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AIDE - MEMOIRE

ON THE FIXING OF THE ESCS LEVIES AND ON THE DRAWING
UP OF THE OPERATIONAL BUDGET FOR 1979

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AIDE-MEMOIRE

on the fixing of the ECSC levies and on the
drawing up of the operational budget for 1979

Following the usual practice, the views of the European Parliament are being requested before the Commission takes a decision on the levies and the operational budget of the ECSC for the financial year 1979.

This aide-mémoire forms the basis for the consultation of Parliament. It is divided into the following sections:

- I. General introduction;
- II. Analysis of requirements reported and resources available for the financial year 1979;
- III. Draft operational budget.

The various factors affecting the coverage of budgetary requirements for 1979 are described in Chapter III.

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The aide-mémoire is also sent to the ECSC Consultative Committee for information.

I. GENERAL INTRODUCTION

This chapter summarizes the elements necessary for appreciating the economic, political and financial background to the draft operational budget of the ECSC for 1979.

A. ECONOMIC CONTEXT

1. The economic outlook for 1978 and 1979

The Community's economic recovery was interrupted in 1977, but the situation took a turn for the better last autumn. Since then expansion has picked up, following a slightly more rapid increase in domestic demand, resulting from the expansionist impetus given to the economic policies of most Member States.

After the slight downturn in the second half of 1977 caused by a fall-off in the larger Member States, investment demand regained momentum. In the Federal Republic of Germany, this advance was particularly marked in the building industry, both in the public sector and in private housing. In France and Italy, the improvement halted the run-down of stocks and even started a move towards a new build-up, notably in the commercial sector. However, there was still reluctance to invest in fixed assets, save for industrial firms in Ireland, the United Kingdom and Luxembourg.

The growth in consumer demand began to speed up slightly during the first half of the year. This is partly due to a sharper rise in public consumption expenditure. However, it is chiefly the result of the increase in real personal disposable incomes, as a consequence of the inflation rate easing off to a greater degree than nominal wages, the tax concessions introduced by some Member States and in certain cases a more rapid rate of increase in transfer of incomes.

In an international context of constantly fluctuating exchange rates and a loss of momentum in world demand, there has been no marked improvement in the Community's short-term economic situation. The annual growth rate of GDP for all Member States has been put at around 3% in real terms for the first half of 1978. This improvement is largely due to a recovery in industrial production, which had tended to slacken throughout the previous year. Nevertheless, industrial production in the Community from January to April still did not exceed levels for the corresponding period of 1977, nor did it improve on the position before the 1974 recession. There was a noticeable improvement in production in the building sector, in spite of the bad weather since the beginning of the year.

Growing demand and economic activity have still not brought about an improvement on the employment market, which is still suffering from the sluggish rate of business investment. In several Member States temporary factors have held up the process of combating inflation.

In the Community as a whole, the increase in consumer prices over the previous 12 months nevertheless dropped to some 7 $\frac{1}{2}$ % by the spring of 1978.

On the other hand, the stagnation in exports to non-member countries, together with a rise in imports by some Member States, reversed the trend towards an improvement in the external balance which had become apparent at the beginning of 1977.

From now until the end of the year, economic activity will continue to be maintained basically by the modest increase in domestic expenditure. For the year as a whole, the rate of growth of the Community's GDP could reach some $2\frac{1}{2}\%$ in real terms.

The rate of activity should increase slightly in 1979 as a result of the economic policies adopted in a framework of concerted action. This trend may help to reduce unemployment somewhat, but will not help appreciably to bring down inflation.

The following table shows the trend in the Community's GDP during the period 1976 to 1978:

GROSS NATIONAL PRODUCT IN VOLUME TERMS

(% change as compared with the previous year)

	1976	1977	1978
Denmark	6,3	1,9	0
Federal Republic of Germany	5,6	2,8	2,7
France	4,6	3,0	3,0
Ireland	2,9	5,5	6,0
Italy	5,7	1,7	2,2
Netherlands	4,5	2,4	1,9
Belgium	5,7	1,3	2,0
Luxembourg	2,9	1,3	2,5
United Kingdom	2,6	1,0	3,2
Community	4,8	2,3	2,6

Source: Commission departments.

2. Prospects in the coal sector

Last year total production of Community coal for 1978 was estimated at some 240 million tonnes: it is now estimated that the actual figure will be in the region of 241 million tonnes. These figures correspond to some 220 million tonnes coal equivalent, compared with 250 m tce which was the 1985 target set in 1974.

In 1978, imports from non-member countries should amount to around 44 million tonnes and the volume of trade within the Community is expected to reach a figure of 17 million tonnes.

The estimate for Community output in 1979 may be affected by changes in production capacity and in the use of this capacity, as this depends on demand for coking coal and steam coal and the improved competitiveness of Community coal.

In 1978, several pits in the Federal Republic of Germany were closed down and there is a possibility of further closures in the other Member States in 1979.

Owing to the continuing crisis in the iron and steel industry and structural and technical changes in steel production, the consumption of coke by the steel industry in 1978 is unlikely to be much higher than the very low figures of 1977. In 1978, coke ovens in the Federal Republic of Germany, France, Belgium and the United Kingdom were closed down.

Nevertheless, there is no reason to expect total consumption of Community coal in 1978 to depart appreciably from the volume of 285 to 290 million tonnes burnt in the last two years, as follows: just under 50% for electricity generation, some 35% for coke ovens and the other requirements of the iron and steel industry and the rest for other purposes.

There has been little change since the sharp increase in the consumption of coal for electricity generation recorded in 1976, as the slight increases in some Member States tend to be partly offset by corresponding decreases in others. Apart from imponderables, such as shortages of water for hydro-electric power or a substantial increase in the oil prices, the slight upward trend of the last two years can be expected to continue in 1979.

It is unlikely that demand for coke and coal by the steel industry will be greater in 1979 than in the last few years. As for other sectors, the slight upward trend in coal consumption by industry in general which began some years ago should continue, but will no doubt be offset by a steady corresponding drop in demand for household heating purposes.

Disregarding improvements to the Community coal industry which could result from the new coal policy measures described in the section on "Coal Policy", the factors mentioned above would leave the industry with the following options: planned reductions in output, further increases in unsold stocks or sales at lower prices in areas where coal produced in the Community has to compete directly with coal imported from non-member countries.

One of the factors which affects the competitiveness of Community coal is the fluctuation in exchange rates and particularly the steady depreciation of the dollar, particularly against the German mark.

All these factors will have a negative effect on the financial position of the Community coal industry and could compel national governments to grant it more aid than the total of 1.480 m ECU granted in 1978.

3. Prospects in the steel sector

The low level of activity in 1977 (only 126 million t of crude steel produced, as compared with 134 million t in 1976 and 155,5 million t in 1974 - a record year) improved slightly in 1978. The moderate recovery in economic activity in the Community was due far more to private consumption than to fixed investment and was not therefore fully reflected in steel consumption.

There was, however, an increase in net steel exports by the Community, due partly to measures taken by the Commission on imports and partly to the increased buoyancy of certain main export markets. In 1978, net exports will probably match or exceed the 19 million t of crude steel equivalent reached in 1975, which is at least 4 million t more than in 1977.

Crude steel production in the first eight months of 1978 was 4,5% higher than in the corresponding period in 1977. This high production figure, particularly in the second quarter, exceeded the quantities laid down in the programmes worked out by the Commission to adjust production to market demand and restore economic viability. If the programme for the fourth quarter is adhered to, total production for 1978 will be around 130 million t.

Compared with an estimated production potential of 200,4 million t, this represents a capacity utilization rate of 65%, compared with 63% in 1977. In 1978, there was a certain improvement in export and domestic price levels, due to some extent to the minimum prices and guide prices laid down by the Commission. As a result, some major producers were able to cut the considerable financial losses they had suffered in 1977 and move into profit again, even though generally the financial position of steel firms in the Community is still not satisfactory.

