Council and Parliament, their anxiety to be relieved from the burden of this sectoral tax without undue delay. The Commission,

as the authority responsible for the ECSC levy and budget, has accepted this objective.

As a natural consequence, along with the decline in sectoral finance, the coal and steel sectors will become eligible for their proper share of corresponding financial aids granted from the General Budget for the European Union.

Given this decline, the precise phasing, for each aid, of the transition from the sectoral regime which these industries have enjoyed for some 40 years to such horizontal aids as are available in the same field under General Budget arrangements will depend both on what is done to cover the relevant needs of the coal and steel sectors by General Budget instruments and on the priorities applied in allocating the ECSC budget's shrinking resources year by year between the competing claims.

The questions of priority are difficult, because the General Budget aids are, in general, less favourable than the specially financed specific aids granted hitherto. In any case, although the sources of the General Budget aid most clearly corresponding to the sectoral ECSC aids are clear, it is not possible to specify in advance what level of horizontal aid will be granted from the General Budget to coal and steel beneficiaries.

Thus, for future social aid, ECSC needs would be covered, subject to the normal rules, from the European Social Fund; for research aids, the relevant source is the Framework programmes; for regional aid, i.e. interest relief grants for job-creating investment, the European Regional Development Fund.

Regarding availability of General Budget aids to the coal and steel sectors, however, given the objective recognized by the Council in its conclusions of 24 November 1992 of treating coal and steel on the same footing as other sectors, the Commission does not expect to propose the creation within the General Budget of new legal bases or specific budgetary headings offering special treatment for these two sectors. accordingly it is not possible to give an advance estimate of the amount of General Budget aid liable to be granted to them in future years.

All that can be stated is that:

- the amount of General Budget social aid granted for the coal and steel sectors in lieu of ECSC aid will depend, within the eligible aid categories, on the applications submitted year by year by Member States in accordance with the new Community Support Frameworks now being elaborated. this is currently under discussion with Member States' representatives;
- the amount of General Budget research aid granted for the coal and steel sectors in lieu of ECSC aid will depend on the success with which, within the eligible research areas, aid requests from those sectors compete year by year with requests from other sectors within the relevant parts of the 4th Framework Programme;
- the amount of General Budget regional aid granted for the coal and steel sectors in lieu of ECSC conversions aid will depend on the applications submitted by Member States in accordance with future Community Support Frameworks. In practice, however, although a legal base exists, Member States are not expected to utilize European Regional Development Fund

resources for this purpose in the timescale of the next Community Support Frameworks.

Against this background, the Commission's approach to the allocation of the diminishing resources available to the ECSC operating budget can only be a pragmatic one. In brief, utilization of the remaining sectoral resources will be proposed and decided by the Commission year by year, after taking due account of Parliament's views, as seems best for the restructuring of the two sectors.

B. FINANCIAL CONTEXT

B.1. Financial activities⁴

ECSC financial report No 39, outlining the ECSC's borrowing and lending activities and other financial operations in 1993, will be published shortly.

Borrowing contracted in 1993 totalled ECU 908 million, compared with ECU 1 474 million in 1992 and ECU 1 446 million in 1991.

Industrial loans amounted to ECU 217 million in 1993 compared with ECU 1 047 million in 1992 and ECU 505 million in 1991, conversion loans came to ECU 688 million, compared with ECU 426 million and ECU 859 million, and workers' housing loans to ECU 13 million, compared with ECU 13 million and ECU 17 million.

The forecast for 1994 is ECU 1 000 million in borrowing and loans. The forecast for 1995 is ECU 800 million.

Investment expenditure in the coal industry rose from ECU 653 million in 1992 to ECU 730 million in 1993. Investment expenditure in the steel industry in 1993 was ECU 3 092 million, 21.9% down on the ECU 3 957 million invested in 1992.

Borrowing and lending operations since the start of ECSC financial activities thus total ECU 22 866 million and ECU 21 549 million respectively (including ECU 350 million in loans from own funds).

The outstanding balance of loans raised at 31 December 1993 was ECU 7 330 million.

