

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(77) 558 final.

Brussels, 10 November 1977.

AIDE-MEMOIRE

on the fixing of the ECSC levies and on
the drawing-up of the operational budget for 1978

S U M M A R Y

	<u>Page</u>
Preface	4
I. GENERAL INTRODUCTION	5
A. ECONOMIC CONTEXT	5
1. The economic outlook for 1977, and 1978	5
2. Prospects in the coal sector	8
3. Prospects in the steel sector	9
B. POLICY CONTEXT	11
1. Coal policy	12
2. Iron and steel policy	14
3. Social policy	18
4. Borrowing and lending activity since 31 December 1976	19
C. FINANCIAL CONTEXT	20
II. ANALYSIS OF EXPECTED EXPENDITURE AND POSSIBLE RESOURCES IN THE FINANCIAL YEAR 1978	25
A. EXPECTED EXPENDITURE IN 1978	26
1. Ordinary requirements	26
2. Requirements not included in the budget - loans for financing subsidized housing	39
3. Summary of requirements put forward	41

	<u>Page</u>
B. POSSIBLE RESOURCES	41
1. Resources for the financial year	41
2. Covering of requirements not included in the budget	45
3. Summary of possible resources for 1978	45
III. DRAFT OPERATIONAL BUDGET FOR 1978	46
A. IRREDUCIBLE REQUIREMENTS	47
B. COVERING OF REQUIREMENTS	50
C. DRAFT BUDGET	52

ANNEXES

A. Implementation of the ECSC operational budget for 1976	53
B. Forecast implementation of the ECSC operational budget for 1977	54
C. Breakdown of loans for the first six months of 1977	56
D. Provisional situation of the ECSC at 30 June 1977	57
E. Draft ECSC operational budget for 1978	58

AIDE-MEMOIRE

on the fixing of the ECSC levies and on the
drawing-up of the operational budget for 1978

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 1978.

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

- I. General introduction;
- II. Analysis of expected expenditure and possible resources in the financial year 1978;
- III. Draft operational budget.

In view of the favourable reception given to the way in which the document was presented by the Commission last year, there is to be only one slight change this year, namely the inclusion at Annex D of a summary of the provisional situation of the ECSC at 30 June 1977.

The various factors affecting the determination of the levy rate for 1978 are described in Chapter III.

*
* *
*

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

I. GENERAL INTRODUCTION

This Chapter summarizes the factors necessary for appreciating the economic, political and financial background to the draft operational budget of the ECSC for 1978.

A. ECONOMIC ASPECTS

1. The economic outlook for 1977 and 1978

The economic trend which the Community has been experiencing for some two years has been marked by alternating periods of expansion and contraction. The latter have tended to predominate since the beginning of the year. As a result of the constraining influence of inflationary pressures, excessive balance of payments imbalances, and under-use of productive capacity - factors applying in differing degree to different Member countries - there is still no sign of the appearance of a cumulative cyclical expansion of the sort noted in earlier phases of economic recovery. A slight consolidation of economic growth is forecast for the second half of 1977 on account of the faster expansion of exports and, in some countries, of private consumption. For the year as a whole, however, the rate of economic growth is not likely to be any higher than 2 1/2% in real terms of the entire Community compared with 4 1/2% in 1976. Initial estimates for 1978 suggest that economic growth will pick up slightly in that year and overtake the 1977 level. Utilization of productive capacity, however, is expected to stay at a fairly low level in many sectors of industry.

The progress made towards a return to full employment in the medium term has been disappointing. There has been little inclination to make job-creating investments. Where a need for labour has arisen, it has basically been met by increasing productivity or extending the working hours of those already employed. Discounting seasonal variations, the rate of unemployment for the whole of the Community reached 5.6% by the summer. This is likely to increase further in the autumn and into 1978. The number of young people seeking their first job is likely to go on increasing and a growing number of women will be seeking employment.

Although pressure of demand on overall real resources has not been excessive, the rise in prices was brisk until the spring. This phenomenon can be explained by the shortfall in the supply of agricultural products following the 1976 drought in the Community and also by the adverse climatic factors which have seriously affected the prices of some tropical foodstuffs. There have been other contributory factors as well such as the increase in public service tariffs and petroleum product prices. On the other hand, the effect of wage costs on the prices of manufactured products has generally remained moderate. Despite the slowdown forecast for the second half on the year, the overall rise in consumer prices in 1977 is unlikely to abate in comparison with last year. The average rate of increase is estimated at 9 1/2%. In 1978, however, the rate of inflation is expected to slow down.