It is difficult at present to make any predictions for 1979. Certain factors could undermine the Community and world steel markets, but in the last analysis it is reasonable to expect that ECSC steel production will remain much the same as in 1978.

If ECSC steel production capacity increases as expected by 7 million t, the utilization rate will fall back to 63% in 1979. The problems of economic viability and market discipline are therefore likely to continue in the immediate future.

B. POLICY CONTEXT

The general objectives of the ECSC are permanently laid down in Articles 1 to 5 of the Treaty of Paris.

The Commission periodically formulates objectives or general guidelines for the future development of the ECSC industries, in both the coal and steel sectors. The coal sector is a special case, as it is also covered by general documents prepared by the Commission on Community energy policy. The medium-term guidelines for these two sectors also include a section on manpower problems in these industries; this provides the setting for the various social policy functions discharged by the High Authority/Commission under the Treaty. Information on past and future investment trends and the financial activities carried out by the Community to finance investment is published by the ECSC in the two yearly reports, one on the results of the investment survey in the Community coal and steel industries and the other the financial report dealing with ECSC borrowing and lending activity.

The remarks which follow are not intended to replace the policy information given in the documents referred to above. It should be noted that the general guidelines for steel - which were drawn up by the Commission in 1976 - are currently being revised in consultation with the parties concerned. The ensuing remarks will thus be confined to certain key points or recent events that the Commission feels should be highlighted in drawing up the draft operational budget of the ECSC for 1979. They deal in turn with the industries, the social policies of the ECSC and the borrowing and lending activities of the current year.

1. Coal policy

The Commission's efforts to persuade the Council to approve its coal policy proposals this year have so far borne little fruit.

The Council has reached no decision on the proposals for a system of aid for financing cyclical stocks of hard coal and coke and aid for investment in building coal-fired power stations or converting existing power stations to coal, which the Commission placed before it in 1977.

At the beginning of 1978, the Commission asked the Council to look into a system of aid for intra-Community trade in power-station coal, in order to encourage sales of Community coal to power stations by means of a subsidy of the order of 10 EUA per tonne, to bridge the gap between the price of Community coal and the price of imported coal. The aim is both to reduce Community dependence on imported energy and to maintain long-term coal production capacity. A formal proposal for a regulation to this end was put to the Council on 28 September 1978.

The Commission has decided to continue the system of short-term adaptation introduced in 1977, relating to the system of aid for coking coal and coke. Under this system the producers concerned were granted Community aid in spite of the fact that supplies and drawings of coal and coke were lower than those provided for in long-term contracts between themselves and the iron and steel firms, provided however that the deliveries were reduced in direct proportion to the adjustments which these firms had made in their production of pig iron by applying Community measures designed to improve the balance between supply and demand on the steel market.

The Commission made proposals recently (document COM(78)516 final of 19.10.78) for improving the present system of aids for coking coal (which already, last year, was extended to 1981), with effect from 1.1.79.

On 1 November 1977, the representatives of the governments of the Member States of the ECSC, meeting in the Council, reached a decision on Community surveillance of imports of hard coal (for power stations) originating in third countries. Under this system, Member States will be required to send to the Commission quarterly reports on quantities, prices and the calorific value of steam coal imported from non-member countries.

2. Iron and steel policy

Over the last year, problems in the iron and steel industry have continued to necessitate considerable efforts by the Community institutions - the Council, the ECSC Consultative Committee and the Commission - both to stabilize the market and to develop a Community approach to restructuring problems. The Commission has also been examining the social repercussions of the steel crisis: these aspects of steel policy are covered later under the heading "Social policy".

2.1 Commission action to stabilize the market

In 1978, the Commission adopted a number of measures to mitigate the effects of a sluggish steel market on profitability and to alleviate the pressure caused by imports.

The system of guide prices was continued and extended and prices were increased during the year. Minimum prices were introduced at the beginning of the year for further products (merchant bars and hot-rolled wide strips) and continued for reinforcing bars.

Tighter checks have been introduced concerning the minimum price provisions: their scope has been extended to include dealers, certificates of conformity have been introduced, and temporary deposit arrangements for intra-Community trade in the products subject to checking were introduced on 1 July and extended for another two months from 1 October. These measures were necessary because certain suppliers were not exercising sufficient discipline over prices.

Bilateral agreements have been made with a number of countries to ensure that the prices of imports from these countries are compatible with the pricing policy pursued within the Community. Quantitative preference clauses have been included in these agreements to guarantee to the countries in question that traditional trade patterns will be maintained.

The Commission has continued to use the quarterly forward programmes and firms' quotas for certain finished products as anti-crisis instruments. Various improvements have been made to the method of drawing up the programmes, and the system used for the monthly comparisons of results and forecasts has been refined.

As long as the state of crisis persists, it will be necessary to keep all these measures in operation and, if need be, introduce any desirable improvements.

2.2 Community approach to problems of restructuring

The objective of restructuring is to maintain a production capacity which is modern in terms of equipment and products, the viability and consequently the competitiveness of which would be assured.

Restructuring policy must be conducted in consultation with the workers' organizations, the firms, the Member States and the Community's other institutions with a view to a Community approach to the problem. All new investment in the steel industry should be placed in this context.

With a view to guaranteeing the requisite consistency, the Commission has submitted to the Council a draft decision (under the first paragraph of Article 95 of the ECSC Treaty) concerning aid and intervention in the steel industry, and is now reviewing the General Objectives for Steel in consultation with the parties concerned.

The first results of this review show that crude steel production capacities in 1978 are over 25 million tonnes in excess of the capacities which will be needed to satisfy demand in 1983.

The same applies to rolled products, although in this sector the amount of excess capacity differs greatly from product to product (comparatively insignificant for wide hot-rolled strip, considerable for virtually all bars and sections and heavy plate).

The Commission has been negotiating since May 1978 with the firms and all the other parties concerned, in order to draw up medium-term programmes for coordinated investment and closures.

In several cases, e.g. Saarland/Luxembourg, decisions to restructure have already been taken. Nevertheless, it is not yet possible to have an overall view and considerable efforts will certainly have to be made in order to attain the goal set.

In any event, the excess capacities remaining would certainly not permit an increase in self-financing ratios by raising prices sufficiently, even though the market measures taken by the Commission have a positive, stabilizing effect.

That is why the firms will have to resort to external financing and why the Commission will make use of all the financial possibilities afforded by Article 54 concerning loans and interest relief grants, based on the contribution of the investments in question to the restructuring objectives.

3. Social policy

In general, the social policies pursued under the Treaty of Paris are similar to the policies developed subsequently by the European Economic Community. The aims and methods of ECSC resettlement aid are broadly similar to those of the Social Fund, while the purpose of ECSC redevelopment aid is comparable to that of the Regional Fund, although the latter have a wider range.

However, the effect of the legal differences - and especially the fact that ECSC aid is financed by the industries concerned - has increased the scale of the aid provided. The ECSC resettlement scheme is more fully developed and more comprehensive than the comparable Social Fund operations, while the resettlement aid system also has a more specific purpose than the Regional Fund's present operations, since the operations concerned are designed to create jobs intended primarily for workers from the ECSC industries. Furthermore, since 1955 the ECSC has pursued a policy of subsidizing housing for workers in these industries.

In the present circumstances, it is clear that in the realm of social policy the ECSC must concentrate on solving the problems arising from the restructuring of the iron and steel industry and the foreseeable reduction in its labour force.

If this restructuring is to be acceptable from the social and regional points of view, the inevitable redundancies must be kept to a minimum and be offset by the creation of alternative jobs; also, the consequences of redundancy for individual workers must be mitigated by Community solidarity geared specifically to vocational retraining.

There has been a significant increase in the rate at which interest relief has been granted for restructuring operations. In practice, however, there are certain practical limits to the restructuring policy, since demand is basically determined by the number of eligible projects submitted by the national authorities on behalf of the undertakings concerned and not by the number of jobs which it would be desirable to create. Between 1975 and 1977, for example, redevelopment programmes which received financial aid gave rise to approximately 15.000 new jobs while the total number of jobs lost in the steel industry was nearly 47.000. Furthermore, no jobs will be created under ECSC-financed projects until 1983. Consequently, redevelopment loans - although increased - will cover only a fraction of potential requirements. In addition, these loans are very unevenly distributed between the main regions affected by closures.