In 1993 the ECSC granted loans totalling ECU 918 million, 38.2% less than the 1992 figure of ECU 1 486 million. The main reason for this fall in the volume of lending was the economic recession which affected all the Member States, while the uncertainty and inaction linked to the debate over the future of the ECSC's financial activities held back the canvassing for and appraisal of new loans.

Future lending activities will depend on the action taken on the guidelines for the future of the ECSC Treaty (borrowing/lending activity) adopted by the Commission

⁴ See summary table in Annex 4.

on 20 October 1993,⁵ on the economic situation and on the budget resources available for interest subsidies (Article 56).

According to information supplied by the companies, investment expenditure for 1994 is estimated at ECU 481 million for the coal industry and ECU 2 116 million for the steel industry.

B.2. Budgetary approach for 1995

The forecast of price increases to be used for assessing the 1995 draft budget is 3.1%.

The preparation of the ECSC draft budget for 1995 takes place in a setting of drastic economic transformations, accompanied by substantial job losses, in both the coal and steel sectors, but it is dominated by one simple fact: the steep decline in available resources already referred to at Point A above. Because of the conscious aim, also noted above, of cutting revenue, foreseeable budgetary resources, at less than half the level obtained in 1993, are manifestly inadequate to provide the same level of support as in the past for the sectoral policies of social aid for redundant workers and soft loans to create viable alternative jobs which are of obvious relevance to the restructuring process.

Faced with this conflict between increasing needs and diminishing resources, the Commission, after careful consideration, has decided, for the year 1995, to place in abeyance the policy it has applied over the last four years of annually abating by 0.02% the levy rate. It has, therefore, based the ECSC draft operating budget for 1995 on a levy rate of 0.21%.

As explained below, this approach makes available for 1995 a total of resources presently estimated at ECU 291 million, i.e. a third less than in 1994. Of this sum, it is proposed to allocate 70% (ECU 204 million) to social aid, the rest being split between conversion aid and research aid.

In addition, to supplement the declining sectoral aids, the Commission is taking administrative action to urge Member States to apply for European Social Fund support for potential beneficiaries in the coal and steel sectors and to ensure that sponsors of research in these sectors are fully aware of the possibilities open to them for seeking aid from the Framework Programme.

II. DRAFT ECSC OPERATING BUDGET FOR 1995

A. RESOURCES

On the basis of a rate of 0.21%, resources from the ECSC levy are estimated at ECU 96 million.

⁵ COM(93)512 final.

The net balance for 1995 is estimated at ECU 125 million. This estimate takes account of the volume of investments and the assumed changes in interest rates as well as any movements in reserves.

Debt repayment is estimated at ECU 6 million.

The cancellation of commitments not likely to be implemented is estimated at ECU 49 million.

In addition, a recent forecast on the implementation of the 1994 budget points to a likely surplus of ECU 13 million to be carried forward from the previous year.

Finally, ECU 2.0 million is released from the special reserve to balance the ECSC budget.

ECU 11.5 million is to be earmarked for the third tranche of the 12th low-cost housing programme. This is made up of foreseeable repayments of previously granted loans of the same type.

B. REQUIREMENTS

The Commission's proposals are as follows:

- ECU 5 million for administrative expenditure;
- ECU 204 million to finance social measures broken down into ECU 114 million for traditional redeployment aid, ECU 60 million for social measures in the steel industry and ECU 30 million for social measures in the coal industry;
- ECU 35 million for research expenditure broken down into ECU 24 million for steel, ECU 10 million for coal and ECU 1 million for social research. ECU 6 million of the allocation for coal will be earmarked for environmental projects, while environmental projects in the steel sector will come under the framework programme (general budget);
- ECU 47 million for interest subsidies for conversion loans.

C. DRAFT BUDGET

Annex 5 contains a detailed explanation of the above forecasts in respect of forecasts at 30 June 1994 regarding the implementation of the ECSC operating budget for 1994.

The draft ECSC operating budget for 1995 established on this basis comes to ECU 291 million and is presented in Annex 6 in the form of a summary table.