In the final analysis, it is only on the external side that the Community's position has developed fairly satisfactorily after the marked deterioration throughout 1976. It should however be noted that this improvement in the external position is essentially just the reflection of a continuing state of depressed economic activity and under-use of productive capacity. Despite the worsening in the terms of trade, the reduction in the volume of purchases by the deficit states has, since the end of the previous year, resulted in a significant improvement in the Community's balance of trade. If, as is probable, this recovery continues, it should lead to a near-balance situation in 1977, compared with the previous year's deficit of nearly 8 000 million dollars. There is even a possibility of a small surplus in 1978, based on the increasing contribution of North Sea oil.

The following table shows the trend in the Community's GDP during the period 1975 to 1977:

GROSS NATIONAL PRODUCT IN VOLUME TERMS
(% variation as compared with the previous year)

	1975	1976	1977
Denmark	- 1.1	4.8	1
Fed. Rep. of Germany	- 2.6	5.7	3
France	0.1	5.2	2 3/4
Ireland	0.4	3.2	5
Italy	- 3.5	5.6	2
Netherlands	- 1.1	4.4	2 1/2
Belgium	- 2.0	3.0	2 3/4
Luxembourg	- 8.4	2.7	1 1/4
United Kingdom	- 1.7	1.6	1/2
Community	- 1.8	4.6	2 1/2

Source: Commission staff.

2. Prospects in the coal sector

As a result of the combined effect of various factors, the overall situation on the coal market in 1978 should be broadly similar to that in 1977.

As far as demand is concerned, there is no sign at the moment of any development in the iron and steel industry pointing to major changes in coal and coke consumption. However, the measures taken by some Member States may perhaps mean that greater use will be made of Community coal resources to satisfy demand.

The exceptional increase in coal consumption in the electricity industry in 1976 was followed by a levelling-off in 1977 to a fairly constant level; consumption should remain around this level in 1978 unless any unforeseen factors arise (e.g. a serious drought which would reduce the level of generation of electricity in hydro-electric stations below normal). The reason for this situation is that, although overall Community demand will probably continue to rise at the present rate of 6% and there will be a substantial increase in the proportion of coal used in some Member States, these factors must be offset by a fall in consumption in the United Kingdom (approximately 4%) caused by the commissioning of several large power stations which do not use coal.

A degree of uncertainty surrounds coal production in 1978 owing to various factors. The most important of these are the decision which is likely to be taken by the Federal Republic of Germany to introduce short-time working in view of the gloomy prospects for coking coal and coke sales, the serious strain put on the Belgian budget by the subsidies which are being paid to the coal industry to enable it to sell its products at competitive prices and, thirdly, the productivity difficulties faced by the British coal industry.

Bearing in mind these production factors, it may be assumed that total Community coal production will be around 240 million tonnes in 1978.

Similarly, some uncertainty clouds the financial prospects of the United Kingdom coal industry which has had a healthy profit margin throughout the

period ending with the financial year which terminated in March 1977. Subsidies will, however, probably have to be made available in other Member States to boost production. The need for such subsidies in the case of the German coal industry is largely attributable to the under-utilization of production capacities and to the maintenance of large stocks of coal and coke.

The large quantity of stocks put down by producers, particularly in the Federal Republic of Germany, is due to the small volume of intra-Community trade which is attributable in turn to the lower prices at which Member States which have to import coal can buy it from non-Community countries. If no solution is found, imports from non-Community countries will probably approach 40 to 45 million tonnes, while the stocks of coal and coke put down by Community producers may exceed the current high levels.

3. Prospects in the steel sector

There was a severe slump in the Community iron and steel industry in the first half of 1977. New orders failed to reach the levels attained in the corresponding period of the previous year and are naturally well down on those of 1974, which was a peak year.

Crude steel production fell by approximately 5.4% in the first nine months of 1977 compared with the same period in 1976 (a drop of 17% compared with the levels in the corresponding months of 1974). The rate of utilization of Community production capacities is still low (not more than 64%). The rhythm of production and supply has, however, more closely matched that of market demand in the last few months. The total volume of orders has accordingly stabilized at an average of about one month's full protection.