As far as general social problems in the steel industry are concerned, the Commission has itself taken the initiative of opening a debate on the social aspects of the Community's steel policy through its contacts with the Consultative Committee on which both sides of this industry are represented.

The Commission believes that there must be broad concertation between the Member States, manufacturers and trade unions, and the Commission on the subject of ECSC aid for workers affected by restructuring measures; such concertation would help prepare the ground for a restructuring programme in line with the General Objectives for Steel.

It should be pointed out that the steel industry will have made 3.000 people per month redundant in 1978 and that the total work force in this sector might fall by about 100.000 over the coming years in order to gear manpower levels to production requirements.

Since the economic situation precludes the re-employment of all such workers in other areas of activity, the majority of steel-manufacturing countries have introduced early retirement schemes as the least harmful solution in the present circumstances.

Special schemes - generally financed by the national authorities and employers - have been set up by Member States to cater for a certain category of early retirement, i.e., the oldest age group.

For other groups of workers, Member States have requested financial help from the Commission under Article 56 of the ECSC Treaty. In the belief that early retirement is comparable to a tideover allowance for younger workers in the case of workers individually affected by closures, the Commission has accepted the principle of financing such early retirement schemes in lieu of tideover allowance and up to the amount of that allowance, as it did previously for the coal industry.

Since the Commission believes, however, that early retirement is a temporary exceptional measure and that the aim of resettlement grants must always be the productive re-employment of workers, it has retained the principle of placing a ceiling on aid grants for early retirement in line with that placed on resettlement aid normally granted.

By its very nature, the early retirement option is limited. Consequently, any significant fall in the total work force of the steel industry over the coming years will demand further exceptional social measures.

This aim can be achieved only by special measures devised by both sides of the industry and the public authorities.

In short, it is clear that the social dimension, especially essential redevelopment and resettlement aspects, must form part of the restructuring programmes. The Community's task is to apply all the means at its disposal in pursuit of these programmes, including in particular:

- (i) Assistance from the ECSC, the Regional Fund and the European Investment Bank for the creation of new jobs;
- (ii) The manpower resettlement scheme provided for in Article 56 of the ECSC Treaty for the resettlement of workers.

4. Borrowing and lending activity since 31 December 1977

ECSC Financial Report No 23 summarizes the Community's borrowing and lending activity in the financial year 1977 and presents analytical and cumulative statistics for the whole of this activity since 1954. The Community's balance sheet as at 31 December 1977 appears in Annex II to the report.

Borrowings in 1977 totalled 729 m EUA, compared with 956 m EUA in 1976 and 731 m EUA in 1975. Loans paid out in the same periods totalled 742 m EUA compared with 1.064 m EUA and 805 m EUA.

Total borrowing and lending since the inception of the ECSC is therefore brought up to 4.734 m EUA and 4.903 m EUA respectively (including 190 m EUA in loans from own funds). The balance outstanding as at 31 December 1977 was 3.900 m EUA.

In the financial year 1978, ECSC financial activity continued to satisfy the strong demand from firms -- not only in the steel industry but also to a significant extent in the coal industry -- anxious to modernize or restructure their plant. In the first half of the year, borrowings totalled 605 m EUA and loans disbursed 378 m EUA, so that at 30 June 1978 the balance outstanding exceeded 4.300 m EUA.

The ECSC has continued to obtain favourable terms on the capital market and has successively developed a policy of private loans when conditions on the open market were unfavourable.

The table in Annex C to this aide-mémoire analyses the loans disbursed in the first half of the financial year 1978.

A statement of the provisional situation of the European Coal and Steel Community as at 30 June 1978 is given in Annex D.

It is clear from applications in hand that ECSC borrowing and lending activity is likely to continue at a high level in the coming months.

As far as 1979 is concerned, it is difficult at present to give any estimate since borrowing operations are carried out solely in response to loan applications already agreed by the Commission; moreover, such applications do not span periods so far ahead, even though occasionally some applications are long in awaiting settlement as a result of particular conditions imposed by firms in respect of currency or exchange rates.

At 7 July 1978, total loan applications approved by the Commission, but awaiting settlement, amounted to 980 m EUA. Applications officially lodged and being processed amount to 750 m EUA. Applications for substantial loans are also anticipated in the coming months.

As a general guide, however, it may be said that the planned level of ECSC industrial investment, only for the projects approved before 1 January 1978, was still set at 2,360 m EUA for 1979 compared with 3,287 m EUA in 1978 and applications for redevelopment by ECSC industries on the increase, the overall level of firms' requirements is likely to remain stable.

C. FINANCIAL CONTEXT

It must be pointed out that the ECSC budget has been expressed and implemented in European units of account since 1 January 1976. Since that date, budget receipts and commitments and the contracts relating thereto have been expressed and paid in EUA.

As regards the financial background to the 1979 draft budget, the rise in prices continues to be an important factor in making forecasts and defining comparisons between the 1978 and 1979 financial years. In this respect, it may be assumed that there will be an increase in costs of 6,5 to 7%, as compared with roughly 10% between 1977 and 1978.

The European Parliament raised the problem of the relationship between the ECSC operational budget and the General Budget in Point 5 of its Resolution of 14 December 1977 on the ECSC operational budget for 1978; the Commission has set out its thoughts on the matter on pages 78-87 of the Introduction to the Preliminary Draft General Budget of the Communities for 1979.

The main financial problem the ECSC again faces in connection with the 1979 operational budget is the growing imbalance between requirements and traditional resources, a situation aggravated by the serious difficulties encountered by industry in the Community, particularly in iron and steel.

In addition to the traditional requirements which are increasing rapidly, there are new priority tasks connected with the restructuring and redevelopment of the iron and steel industry. Because of the financial burden borne by companies as a result of the structural difficulties, unfavourable worldwide market trends and economic factors, the Commission judged it advisable to make use of the mechanism for balancing the budget provided for in the Treaty of Paris, namely an appropriate adjustment of the levy rate. This rate - which was relatively high during the initial period of the ECSC's existence - has remained fixed at 0,29% since 1972 even though, since the beginning of the steel crisis, the yield from the levies, which is linked with production and the prices of the taxable products, has tended to drop in real terms.

Over the years these factors have led increasingly to a reduction in budget requirements in order to adapt them to revenue at all costs, as the level of this revenue was regarded as one of the unchangeable political and economic factors of the problem. In 1977 the Commission submitted to Parliament and the Council two proposals aimed at regulating the problem of the imbalance in the ECSC budget in the future. One of these proposals resulted in the Council Decision of 21 November 1977 (OJ 306/28 of 30 November 1977) and had the effect of reducing the obligatory ECSC contribution to the expenditure of the operational budget of the Communities from 18 to 5 million EUA.

Also, on 8 November 1977, in order to avoid an increase in the levies, the Commission proposed that the Council should initiate the procedures required in order to allocate the ECSC customs duties to the ECSC operational budget as soon as possible and meanwhile arrange for a transfer of 32 million EUA by the Member States in order to balance the budget for the 1978 financial year. On 21 December 1977, acting on this proposal, the Council undertook to transfer the 32 million EUA and make the necessary arrangements in due time. This allowed the Commission to enter the sum of 32 million EUA on the credit side of the budget for the 1978 financial year.

In the Resolution of 14 December 1977, Parliament supported the proposal for a permanent transfer of customs duties. However, when the Council took up the matter the Member States showed some hesitation. The Commission still considers a decision of this type to be fully justified.

II. ANALYSIS OF REQUIREMENTS REPORTED AND RESOURCES AVAILABLE FOR THE FINANCIAL YEAR 1979

This chapter first of all gives a detailed account of the two factors traditionally taken into account by the Commission in determining the levy rates on which to base the draft budget for the next financial year, namely expected requirements and the estimated yield from resources.