**EXPLANATORY NOTE ON THE FORECASTS AT 30 JUNE 1994
ON IMPLEMENTATION OF THE ECSC OPERATING BUDGET**

(see summary table in Annex 5)

There are three factors involving major changes to the forecasts on implementation of the ECSC budget for 1994. They are, in order of importance:

- the agreement reached with a steelmaking company regarding the amount of compensation it was to be awarded for losses incurred from the implementation of the quota arrangements that were in force between October 1980 and June 1988, thus releasing ECU 40.5 million;⁶
- the recent drop in the value as at 31 May 1994 of the ECSC's financial portfolio, resulting in a drop in the net balance of ECU 35 million;
- the result of the 1993 financial year which was ECU 7 million lower than forecast.

The implementation of the 1994 budget may, therefore, be forecast at 30 June 1994 to have a surplus of ECU 13 million.

The initial forecasts have been changed in the following chapters:

Requirements

1. **Chapter 7: damages and interest: ECU 21 million**

This amount represents the compensation owing to a steel-making company for losses incurred from the implementation of the quota arrangements that were in force between October 1980 and June 1988, in accordance with the agreement signed between the Commission and the company.

2. **Surplus: ECU 13 million**

Resources

1. **Article 1.1: yield from 0.23% levy - ECU 103 million**

The most recent forecasts point to a slight upturn in demand for iron and steel products, adding ECU 1 million to the levy yield forecast.

2. **Article 1.2: net balance of the financial year - ECU 115 million**

A drop in the current book value of the ECSC's financial portfolio means that the available net balance is ECU 35 million down.

3. **Article 4: ECU 6 million**

The recovery of amounts paid in excess is likely to be ECU 4 million for interest subsidies and ECU 2 million for research aid.

⁶ The difference between the amounts entered in Chapter 4 of Resources (Contingency reserve) and Chapter 7 of Requirements (Losses and interest).

4. **Chapter 2: cancellation of commitments not likely to be implemented - ECU 58 million**

Additional cancellations of ECU 8 million are to be made.

5. **Chapter 3: resources from the previous year (1993) not used - ECU 60 million**

The surplus from 1993 is ECU 60 million, which is ECU 7 million less than forecast.

6. **Chapter 4: contingency reserve - ECU 61 million**

ECU 91 954 337 was entered on the ECSC balance sheet on 31 December 1993 to cover any compensation the ECSC may be liable to pay to iron and steel companies for losses incurred from the implementation of the quota arrangements that were in force between October 1980 and June 1988.

An agreement was recently reached with an iron and steel company on the amount of compensation to be awarded. The ECU 61 million set aside as a provision following the dispute with the company may therefore be released and entered into the 1994 budget. The actual amount of damages is quoted above under point 1 (Chapter 7 "Damages and interest").

**ANALYSIS OF REQUIREMENTS AND
RESOURCES FOR 1995**

(see summary table in Annex 6)

OPERATIONS ENTERED IN THE BUDGET

Requirements

1. **Chapter 1: Administrative expenditure - ECU 5 million**

The ECSC contribution to the Commission's administrative expenditure is provided for in Article 50 ECSC and specified in Article 20 of the Merger Treaty. The Council Decision of 21 November 1977, adopted in this framework, set the annual amount of the payment at ECU 5 million.

2. **Chapters 2, 5 and 6: Social aid - ECU 204 million**

Social aid is granted under Article 56 ECSC and in accordance with the bilateral agreements concluded between the Commission and the Governments of the Member States.

The Commission provides non-repayable aid towards:

- the payment of tideover allowances to workers;
- the financing of allowances to workers taking early retirement;
- the payment of resettlement allowances to workers;
- the financing of vocational training for workers having to change job.

The grant of aid is conditional upon payment by the Member State concerned of a special contribution of not less than the amount of that aid. The average ECSC contribution per worker is subject to an overall ceiling and a ceiling for each standard situation. In addition, following the initiative of making the coal and steel industries eligible for aid schemes financed from the general budget, 13 000 workers in these industries may receive aid from the Social Fund.