The decline in production is due largely to the sluggishness of internal demand caused by the low level of investment and the excess stocks kept by producers, dealers and users. A further contributory factor is the deterioration in the trade balance in steel products. The net balance

in the Community's external trade in finished products with non-member countries fell from 20.1 million tonnes in 1974 to 14.7 million tonnes in 1975 and 6.5 million tonnes in 1976.

The Community steel industry has thus not only suffered from an excess of cheap non-member country products on to its own internal market, but has also lost a large number of its traditional outlets in non-Community countries. The financial viability of the Community's steel industry is in serious danger because the industry has had to bring down its prices to compete with these imports.

This slump in production gives particular cause for concern, as it has been accompanied by a catastrophic fall in the market prices of steel products - varying from 15 to 50% depending on the type of product. The effect of this price drop has been exacerbated by the sharp rise in the cost of raw materials and labour.

The steady increase in production capacity due to investment projects launched in the prosperous years of 1973 and 1974 has added to the steel industry's difficulties. Investment programmes have, however, slowed down as the crisis has dragged on, although the effects will not be felt until later.

The outlook is gloomy for the second half of the year. Community crude steel production might reach a level of 128 to 129 million tonnes in 1977; this is only slightly less than the 1976 level of 134.2 million tonnes but far below the record of 155.6 million tonnes in 1974.

The slight acceleration in economic growth expected in 1978 justifies predicting that Community crude steel production will reach a level of approximately 135 million tons in 1978, provided that imports are better matched to the decline in internal demand.

B. THE 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 by virtue of the provisions of 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 1978. 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 Community production target of 250 million tce by 1985 laid down in the medium-term guidelines for coal 1975-85 (OJ No C 179 of 6 August 1975) also appears in the second report on the achievement of Community energy policy objectives for 1985, which was forwarded to Parliament and the Council on 3 August.

The Council may be called upon to decide on the draft resolution on the 1985 objectives proposed in the report in December. It will wait for Parliament's Opinion on the document, due to be drawn up in November.

On the subject of the individual instruments of coal policy, the Commission recalls that it stated in its aide-mémoire on the draft ECSC operational budget for 1977 that it intended to present three coal policy measures in the course of this year: financial aid to enable producers to bear the burden of stockpiling coal and coke, the extension of the present system of subsidies for intra-Community sales of coking coal (instead of a phased reduction of the system), and investment aid for coal-fired power stations.

The second of these measures was adopted by the Council in mid-summer although in a much more diluted form than that proposed by the Commission. The two other proposals, although approved by Parliament and the Economic and Social Committee, are still being discussed by Council working parties.

Because of the effects of recently-introduced Community measures intended to establish a better balance in the steel market, the Commission was led to decide on 5 October 1977 in the context of the Community system of aid for coking coal and coke to introduce some flexibility in the long-term contract conditions which must be met by producers who wish to receive Community aid. Deliveries to the iron and steel industry during 1977 may be reduced in direct proportion to the adjustment in pig iron production which firms have made under the Community measures.

In compliance with the decision of the Council of Energy Ministers on 29 March to collect information on coal imports from non-Community countries, the Commission worked out a draft decision for an improved system of information on coal imports to be used for its reports on the trend in the Community coal market. This draft decision has been submitted to the government representatives of the Member States meeting in Council under the ECSC procedure and is now being studied.

2. Iron and steel policy

The European iron and steel industry is now in the third year of a deep-seated crisis; average utilization of capacity is now below 65 %, traditional markets have been lost and almost all firms are making losses. Employment has also been badly hit by the crisis. Short-time working and redundancies have occurred throughout the industry. Further, more serious cuts affecting several tens of thousands of workers are planned for the years to come. In addition to the persistent cyclical depression, the crisis has also now assumed a structural character.

The iron and steel policy which the Commission has in view can be summarized against three main guidelines. A fourth vital element of policy concerns the social implications of the crisis. This is considered in Section 3 below.

2.1. First guideline: keeping the market unified and open

The Community must do all that is needed to maintain market unity which is threatened through the establishment of cartels and through recourse to national safeguard measures. The Community also intends to stand by the external trading policies hitherto pursued. This dual objective cannot be attained unless the iron and steel industry is restructured.

2.2. Second guideline: Community approach to restructuring problems

The objective of restructuring is to secure a modernized production capacity (this affects both plant and products) of which the viability and hence the competitiveness would be assured.