Article 49 of the ECSC Treaty empowers the Commission to procure the funds needed to pursue the activities set out in that Treaty by imposing levies on the production of coal and steel. These levies are applied annually to the various products according to their average value, though the rate thereof may not exceed 1% unless previously authorized by the Council in accordance with Article 50.

To fix this rate it is first of all necessary to estimate requirements, then to consider how far these may be covered from budgetary resources other than the levies, namely the interest on investments and on loans financed out of capital resources and cancellations of provisions. The amount which will have to be covered by the levies can then be determined.

Next, the likely yield from the levies is calculated on the basis of a preliminary - and thus sometimes unavoidably inaccurate - estimate of the average values of the various products, and in the light of the estimates (also somewhat tentative) of the volume of output during the year. The probable levy yield is first expressed as the estimated yield from a rate of 0,01%.

These are the two main elements described in this chapter. To complete the analysis of requirements reported and resources available, the chapter also contains the information in the Commission's possession for evaluating the new resource envisaged, namely ECSC customs duties.

The next stage is to determine the extent to which the Community must forego satisfying the requirements, which far exceed the resources provided by the present rate; or, conversely, how far the rate must be either raised or lowered. This question is discussed in Chapter III.

The following presentation of requirements reported and foreseeable resources is modelled on the systematic analysis of the data for the various budget headings in the General Budget, set out in Part II of the General Introduction to the Preliminary Draft Budget. As with the General Budget, this presentation lists separately the main features of each heading (legal basis and description of the operation, type and breakdown of expenditure, explanation). Three categories of expenditure are obligatory, in that they derive from decisions already taken (administrative expenditure, aid to coking coal and coke for the steel industry) or from framework agreements with the Member States (on aids to resettlement). To give a clear picture, the explanations for expenditure which is not obligatory (research and interest relief grants) are more detailed than for the other chapters.

A. REQUIREMENTS REPORTED FOR 1979

1. ORDINARY REQUIREMENTS

CHAPTER B 1: ADMINISTRATIVE EXPENDITURE

1. Legal basis and description of operation

Legal basis:

- Article 50 of the ECSC Treaty;
- Article 20 of the Merger Treaty.

ECSC contribution to the Commission's administrative expenditure.

2. Type and breakdown of expenditure

Annual lump-sum payment in four equal quarterly instalments.

3. Explanation

The Council has set the annual amount of the lump-sum payment at 5 m EUA.

CHAPTER B 2: AIDS TO RESETTLEMENT

1. Legal basis and description of operation

Legal basis:

- Articles 50 and 56 of the ECSC Treaty;
- Bilateral agreements concluded between the High Authority/Commission and the Governments of the Member States.

The High Authority/Commission provides non-repayable aid towards:

- (i) the payment of tideover allowances to workers;
- (ii) the payment of resettlement allowances to workers;
- (iii) the financing of vocational retraining for workers having to change their employment.

In some cases, the tideover allowances is replaced by a contribution corresponding to the cost of a bridging pension system.

The grant of the aid is conditional upon payment by the State concerned of a special contribution of not less than the amount of that aid, unless an exception is authorized by the Council, acting by a two-thirds majority.

2. Type and breakdown of expenditure

Creation of a provision to subsidize, by means of a 50% reimbursement, expenditure incurred by the governments within the scope of the agreements signed.

The breakdown by sector and by country of the requirements as estimated from the data provided by governments is as follows:

m EUA			
Country	Coal	Steel and iron-ore mines	Total per country
Germany	8	2	10
Belgium	1,5	11	12,5
Denmark	-	token entry	token entry
France	4,5	16	20,5
Ireland	token entry	token entry	token entry
Italy	-	3,5	3,5
Luxembourg	-	3	3
Netherlands	-	3,5	3,5
United Kingdom	9	5	14
Total per industry	23	44	67

The social repercussions of the present situation remain difficult to predict and the forward figures, which are in principle based on the policy now in force, are therefore no more than tentative.

3. Explanation

The coal industry's requirements are lower than in 1978, mainly as a result of the progress made in rationalizing the industry, though the fall in pig iron production has also led to the closing of a number of coke plants. On the other hand, requirements in the iron and steel industry continue to be at a high level, owing to the gradual rationalizing and restructuring of the industry. The reduction in employment in the iron and steel industry is estimated at several tens of thousands of workers.

CHAPTER B3: AID TO RESEARCH

1. Legal basis and description of operation

Legal basis: Articles 50 and 55 of the ECSC Treaty.

The High Authority/Commission must encourage technical and economic research into the production and increased use of coal and steel and occupational safety in the coal and steel industries. To this end it grants aid to finance research after receiving the Council's assent.

2. Type and breakdown of expenditure

Creation of provisions to cover part-subsidies which take the form of the repayment of a proportion of the actual costs of research projects approved by the High Authority/Commission in accordance with the procedures provided for in the Treaty; these cover, in particular, the consultation of the ECSC Consultative Committee and the receipt of the Council's assent. In most cases, the aid granted amounts to 60% of the estimated and substantiated costs.

The applications can be broken down as follows:

m EUA

Heading	Sector	Aid requested
B 3.1	Steel	42,8
B 3.2	Coal	30,7
B 3.3	Social and medical	10,5
	TOTAL	84

3. Explanation

Steel research

The critical situation of the iron and steel industry in the Community and the planned measures to restore its recovery and economic viability must necessarily be taken into account in assessing the financial requirements of the ECSC research programme in the steel sector for 1979.

The ECSC has inevitably been profoundly affected by the general economic recession and the worldwide changes in the iron and steel industry. These are the fundamental causes of the present steel crisis, which began at the end of 1975 and has shown up major structural weaknesses resulting from overcapacity and a deterioration in the international competitiveness of the industry. Moreover, it is clear that, in certain sectors, new techniques have been introduced more slowly in the Community than in its main international competitors, notably Japan.

As part of the overall strategy which the Commission is in the process of formulating with a view to solving these problems, a programme for the restructuring of the iron and steel industry in the Community is being prepared in conjunction with the review of the general objectives for the period 1980-1990. In view of the important role of technical progress in this context, the Commission is currently working out new guidelines for the ECSC research programme in the steel sector to ensure that this forms a fully-integrated part of its overall strategy for the industry.

One of the principal objectives of the restructuring programme is to make the Community's steel industry more competitive and thus consolidate its position both on domestic markets and as a major steel exporter. The aim should therefore be to combat foreign competition on Community markets across the whole range of products and in export markets to concentrate more on specialized products and products of the latest types and qualities. If success is to be achieved, ECSC research in the steel sector must continue to play an important part in attaining the objectives common to the Community as a whole.

Greater emphasis should, however, be put on meeting short- and medium-term needs. This collaborative effort will thus continue to provide a common core around which individual steelmakers can organize their own research and development programmes and which will enable them to free resources to tackle problems of a more specific and/or commercial nature.

The integration of this ECSC research into the restructuring programme means that in 1979 efforts will largely be directed towards the following three major objectives:

- (a) reduced production costs: improved productivity in the production and processing of steel; more efficient use of raw materials, especially energy;
- (b) improved product quality: projects relating to almost all aspects of production (process control, quality evaluation and reproducibility);
- (c) more effective utilization of steels and development of new applications: efforts to achieve better understanding of the properties of steels with a view to more effective utilization and the development of products capable of satisfying users' most sophisticated requirements.

The level of the financial requirements for the 1979 programme reflects both the increased effort needed if Europe is not to fall behind the other major world producers and the interest shown by the steel industry in this Community approach to R&D. It is worth pointing out here that R&D expenditure by the Community's steelmakers represents barely 0,5% of their turnover, whilst the figure for Japan is approximately 1,5%. It is therefore hardly surprising that this country, which is one of the Community's main competitors, should have been in the forefront in recent years in developing new techniques in the field of steel production and processing - techniques which have been exploited by its own steel industry and exported to other countries, including some in the Community.

Coal research

The aims of coal research remain the same as those pursued by the Community's coal industry and research efforts must help to maintain production at the target level set by the Community.