2.1 **Chapter 2: Aid for redeployment - ECU 114 million**

31 500 steelworkers should receive traditional redeployment aid in 1995. The number of recipients in the coal industry is 19 000. This figure includes recipients of aid granted to the coal industry under Article 56(1)(c).

Given the overall ceiling and the intermediate ceilings to be applied in connection with wage levels and public authority contributions, the traditional aid required for 1995 is estimated at ECU 114 million.

2.2 **Chapter 5: Social measures in connection with the restructuring of the steel industry - ECU 60 million**

This chapter contains supplementary aid measures to cover job losses resulting from the reduction of capacity: aid for early retirement, redeployment (including vocational training) and unemployment.

It is also proposed that 8 000 coal and steel workers receive aid from the European Social Fund (phasing-in).

The number of recipients in 1995 is estimated at 19 500. The average amounts per worker will be a maximum of ECU 5 000 for early retirement, ECU 4 000 for redeployment and ECU 2 000 for unemployment aid. In view of these ceilings, the requirements to be financed in 1995 are put at ECU 60 million.

2.3 **Chapter 6: Social measures in connection with the restructuring of the coal industry - ECU 30 million**

This chapter contains supplementary aid under the social support measures in connection with the restructuring and rationalization of the coal industry and covers vocational training, unemployment and early retirement. A new programme was adopted by the Commission on 7 April 1994.⁷

In addition, it is proposed that 5 000 workers receive aid under the European Social Fund as part of the phasing-in operation.

The maximum number of recipients in 1995 is estimated at 7 500. The average amounts per worker will be a maximum of ECU 4 000 for early retirement, ECU 4 000 for redeployment and ECU 2 000 for unemployment aid. On the basis of these ceilings the level of aid for 1995 is estimated at ECU 30 million.

3. **Chapter 3: Aid for research - ECU 35 million**

Aid for research is granted under Article 55 ECSC, which states that the Commission must promote technical and economic research into the production and use of coal and steel and occupational safety in the coal and steel industries. To this end it grants aid to finance research after obtaining the opinion of the ECSC Consultative Committee and after receiving the Council's assent.

The Commission's approach is gradually to reduce the amount of aid, as some types of assistance (e.g. for generic research) could qualify for co-financing under the framework programme (general budget).

3.1 **Article 3.1: Steel - ECU 24 million**

Research is concentrated mainly on:

- improving quality and reducing production costs;
- maintaining traditional outlets for steel and opening up new markets.

Research on the adjustment of production processes in order to meet increasingly strict environmental requirements should now be covered by the framework programme.

3.2 **Article 3.2: Coal - ECU 10 million**

Research is concentrated mainly on:

- effective protection of the environment and increasing public awareness of the role of coal as an energy source;
- improving the competitiveness of coal;
- the rational use of Community resources.

3.3 **Article 3.3: Social research - ECU 1 million**

In view of the budgetary difficulties, further Community financing in this field is likely to be limited to expenditure of a transitional nature.

4. **Chapter 4: Conversion aid - ECU 47 million**

Conversion loans are granted under Article 56(2)(a) ECSC to encourage job-creating investments in regions hit by declining economic activity in the coal and steel industries. The purpose is to assist economic conversion of these regions and the productive redeployment of redundant coal and steel workers. The loans may be accompanied by an interest subsidy from the ECSC budget.

The rate now applicable to interest subsidies is 3% per year. Payment is staggered over five years.

⁷ Written procedure E/401/1994; C(94)699 to 699/6.

The operational rules for granting these loans -- the version currently in force was adopted by the Commission in 1990⁸ -- were supplemented by procedures for the coordination of these loans with Structural Fund programmes.⁹

The Commission expects heavy demand for this aid. However, in view of the limits of the resources available, it is proposing an allocation of ECU 47 million for 1995.

5. **Chapter 7: Damages and interest - token entry**

This article may be used where necessary to cover any damages which the ECSC may have to pay to undertakings for losses incurred under the quota arrangements in force between October 1980 and June 1988 (see also point 6 on page 15).