Restructuring policy must be pursued in consultation with workers' organization, firms, the Member States and the Community's other institutions.

Several governments particularly interested in the restructuring of the industry have already made known their interest in tackling it on a Community basis.

All new investment in the steel industry should be placed in this context. To guarantee the requisite coordination between investment projects, it will therefore be essential for Member States' restructuring programmes to be examined as soon as possible to ensure compatibility with the Community objectives, and for the investment projects to be communicated early enough for an assessment to be made of their value in relation to these programmes. With this purpose in mind, the Commission is now revising the General Objectives for Steel in consultation with the parties concerned.

For the time being, and until precise restructuring objectives have been established, any investment resulting in an increase in existing production capacities can be allowed only if it is offset by a comparable reduction.

For this purpose, the Commission will invoke Article 54. The grant of Community finance (loans and interest relief) will be based on the contribution of the investment in question to the restructuring objectives. In the meantime, it is desirable for governments, authorities and firms involved in the restructuring and redevelopment process to avoid taking concrete action until the restructuring programmes have been defined.

The magnitude of the restructuring problems reflects the existing state of Community production capacity.

The difficulties are attributable not only to the deterioration in the conditions of competition at world level resulting from national financial and other measures, but also to the fact that part of the Community iron and steel industry is ill adapted to modern production and organization structures.

The latter drawback is due mainly to the unfavourable siting and dispersion of certain iron- and steelmaking establishments, a lack of coordination and, in certain cases, imbalances in the different stages of production. The process of restructuring the Community iron and steel industry must be accelerated so that the industry can face up to the present difficulties, and its competitiveness must be attuned to the future world market conditions by adjusting capacity to internal and external needs.

As regards competitiveness, full use should be made of the capacity of technical research to improve product quality and reduce costs.

2.3. Third guideline: market action

The proposed restructuring cannot be achieved unless market conditions are improved. In the short term, we cannot look to a recovery in the economy for such an improvement: consequently, limited action aimed at certain market mechanisms must be pursued and reinforced, in compliance with the rules and objectives of the Treaty, as far as possible with the consensus of the parties concerned.

This is why the Commission intends to continue with the plan for the voluntary limitation of internal market delivery quotas introduced at the end of 1976 (OJ No C 304 of 24 December 1976). However, as this action is not at present securing the desired hardening of internal prices, firms must also be encouraged to charge prices more in line with the realities of the situation.

In consultation with the ECSC Consultative Committee, the Commission has therefore recommended voluntary observation by firms of guidance prices for certain iron and steel products (OJ No L 114 of 5 May 1977). In a communication published in OJ No C 174 of 22 July 1977, the Commission adjusted the original guidance prices and extended the range of products concerned. These provisions have applied since 1 September 1977. Under Article 61 of the ECSC Treaty, the Commission introduced minimum prices for concrete reinforcement bars (rebars) by Decision 962/77/ECSC of 4 May 1977 (OJ No L 114 of 5 May 1977). These prices will have to be reviewed by the Commission before 31 December 1977.

In addition, recommendations Nos 77/328, 329 and 330/ECSC of 15 April 1977 (OJ No L 114 of 5 May 1977) introduced import documents to be issued automatically on presentation of purchase contracts, to make it easier to detect unfair commercial practices and with a view to taking action against them under the rules of the Treaties (anti-dumping). Another aim of these recommendations is to establish a Community surveillance system for imports into the Community of certain iron and steel products originating in non-member countries.

Side by side with these autonomous decisions, the Community has already started and intends to continue, conversations with its major world partners in order that their conduct should not compromise the intended restructuring efforts. Appropriate contacts must be made to ensure that it is clearly understood that the iron and steel policy measures introduced are in the long-term interest of all concerned.

3. Social policy

As a general rule, the social policies pursued under the Treaty of Paris are similar to the policies developed subsequently by the European Economic Community. ECSC resettlement aid has aims and methods 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 has a wider range.

However, the effect of the legal differences and especially of the fact that ECSC aid is financed by the industries concerned has enhanced the importance of the aid provided. The ECSC resettlement regime is therefore more developed and more comprehensive than comparable Social Fund operations, while the redevelopment 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, since in the final analysis this restructuring will be impossible without stepping up redevelopment efforts to create the new activities needed for the re-employment of workers made redundant by the restructuring operations.