Intensification of research endeavours is one of the ways of achieving production and productivity objectives. The Commission made its viewpoint on technical coal research clear by defining the total amount of ECSC aids to coal research in the 1975-85 medium-term coal guidelines which it has published (OJ C 22 of 30 January 1975). These aids should amount to some 15-20 m EUA a year and serve to encourage research projects within the 1975-80 medium-term coal research aid programme (OJ C 60 of 25 May 1974), as supplemented by the Commission Communication of 30 December 1974 (OJ C ... 1968).

The present energy situation, which has persisted since the crisis at the end of 1973, has given a new fillip to the Community's own energy sources, including coal, of which there are still large reserves. Furthermore, the Bonn Economic Summit, in dealing with the energy question, stressed coal and the important part it must play in Europe in the future.

However, the Community's coal industry continues to encounter very grave difficulties because of the diversity of the coal deposits and the ever-greater depths to which it must go to get at them and the fact that it is still a labour-intensive industry. The business of working coal seams and the work which precedes or follows work at the face, together with such hazards as firedamp, mine climate and strata pressure continue to be the major subjects for research on which efforts should be concentrated.

Coke is a key element in the manufacture of the products of the Community's iron and steel industry, as regards both quality and price. Any improvement in the competitiveness of the iron and steel industry is to the advantage of the coal industry, for the iron and steel industry is one of the largest coal consumers. In the interests of both industries, it is therefore necessary to continue to put the emphasis on research aimed at improving Community coke.

Finally, product upgrading and, in particular, basic research on the gasification and liquefaction of coal aimed at improving existing processes so as to improve their profitability, fits very well into the framework of the energy policy.

The 1979 coal research programme will be concerned with the following matters:

Mining techniques

- preparatory work
- firedamp, mine climate and strata pressure
- winning and working
- general services underground

Upgrading

- preparation of coal
- coking
- upgrading processes

Social research

The heading "Social research" covers research designed to improve working conditions and occupational safety, hygiene and health in the ECSC industries.

During 1978 the demand for research in these fields has not abated, which is proof enough of the practical usefulness of this form of intervention. It should be remembered that each programme is thoroughly examined both by manufacturers and workers in industry and by technical experts and government specialists.

The research programme on pollution control in the steel industry was completed this year and work has begun on preparing a new five-year programme, due to start in 1979. The Commission has also promoted a special safety project in the steel industry, as a result of a serious accident which occurred at the Scunthorpe steelworks, United Kingdom, in 1975. In the coal industry the mine safety research programme, launched in 1977, continues to contribute to safety in the coalfields. This year the Commission also launched a fourth research programme on industrial hygiene in mines (1978-1983) (OJ C 159 of 5 July 1978). The first grants of financial assistance for 16 projects contained in the programme have been made.

In the battle against pneumoconiosis, the programme on chronic respiratory diseases, begun in 1977, is still being implemented.

The third research programme on ergonomics and retraining is also nearing completion, and here too the Commission has taken steps to extend its support measures.

The major principles of the fourth programme, pollution control in the steel industry, have now been agreed. Research needs in this field have changed in recent years. The discharge of liquid effluents, especially from coke plants, the treatment of waste and by-products, noise and vibration abatement - research on all these has become more important because industry, the public at large and the authorities are now aware of the need to protect the environment. Changes in industry also necessitate urgent adaptive operations, to ensure that the workforce is effectively protected at the work place and to help

combat industrial nuisances.

Attention is drawn here to the great interest aroused by the briefing organized by the Commission on research into the treatment of different forms of waste from the steel industry.

The new programme on ergonomics (the fourth programme) is to be increasingly directed towards practical solutions, using knowledge acquired from the previous programmes, to the problems of improving comfort at work on a rational basis and thereby the safety of the workforce in the coalmines and steelworks.

To sum up, the projects to be financed in 1979 concern the following fields:

- (i) Pollution control in the steel industry;
- (ii) Mine safety;
- (iii) Industrial hygiene in mines;
- (iv) Chronic respiratory diseases;
- (v) Ergonomics.

CHAPTER B 4: AIDS IN THE FORM OF INTEREST RELIEF GRANTS

1. Legal basis and description of operation

Legal basis: Articles 54 (investment) and 56 (redevelopment) of the ECSC Treaty, and Decisions of the High Authority/Commission.

The ECSC may use its own funds to offer interest relief grants for certain types of loan. The relief is calculated in EUA on the basis of criteria set by the Commission. Calculations are at present based on interest relief of 3% over five years.

2. Type and breakdown of requirements

Provision for offsetting part of the interest due on loans disbursed by the ECSC, in accordance with the contracts drawn up between the Commission and the beneficiaries.

The applications can be broken down as follows:

Title	Sector	Aids applied for
B 4.1	Investment	50
B 4.2	Redevelopment	45
	TOTAL	95

3. Explanation

ECSC loans with interest relief are the principal financial instruments for promoting the Community restructuring and redevelopment policies set out in Chapter I, B. The policy reasons for these needs, given in that Chapter, are complemented below with the necessary technical information.

Investment

In the investment field, the chief aim of loans with interest relief is the structural improvement and rationalization of the ECSC industries. The criteria for granting relief are as follows:

- (i) Environment: relief only for exceptionally expensive investment in existing plants and investment of an innovatory character (OJ No C 146 of 25 November 1974);

(ii) Research and training centres, and the elimination of bottlenecks: relief in the latter sector has been limited to investment to remedy the shortage of coking coal (OJ No C 73 of 18 June 1970);

(iii) Restructuring: relief may be granted for those investments that are of greatest value for restructuring and re-establishing the long-term competitiveness of the Community's iron and steel industry (OJ No C 174 of 22 July 1977). The Commission attaches special importance to this category of intervention in its iron and steel policy.

It should be said that the figure of 50 m EUA only covers 2% of the recent average level of investment in this sector, which stands at approximately 2.500 m EUA per year.

Redevelopment

Redevelopment loans are granted, pursuant to Article 56 of the ECSC Treaty, to firms or public bodies which encourage new investment creating alternative jobs in regions hit by falling employment in the coal and steel industries. The guidelines drawn up by the Commission for granting these loans are published in OJ 178 of 27 July 1977.

The maximum size of loan eligible for interest relief at the moment is 20.000 EUA per new job. When recruiting, the recipients give priority to ex-ECSC workers.

During the next few years the number of jobs disappearing in the Community steel industry could be in the region of 25.000 per year. This trend will continue, and could even rise. As a result, but subject to the limited effectiveness in the short term of redevlopment measures referred to on page 17, it is possible, where job creation is concerned, to define objectives in terms of scale: if the ECSC were to be called upon in 1979 to use its redevlopment policy as a means of replacing all the 25.000 jobs which are likely to disappear in the steel industry alone, then loans with interest relief totalling 500 m EUA would have to be granted, together with non-repayable interest relief amounting to 75 m EUA.

However, experience over the last few years and the paucity of projects which are eligible for ECSC financing suggest that the 1979 budgetary requirements could correspond to some 15.000 jobs, or 45 m EJA in interest relief terms. It should be said that, in the most optimistic view, these jobs will be created during the next three to four years and will not therefore be available when the job losses in the steel industry actually occur.

In the coal industry, further job losses will mean a general increase in budgetary requirements, but should not have any major repercussion on the demand for interest relief. In any event, applications for projects in mining regions will continue to be considered in terms of the advantages they will bring when introduced.

CHAPTER B 5 - AIDS UNDER ARTICLE 95

1. Legal basis and description of operation

Legal basis:

- (i) Article 95 of the ECSC Treaty;
- (ii) High Authority/Commission Decision 73/287/ECSC of 15 July 1973 (OJ No L 259 of 15 September 1973), as last amended by Decision 1613/77/ECSC of 15 July 1977 (OJ No L 180 of 20 July 1977).