Resources

1. **Article 1.1: Yield from 0.21% levy - ECU 96 million**

Levies are imposed under Articles 49 and 50 ECSC and Decisions 2/52 and 3/52 of 23 December 1952. The forecast yield is an estimate of established entitlements in respect of output in the 1995 financial year calculated on the basis of the production declarations made by undertakings.

The levies are calculated on the basis of a fixed scale per tonne which is decided each financial year by the Commission and published in the Official Journal. In accordance with the Commission decision of 11 April 1983¹⁰, the reference period used to calculate the average values which serve as a basis for calculating the levy for 1995 will be the 1993 calendar year.

The levy rate for 1992 was 0.27%, the rate for 1993 was 0.25% and the rate for 1994 is 0.23%. The proposal for 1995 is 0.21%.

The latest estimates of the average values which serve as a basis for calculating the levies suggest that the figures for 1995 will be some 4% higher than in 1994 for steel, around 2% lower for coal and over 5% higher for briquettes and semi-coke derived from brown coal. However, as with the figures for the foreseeable volume of leviable production, there is a margin of uncertainty because all the requisite data are not yet available.

2. **Article 1.2: Net balance of the financial year - ECU 125 million**

The net balance of the financial year is the result of the ECSC's financial and budget operations minus all the provisions established as part of these operations and any transfer to the reserves.

Under its decision of 30 June 1993,¹¹ the Commission enters the full balance in the budget. As the exact figure of the balance is not determined until the Commission adopts the ECSC balance sheet and related accounts, the amount entered in the budget is an estimate.

3. **Article 1.3: Fines and surcharges for late payment - token entry**

This item is to accommodate the payment of fines and penalties imposed by the Commission, in particular under Articles 47, 58 and 60 of the ECSC Treaty. In view of the appeals made to the Court of Justice, the revenue in question should be regarded as deferred resources. Only payments expected in the course of the financial year are entered as budgetary resources.

⁸ OJ C 188, 28.7.1990.

⁹ OJ C 59, 6.3.1992.

¹⁰ OJ C 101, 14.4.1983.

¹¹ SEC(93)988 final.

4. **Article 1.4: Miscellaneous - ECU 6 million**

This article allows miscellaneous revenue to be entered as resources for the financial year (in particular, repayments of amounts paid in excess).

5. **Chapter 2: Cancellation of commitments not likely to be implemented - ECU 49 million**

This item is based on the Internal Rules for the drawing up and implementation of the ECSC operating budget, which state that, once all parties have discharged their obligations under a commitment, any remaining part of the provision will be cancelled. Any remaining part of a provision for a contract or agreement for which obligations have not been satisfied in accordance with the contractual requirements may also be cancelled in full or in part. The amounts thus released become available again as resources for the current financial year.

The estimate shown in this chapter relates to normal cancellations involving redeployment and interest subsidies on investment and conversion loans. Other amounts relate to the cancellation of balances remaining in respect of completed research contracts.

It is difficult to estimate the rate of cancellation as it depends on several factors, such as negotiations with the national or regional authorities in the case of redeployment aid and social measures and with the banks for loans bearing interest subsidies. The estimated figure for 1995 assumes a sustained rate.

6. **Chapter 3: Resources from the previous year not used - ECU 13 million**

This item allows any surplus from the implementation of the previous year's operations to be entered as resources. The latest forecasts for 1994 suggest that a figure of ECU 13 million should be entered here.

7. **Chapter 4: Contingency reserve - token entry**

This item allows the operating budget to be balanced at the end of the financial year. The contingency reserve for operations in 1995 will be fixed when the Commission adopts the ECSC balance sheet at 31 December 1994.

8. **Chapter 5: Exceptional resources - ECU 2 million**

This heading is for the entry of any exceptional resources, notably from the reserves; ECU 2 million may be drawn from the special reserve in 1995.