The ECSC contributes to a special fund, administered by the Commission, for subsidizing intra-Community sales of Community coking coal intended for the iron and steel industry. Under Decision 73/287/ECSC of 15 July 1973 the fund is financed by the Community, the Member States and the iron and steel industry. The Decision as it now runs sets the amount of aid up to 1979.

2. Type of breakdown of requirements

Provision for a lump-sum contribution to the fund, estimated at 6 m EJA. The subsidies due are determined in relation to the tonnages delivered, and aid may be granted for no more than 15.000.000 t per annum.

3. Explanation

The aim of the special system of aid to coking coal and coke set up pursuant to Decision 73/287/ECSC of 15 July 1973 is to help maintain production of blast-furnace coal intended for the Community's iron and steel industry and also to enable the coal and the coke derived therefrom to be sold at prices reflecting world market prices.

The Commission feels that certain production capacities should be maintained in this sector, as well as the requisite labour force to work them as efficiently as possible, and that it is therefore necessary to have an aid system which takes account of the fact that the question of Community coking coal production concerns all the Member States. Under the aid system, aids to production and sales in the producer country are financed by that country; aids to intra-Community sales are financed at Community level, the cost being divided between the steel industry, the Member States and the ECSC.

In a proposal of 19.10.78 (COM(78)516 final), the Commission is proposing to bring the aid scheme up to date and in particular to increase significantly the Member States' contribution so as to raise the total amount of aid payable from 31 MEUA to 70 MEUA a year. This proposal has no effect on the present draft budget.

3. REQUIREMENTS NOT INCLUDED IN THE BUDGET: LOANS FOR FINANCING SUBSIDIZED HOUSING

In addition to the requirements to be financed by non-repayable grants from the year's resources, there is the ECSC housing subsidy scheme, financed 'below the line', which has been in operation since 1955. Forecasts for this programme are included in this aide-mémoire to complete the picture of all ECSC interventions for Parliament and the Consultative Committee. For ease of understanding, the presentation follows the same analytical format as for the requirements already described.

1. Legal basis and description of the operation

Legal basis: Article 54 and Decisions of the High Authority/Commission assigning to the housing programmes the funds from the "special reserve" constituted by interest on investments and loans from own funds.

ECSC intervention takes the form of reduced-interest loans, and eases the cost of financing housing by combining the funds made available by the Community with resources provided nationally.

2. Type and breakdown of expenditure

Grant of long-term 1% interest rate loans to the responsible national bodies.

The first phase (1979-80) of the ninth subsidized housing programme (1979 and 1980) provides for a sum of 35 m EUA spread over the financial years 1979 and 1980, depending on funds available. Allocations to the sectors concerned in the nine countries will be decided by the Commission after all due prior consultation.

3. Explanation

The main reason for proposing to set aside 35 m EUA for the next phase (1979-80) as compared with 30 m EUA for the last phase (1977-78) is the increase in construction costs. Moreover, the requirements reported continue to be far in excess of the amount of aid available.

This scheme is intended to subsidize the following projects:

- (i) housing linked with industrial restructuring in the traditional steel centres and in those coalfields where production is to be increased;
- (ii) housing for labour transferred to the new coastal steelworks;
- (iii) specific solutions for migrant workers, employees with special skills and persons employed in arduous tasks;
- (iv) housing to be modernized as part of urban renewal in steel and mining districts.

The scheme is both in the interest of workers, since it alleviates the effects of price increases and high interest rates, and also of benefit to the industry since it facilitates restructuring.

The number of dwellings subsidized by means of ECSC loans as at 1 January 1978 was 151,644.

3. SUMMARY OF REQUIREMENTS REPORTED

Total requirements reported therefore amount to 257 m EUA to be financed under the operational budget, plus 17,5 m EUA in the form of below-the-line loans at low interest rates for the building of subsidized housing. The figures for requirements reported are summarized in Annex E, in the "applications" column.

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B. RESOURCES AVAILABLE

1. RESOURCES FOR THE FINANCIAL YEAR

CHAPTER R 1: GENERAL RESOURCES

TITLE R 1.1: Levy

1. Legal basis and description

Legal basis:

- Articles 49 and 50 of the ECSC Treaty
- Decisions 2/52 and 3/52 of 23 December 1952.

The levies are calculated on the basis of a fixed scale per tonne which is decided each financial year by the High Authority/Commission and published in the Official Journal.

2. Type and breakdown

Levy resources are the sums owing, and duly established, in the form of levies payable on output in the 1979 financial year and calculated on the basis of the production declarations made by the undertakings.

3. Explanation

The latest estimates of the average values which serve as the basis for calculating the levies suggest that the figures for the 1979 financial year, which relate to the reference period from 1 July 1977 to 30 June 1978, will be some 9% higher in the case of coal and roughly 5% lower for steel than the figures for 1978.

It should be noted that there is an appreciable margin of uncertainty in these figures; this is because the departments concerned are not yet in possession of all the requisite data, and forecasting production in present economic conditions is very uncertain.

Tonnage subject to the levy, and yield from a rate of levy of 0,01%

Product	Production on which the levy is calculated million tonnes	One levy "point" in m EUA
Brown coal briquettes and semi-coke derived from brown coal	3,9	0,01
Hard coal of all categories	194,3	<u>0,82</u>
Coal - total		<u>0,83</u>
Pig iron other than that used for making ingots	5,5	0,06
Steel in ingots	130	1,87
Finished products	93,6	<u>0,62</u>
Steel - total		<u>2,55</u>
GRAND TOTAL		3,38

TITLE R.1.2: Interest: other interest

1. Legal basis and description

Resources deriving from income on investments and on loans against non-borrowed funds will be determined when the Commission adopts the balance sheet at 31 December 1978. Under its Decision of 30 April 1975, the Commission enters in the budget the interest available from the previous financial year.

2. Type and breakdown

Interest will be credited in accordance with the allocations decided by the Commission when it adopts the balance sheet at 31 December 1978.

A breakdown of forecast resources based on the latest estimates is given below:

Titles	Heading	m EUA
R 1.2	Interest on investments and loans against non-borrowed funds	18
R 1.3	Fines and late payment surcharges	token entry
R 1.4	Miscellaneous revenue	token entry

3. Explanation

The figure for interest revenue is based on an estimate of the resources which the Commission will be in a position to release when it adopts the balance sheet at 31 December 1978.

CHAPTER R 2: CANCELLATIONS OF COMMITMENTS WHICH WILL PROBABLY NOT BE IMPLEMENTED

1. Legal basis and description

The provisions created in response to Commission aid decisions must be given tangible form within a reasonable period of time by the contracting of legal commitments.

The Commission's Internal Rules for the drawing up and implementation of the ECSC operational budget therefore provide that in the exceptional event of undue delay at this stage the provisions will be cancelled.

The Rules also provide that once all parties have discharged their obligations under the legal commitment, any remaining part of the provision will likewise be cancelled.

The amounts thus released become available again as resources for the current financial year.

2. Nature and breakdown

Save in the exceptional cases where decisions on the earmarking of funds are not followed up within a reasonable period of time by legal commitments, any cancellation of earmarked funds normally indicates complete discharge of the contract, agreed with the contracting party concerned.

The estimate of 4 m EUA shown in this chapter relates, in essence, to cancellations of allocations for resettlement aid. Only a token entry would be needed for the other items which might be involved (cancellations of balances remaining in respect of contracts which have been performed in full, delayed legal commitments, etc.).

3. Explanation

It is difficult to estimate the rate of cancellation in respect of resettlement programmes, as it depends on the negotiations to be held with the governments concerned. The estimated figure of 4 m EUA is based on an average rate for 1979.

CHAPTER R 3 - REVALUATION OF ASSETS AND LIABILITIES

This chapter, showing a "token entry", is provided to record the net effect of changes in rates of conversion during the financial year.

CHAPTER R 4 - UNUSED RESOURCES FROM THE FINANCIAL YEAR 1977

This chapter, showing a "token entry", provides for any balance remaining from the funds of the previous financial year to be entered as resources for the current financial year.

CHAPTER R 5 - REVENUE FROM ECSC CUSTOMS DUTIES

Legal basis and description

The allocation of ECSC customs duties to the ECSC operational budget, necessitated by the rapid increase in financial requirements without any possibility of increasing traditional resources, depends on a decision to be taken by the Member States. This decision was proposed in principle to the Council by the Commission on 8 November 1977 (COM(77)561 final) and drafted in precise form in a second communication on 16 May 1978 (COM(78)181 final). The matter was also referred to the European Parliament which agreed in its Resolution of 14 December 1977 that the resources accruing from the customs tariff applied to ECSC products should be allocated to the ECSC by entering them in the operational budget. The Council has not yet ruled on the proposal.

Nature and breakdown

The methods of payment have still to be decided. The system will probably be the same as that used for the General Budget, whereby the monthly payments are credited to the Commission's accounts on the 20th day of the second month following the month of collection.

Explanation

The estimate of the revenue from ECSC customs duties for 1979 is based on the assumption that they will not be substantially different from the sums raised in 1977. If the quantities and prices of imports develop in a manner likely to change the value of the ECSC products subject to customs duties, the estimate would have to be adjusted accordingly. It should be noted that the estimates for the other Community customs duties, drawn up for the purposes of the Preliminary Draft General Budget for 1979, forecast a 5,7% increase in revenue over 1977.

The revenue for 1977 communicated by the Member States amounted to a gross total of 80,3 m EUA at the average rate for the year. However, as products from EFTA were exempted from Community customs duties from the second half of the year onwards, the overall figure for these duties should be reduced by an estimated 13 m EUA. There must also be a payment (on the lines of the provisions drawn up for the General Budget) by the Community to the Member States of a 10% lump-sum refund for the costs of collection. Taking this refund into account (and without anticipating the question of entering this sum in the budget), available net revenue is estimated at 60 m EUA.

2. Covering of requirements not entered in the budget

Provision has been made for the following resources to cover requirements for the construction of subsidized housing:

- repayments on earlier loans (7,5 m EUA);
- a part of the special reserve and of the former ECSC pension fund (10 m EUA).

The making available of the resources of the special reserve remains to be confirmed when the Commission adopts the balance sheet on 31 December 1978.

3. Summary of resources available for 1979

The estimates of traditional resources other than levies amount to 22 m EUA (interest available - 18 m EUA; cancellations - 4 m EUA). As the yield from a levy rate of 0,01% has been estimated at 3,38 m EUA, the yield obtained from levies can be estimated at 98 m EUA on the basis of the current rate of 0,29%.

The outturn of the ECSC customs duties as regards new resources is estimated at 60 m EUA. The estimated resources are summarized in Annex E in the section on "resources".

III. DRAFT OPERATIONAL BUDGET FOR 1979

The situation in which the Commission has been called upon to draw up the draft operational budget for 1979 is dominated by two major factors.

The first is quite clearly the steel crisis. The Community is about to pass from the stage of implementing short-term stabilization measures to a phase where the emphasis will be put on restructuring measures with the social consequences this entails for the redevelopment and resettlement of the labour force. Community measures encouraging and promoting the necessary adjustments and adaptations will play an essential role. This leads to considerable financial requirements.

The second factor - an indispensable counterweight to the first factor since financing is impossible from the traditional resources alone - is the proposal for additional resources (ECSC customs duties) introduced at the end of last year and still awaiting a decision by the Member States. Even in 1978 the budgetary requirements considered as a minimum by all the parties concerned could be financed only as a result of a special contribution of 32 m EUA by the Member States and a reduction from 18 m to 5 m EUA in the contribution made by the ECSC budget to the General Budget for administrative expenditure. The contribution of 32 m EUA was approved in principle before the adoption of the budget and was entered as resources. The transfer of the 60 m EUA of estimated revenue from the ECSC customs duties remains a major element for balancing the 1979 budget. The Commission bases this draft budget on the assumption that the transfer (already recommended by the European Parliament) will be approved in time, i.e. by the end of 1978.

Taking account of these two factors - establishment, on the one hand, of the increased requirements and, on the other hand, of the need for additional resources to cover these requirements - the Commission examined the requirements in order to contain them and align them to the means available to cover them. Aware of the extreme difficulty which any significant rise in the levy burden would at present entail for the undertakings, it based its examination of requirements on the idea that, as far as possible, the budget should be balanced at the level of foreseeable resources at the rate of 0,29%, i.e. 180 m EUA, including the new resource which the customs duties will represent.

A. EFFECTS OF MAINTAINING THE CURRENT RATE

The information set out above and summarized in Annex E shows that total requirements for the financial year 1979 amount to 257 m EUA. Assuming the abovementioned allocation to the ECSC of resources from customs duties amounting to 60 m EUA, one would need to set a rate of levy of 0.52% to cover in full the requirements expressed. However, the adoption of a budget based on the present rate of 0.29% and thus limited to 180 m EUA would reduce the appropriations required by an overall 30%. The effects of such a reduction should be examined by studying the requirements on an item-by-item basis.

It must be recognized first of all that the level of the appropriations requested for resettlement aid must this year be considered as a minimum. Firstly, it represents unavoidable expenditure (see p. 27). Secondly, last year the Commission already cut down the amounts requested by the Governments by spreading some of them over to the following year: this approach must remain the exception and cannot be repeated. Thirdly, it should be stressed that the figure of 67 m EUA does not provide any reserve for financing new measures to adapt the traditional ECSC resettlement system to the needs of the current situation: however, there is a growing insistence that such special measures should be introduced. The Commission has therefore decided to take a basic figure of 67 m EUA as a working assumption for the resettlement aid allocation.

The other headings of expenditure which are of a mandatory nature relate to aids to coking coal in pursuance of Decision 73/287/ECSC, estimated at 6 m EUA, and administrative expenditure, fixed at 5 m EUA. Some 78 m EUA should therefore be set aside to cover all the unavoidable requirements.

This leaves for consideration the two Chapters involving expenditure which can be determined with a certain degree of latitude - aid to research and interest subsidies. Unless the levy rate is increased, the resources available to cover them will be 102 m EUA, i.e. 57% of the requirements expressed.

As regards research, the Commission considers an allocation of 47 m EUA, distributed as set out in Annex E, to be the minimum in view of the fact that these measures are meant to ensure the competitiveness of Community products. In particular, it draws attention to the comparison between the outlay for steel research in the Community (0,5% of turnover) and in Japan (1,5%).

Some 55 m EUA thus remain for the financing of investment, including investment in redevelopment. This amount is very small in view of the size of the problem faced. Last year the Commission, faced by stated requirements of 85 m EUA in this sector, allocated 40 m EUA to the Chapter in question. This decision took into account the fact that the state of progress of the preparation of the general objectives used as a framework for the restructuring of the steel sector did not suggest an immediate and general commitment of the necessary investment in all the regions concerned. Now that work on this subject has progressed, a larger sum must be estimated for subsidizing loans intended for restructuring. The subsidies to encourage the creation of new jobs form the key point of the redevelopment measures and the Commission considers it essential to allocate more to this item as well. It thus considers the appropriation of 55 m EUA as the indispensable minimum for the Chapter on interest relief grants.

Because of the priority it attaches to the creation of new jobs, it will continue to allocate more than half the appropriation to retraining, as in 1978 (30 m EUA for retraining and 25 m EUA for investment).

B. BALANCING THE BUDGET

The Commission considers that the draft budget broken down in Annex E and consisting of the abovementioned allocations may be adopted as a valid Community contribution for the year to come, as regards both the traditional objectives of the Community's financial measures and the increased and urgent requirements arising from the difficult problems facing the steel industry. The Commission cannot envisage any reduction in this budget.

The Commission recalls that the ECSC treaty does provide certain room for manoeuvre in that it allows the Commission to vary the rate of the levies. Nonetheless, it considers that in the present economic circumstances an upwards adjustment is highly inadvisable.

The Commission thus insists on the absolute need for mobilizing additional resources by allocating to the ECSC the customs duties on ECSC products in time for balancing the 1979 budget by this means.