OPERATIONS NOT ENTERED IN THE BUDGET

9. The financing arrangements for low-cost housing which the ECSC has been operating since 1954 are not the same as programmes financed on a non-repayable basis from the resources for a given financial year. But forecasts on the low-cost housing programme have also been included for the information of Parliament, the Council and the Advisory Committee in order to complete the picture of the ECSC's activities.

These activities have as their basis Article 54 and Commission decisions allocating to low-cost housing programmes resources from former ECSC pension funds or the special reserves made up of the interest on investments and loans on non-borrowed funds.

The ECSC's intervention takes the form of long-term low-interest (1%) loans which are intended to ease the burden of financing costs for housing. The ECSC loans complement other loans from national sources. The ECSC loans are paid to credit institutions or ECSC enterprises involved in conducting the programmes.

The objectives are:

- to meet the housing needs of the workforce,

- to ensure that the housing is of adequate quality;
- to assist the smooth running of the restructuring process by taking due account of the social dimension.

The adoption of the 12th programme (1994-1996)¹² will make it possible to monitor the policy pursued by the Commission on this subject in line with the requirements expressed by the Regional Committees assisting it in conducting the programmes. The Council has given its assent to the programme and the appropriations for 1993 and 1994 (ECU 19 million and ECU 17 million respectively).

10. ECU 11.5 million is earmarked for the third tranche of the 12th low-cost housing programme. This is made up of foreseeable repayments of previously granted loans.

The total amount to be withdrawn from the reserves will be confirmed when the Commission adopts the ECSC balance sheet on 31 December 1994.

¹² SEC(93)1175 final of 1 September 1993.

EUROPEAN COAL AND STEEL COMMUNITY

BALANCE SHEET AT 31 DECEMBER 1993

ECU

ASSETS		LIABILITIES	
1. Balances with central banks	1.179,187	1. Liabilities towards third parties	
2. Balances with credit institutions		1.1 Amounts owed to credit institutions	
2.1 repayable on demand	22,027,113	- Current accounts	0
2.2 with agreed maturity dates or periods of notice	418,119,954	- With agreed maturity dates or periods of notice	438,779
2.3 loans	3,550,197,206	- Borrowings	2,745,123,621
3. Claims on customers		1.2 Debt securities	4,585,526,867
3.1 loans	4,126,203,226	1.3 Other liabilities	405,814,982
3.2 levies	13,567,192	1.4 Accruals and deferred income	270,264,348
3.3 fines	1,615,162	1.5 Provisions for losses and expenses	5,296,750
3.4 interest subsidies	540,499	1.6 Commitments for ECSC operating budget	1,361,211,011
4. Bonds and other fixed-yield securities		1.7 Total liabilities towards third parties	9,373,676,358
4.1 Public issues	1,379,534,947	2. Net assets	
4.2 Other issues	322,038,071	2.1 Provisions for the financing of the ECSC operating budget	209,566,925
5. Tangibles and intangibles	12,886,095	2.2 Reserves	
6. Other assets	68,555,368	- Guarantee fund	429,885,000
7. Accruals and deferred income	334,866,210	- Special reserve	166,980,000
		- Former pension fund	58,923,329
		- Reassessment reserve	10,684,405
		2.3 Profit brought forward	440,406
		2.4 Profit for the financial year	1,173,807
		2.5 Net total	877,653,872
9. GRAND TOTAL	10,251,330,230	3. GRAND TOTAL	10,251,330,230

ECSC - BORROWING AND LENDING OPERATIONS**AMOUNTS RECEIVABLE**

	Outturn 1993	Forecast 1994	Forecast 1995
Loans raised	907.6	1 000	800
Repayments of loans granted	1 063.9	1 138	1 048
Interest payments on loans	600.3	548	463
Repayment of costs involved in borrowing and lending operations	18.0	10	10

AMOUNTS PAYABLE

	Outturn 1993	Forecast 1994	Forecast 1995
Loans to be granted	918.3	1 000	800
Repayments of loans granted	901.3	1 180	928
Interest payments on loans	638.1	631	557
Payment of costs involved in borrowing and lending operations	20.2	15	15

ECSC OPERATING BUDGETS FOR 1993 AND 1994

(ECU million)