Assuming this, the Commission proposes that the rate of levy of 0,29% be maintained.

If the decision concerning the allocation of the customs duties is not taken in time, the draft budget will have to be radically revised.

C. DRAFT BUDGET

The draft budget drawn up by the Commission for the financial year 1979 and amounting to 180 m EUA is contained in Annex E.

IMPLEMENTATION OF THE ECSC OPERATIONAL BUDGET FOR 1977

ANNEX A
(in m EJA)

REQUIREMENTS	BUDGET FIGURES (1)	FINAL FIGURES	RESOURCES	BUDGET FIGURES	FINAL FIGURES
OPERATIONS TO BE FINANCED FROM CURRENT RESOURCES (NON-REPAYABLE)			RESOURCES OF THE FINANCIAL YEAR		
1. Administrative expenditure	18	17,9	1. Current resources		
			1.1 Levy yield (at 0,29%)	81,5	86,8
			1.2 Interest on investments and on loans from non-borrowed funds	16	16
			1.3 Fines and surcharges for delayed payment	token entry	-
			1.4 Miscellaneous	token entry	-
2. Aid to resettlement (Article 56)	25	25	2. Cancellation of commitments which will not now be implemented	6	7,1
3. Aid to research (Article 55)	38,4	38,4	3. Revaluation of assets and liabilities	token entry	-
3.1 steel	12,5	15,5			
3.2 coal	16,2	16,2			
3.3 social	9,7	9,7			
4. Interest relief grants	21,8	19,8	4. Unused resources carried over from the financial year 1976	0,7	0,7
4.1 Article 54 - Investment	8,5	2,5			
4.2 Article 56 - Redevelopment	13,3	17,3			
5. Aid to coking coal and metallurgical coke (Article 95)	6	6	5. Drawing on contingency reserve	10	3,5
6. Aid to Friuli victims (allocation to reserves)	5	5			
7. Effect in EJA of the changes in currency exchange rates on legal commitments to be carried out in currencies	-	2			
	114,2	114,1		114,2	114,1
OPERATIONS FINANCED WITH LOANS FROM NON-BORROWED FUNDS			ORIGIN OF NON-BORROWED FUNDS		
8. Social housing	15	15	6. Repayments on loans for social housing	7	7
			7. Special reserve and part of the former ECSC Pension Fund	8	8

(1) Amending budget (OJ L 351 of 31.12.1977, p. 62).

ECSC OPERATIONAL BUDGET FOR 1978⁽¹⁾

ANNEX B

(in m EUA)

REQUIREMENTS	ESTIMATES	RESOURCES	ESTIMATES
OPERATIONS TO BE FINANCED FROM CURRENT RESOURCES (NON-REPAYABLE)		RESOURCES FOR THE FINANCIAL YEAR	
1. Administrative expenditure	5	1. Current resources	
2. Aid to resettlement	60	1.1 Levy yield at 0,29% (0,01% = 3,45 m EUA)	100
3. Aid to research (Article 55)	41	1.2 Interest on investments and on loans from non-borrowed funds	18
3.1 steel	(16	1.3 Fines and surcharges for delayed payment	token entry
3.2 coal	(16	1.4 Miscellaneous	token entry
3.3 social	(9	2. Cancellation of commitments which will probably not be implemented	2
4. Interest relief grants	40	3. Revaluation of assets and liabilities	token entry
4.1 investment (Article 54)	(15	4. Unused resources carried over from the 1976 financial year	token entry
4.2 redevelopment (Article 56)	(25	5. Special contribution under the Council Decision of 21 December 1977	32
5. Aid to coking coal and metallurgical coke (Article 95)	6		152
	152		
OPERATIONS FINANCED WITH LOANS FROM NON-BORROWED FUNDS		ORIGIN OF NON-BORROWED FUNDS	
6. Social housing	15	6. Repayments on loans for social housing	7,5
		7. Special reserve and part of the former ECSC pension fund	7,5

(1) The 1978 budget published in OJ L 351 of 31 December 1977, p. 55, does not require amendment and appears in this document only to facilitate comparison with the draft budget for 1979.

Information relating to levies

The latest available information on production and the levy yield for the current financial year is given below:

Levy yield for the period from January to June 1978

Products	Production serving as a basis for the calculation of the levy in million tonnes	Levy yield in m EUA
Brown-coal briquettes and semi-coke	1,8	0,1
All types of hard coal	98,3	11
Total for coal		11,1
Pig iron other than that required for the manufacture of ingots	2,3	0,8
Steel ingots	67,2	29,8
Finished products	52,1	10,3
Total for steel		40,9
GRAND TOTAL		52

BREAKDOWN OF LOANS FOR THE FIRST SIX MONTHS OF 1978

(in m EUA)

Sector	Federal Republic of Germany	Belgium	Denmark	France	Italy	Netherlands	Luxembourg	United Kingdom	Ireland	Community
I. Coal industry	17,30	-	-	3,70	-	-	-	141,98	-	162,98
Iron ore								2,19		2,19
II. Iron and steel industry	34,29	-	14,47	49,35	81,75	-	-	19,78	-	199,64
III. Industrial redevelopment	-	-	-	1,68	-	-	-	8,23	-	9,91
IV. Social housing	0,73	1,01	-	0,18	0,28	0,19	-	0,76	-	3,15
GRAND TOTAL	52,32	1,01	14,47	54,91	82,03	0,19	-	172,94	-	377,87

PROVISIONAL SITUATION OF THE ECSC AT 30 JUNE 1978

ANNEX D

ASSETS

LIABILITIES

(in m EUA)

I. Disbursed loans	4.360,3	I. A. Borrowings	4.264,3
II. Cash and banks	296,6	B. Outstanding redemption premiums	1,2
III. Short and medium-term investments	65,2	II. Reserves	
IV. Portfolio	154,2	A. Guarantee fund	183.-
V. Real estate	0,3	B. Other funds	134,5
VI. Recoverable issuing costs	71,8	III. Provisions	
VII. Miscellaneous	116,9	A. Financial assistance	281,2
VIII. Accrued income	104,3	B. Other provisions	15,9
		IV. Former pension fund	39,9
		V. Miscellaneous	100,7
		VI. Accrued liabilities	134,3
		VII. Unallocated balance	14,6
	<u>5.169,6</u>		<u>5.169,6</u>
Suspense account: Enterprises' liabilities under guarantee	15,5	Suspense account: ECSC's liabilities under guarantee	15,5

DRAFT ECSC OPERATIONAL BUDGET FOR 1979

(in m EUA)

REQUIREMENTS	APPLICATIONS	PROPOSALS	RESOURCES	PROPOSALS
OPERATIONS TO BE FINANCED FROM RESOURCES FOR THE FINANCIAL YEAR (NON-REPAYABLE)			RESOURCES FOR THE FINANCIAL YEAR	
1. Administrative expenditure	5	5	1. Current resources	
2. Aid to resettlement (Article 56)	67	67	1.1 Levy yield at 0,29% (0,01% = 3,38 m EUA)	98
3. Aid to research (Article 55)	84	47	1.2 Interest on investments and on loans from non-borrowed funds	18
3.1 steel	(47,8	(20	1.3 Fines and late payment surcharges	token entry
3.2 coal	(30,7	(17	1.4 Miscellaneous	token entry
3.3 social	(10,5	(10	2. Cancellation of commitments which will probably not be implemented	4
4. Interest relief grants	95	55	3. Revaluation of assets and liabilities	token entry
4.1 Investment (Article 54)	(50	(25	4. Unused resources carried over from the 1978 financial year	token entry
4.2 Redevelopment (Article 56)	(45	(30	5. ECSC customs duties	60
5. Aid to coking coal and metallurgical coke (Article 95)	6	6		180
	257	180	ORIGIN OF NON-BORROWED FUNDS	
OPERATIONS FINANCED WITH LOANS			6. Repayments on loans for social housing	7,5
6. Social housing	17,5	17,5	7. Special reserve and part of former ECSC Pension Fund	10