REQUIREMENTS	1993		1994		RESOURCES	1993		1994	
	Forecast	Outturn	Forecast	Outturn forecast at 30.6.94		Forecast	Outturn forecast at 30.6.94	Forecast	Outturn forecast at 30.6.94
OPERATIONS TO BE FINANCED FROM RESOURCES FOR THE FINANCIAL YEAR					RESOURCES FOR THE FINANCIAL YEAR				
1 Administrative expenditure	5	5	5	5	1 Current resources				
2 Aid for redeployment (Art. 56)	185	182.4	157	157	1.1 Yield from levy - 0,25% (1993)	117	121.25	102	103
3 Aid for research (Art. 55)	124.8	124.6	52	52	Yield from levy - 0,23% (1994)				
3.1 Steel	58	58	34	34	1.2 Net balance	252	277	150	115
3.2 Coal	51.8	51.8	17	17	1.3 Fines and surcharges for late payments	pm		2	2
3.3 Social	15	14.8	1	1	1.4 Miscellaneous	pm	0.02	pm	6
4 Interest subsidies	127	114.3	53	53	2 Cancellation of commitments not likely to be implemented	78.7	94.04	50	58
4.1 Investment (Art. 54)	-	-	-	-	3 Resources from previous year not used	53.1	53.09		
4.2 Conversion (Art. 56)	127	114.3	53	53	4 Drawings on contingency reserve (1)	pm		67	60
5 Social measures connected with restructuring of the steel industry (Art.56)	60	60	86	86	5 Exceptional resources (2)	51	51	22	22
6 Social measures connected with restructuring of the coal industry (Art. 56)	50	50	40	40					
7 Damages and interest	pm	pm	pm	21					
8 Surplus		60.2		13					
BUDGET TOTAL	551.8	596.4	393	427	BUDGET TOTAL	551.8	596.4	393	427
OPERATIONS FINANCED BY LOANS FROM NON-BORROWED FUNDS					ORIGIN OF NON-BORROWED FUNDS				
Low-cost housing	19	pm	17	17	Special reserve and former ECSC Pension Fund	19	pm	17	17

(1) Resources available at 31.12.1993: ECU 123.9 million, including ECU 32 million to cover any discrepancy between revenue and expenditure in 1994.

(2) Special reserve.

DRAFT ECSC OPERATING BUDGET FOR 1995

(ECU million)

REQUIREMENTS	PROPOSALS	RESOURCES	PROPOSALS
OPERATIONS TO BE FINANCED FROM RESOURCES FOR THE FINANCIAL YEAR		RESOURCES FOR THE FINANCIAL YEAR	
1 Administrative expenditure	5	1 Current resources	
2 Aid for redeployment (Art. 56)	114	1.1 Yield from 0.21% levy	96
3 Aid for research (Art. 55)	35	1.2 Net balance	125
3.1 Steel (1)	24	1.3 Fines and surcharges for late payments	pm
3.2 Coal (1)	10	1.4 Miscellaneous	6
3.3 Social	1	2 Cancellation of commitments not likely to be implemented	49
4 Conversion aid (Art. 56)	47	3 Resources from previous year not used	13
5 Social measures connected with restructuring of steel industry (Art. 56)	60	4 Drawings on contingency reserve	pm
6 Social measures connected with restructuring of coal industry (Art. 56)	30	5 Exceptional resources (2)	2
7 Damages and interest	pm		
BUDGET TOTAL	291	BUDGET TOTAL	291

OPERATIONS FINANCED BY LOANS FROM NON-BORROWED FUNDS		ORIGIN OF NON-BORROWED FUNDS	
Low-cost housing	11.5	Special reserve and former ECSC Pension Fund	11.5

(1) Aid for projects with a specific impact on the environment:

Headings 3.1: Steel projects specifically related to the environment will come under the framework programme.

3.2: ECU 6 million.

(2) Special reserve

NB: Any additional resource will be allocated to social measures connected with the restructuring of the coal and steel industries.

The steel restructuring programme may continue in 1996, reaching a total of ECU 240 million.

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