If the restructuring of the iron and steel industry is to be acceptable from the social and regional point of view, the inevitable redundancies must be attenuated and, if possible, offset by the creation of alternative jobs and support provided, on a basis of Community solidarity, for the resettlement of the workers involved.

These essential resettlement and redevelopment aspects must therefore form part and parcel of the restructuring programmes. The Community's task is to apply all the means at its disposal in pursuit of these programmes including particularly :

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

4. Borrowing and lending activity since 31 December 1976

ECSC Financial Report No 22 summarizes the Community's borrowing and lending activity in the financial year 1976 and presents analytical and cumulative statistics for the whole of this activity since 1954. The Community's balance sheet as at 31 December 1976 appears in Annex II to the report.

Loans contracted in 1976 totalled 956 m EUA compared with 731 m EUA in 1975. Loans disbursed in the same period totalled 1 064 m EUA compared with 805 m EUA in 1975, bringing total borrowing and lending since the inception of the ECSC to 4 069 m EUA and 4 151 m EUA (including 157 m EUA in loans from own funds) respectively. The balance outstanding as at 31 December 1976 was 3 475 m EUA.

In the financial year 1977 ECSC financial activity continued to satisfy the demand from firms.

In the first half of the year, loans contracted totalled 283 m EUA and loans disbursed 331 m EUA so that the balance outstanding exceeded 3 600 m EUA as at 30 June 1977.

The ECSC has continued to obtain favourable terms on the capital market. The biggest loans contracted - \$50 million over 12 years and \$100 million over 20 years - on the international capital market were obtained under the most favourable currently available.

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.

The table in Annex C to this aide-mémoire analyses the loans disbursed in the first half of the financial year 1977.

A statement of the provisional situation of the European Coal and Steel Community as at 30 June 1977 is given in Annex D.

C. FINANCIAL CONTEXT

As regards the financial background to the 1978 draft budget, the rise in prices continues to be an important factor in assessing forecasts and defining the relation between the 1977 and 1978 financial years. In this respect, it may be assumed that there will be an increase in costs of 8% between 1977 and 1978, as compared with roughly 10% between 1976 and 1977.

It must be pointed out that the ECSC budget has been expressed in European units of account as from 1 January 1976. Since that date, budget commitments and the contracts relating thereto have been expressed and paid in EUA. Initial problems were overcome without major difficulties despite the exceptionally heavy workload which Commission departments are having to bear in maintaining the accounts for budget commitments, since these accounts - for a transitional period - comprise both sums contracted in foreign currencies and commitments in EUA. This problem, incidentally, has also attracted the attention of the Auditor. Payment of levies during the 1976 financial year was based - during this transitional period - on conversion rates fixed every month; but, in 1977, daily conversion rates came into effect. The levies office, in cooperation with the undertakings and banks concerned, has applied itself to clarifying the methods of payment and to

solving technical teething troubles. The Commission is pleased with the satisfactory way in which this has been done.

As regards the deadlines for payment of levies, the temporary two-month lag for payment of steel levies, decided in 1976 (OJ No L 89 of 2 April 1976), ended, as scheduled, at the end of this year. However, this measure was replaced permanently as from the second half of the current financial year by a one-month lag applicable not only to steel but also to coal levies. This adjustment is based on the observation that the period of time between the manufacture of products subject to levies and the receipt of payment for these products is at present two full months and means that payment of levies is now due on the 25th of the second month following the month in which the products were manufactured (Decision No 1687/77/ECSC of 22 July 1977: OJ No L 187 of 27 July 1977).

The Commission recalls, finally, that, in its resolution of 14 December 1976 on the ECSC operational budget for the 1977 financial year, the European Parliament expressed concern over a certain stagnation and rigidity in the operational budget in a particularly unstable economic and financial context and requested the Commission to reflect seriously about the budget and its role.

The Commission has been guided by this recommendation from Parliament in drawing up the draft 1978 ECSC operational budget and has tried to show imagination and flexibility in facing up to the critical financial context in which next year's budget will fall.

There has been no substantial reduction in the cyclical and structural difficulties which have beset the Community's iron and steel industry since 1975. In financial terms, these difficulties inevitably take the form of an appreciable increase in budget requirements and a shrinking of the base for the levies which consists (self-evidently) of the quantities produced.

The Commission's thinking on this matter is founded on the following principles:

- the mechanism of the ECSC operational budget must retain the ability to adjust resources to financial requirements regarded as irreducible¹;
- if actions do not specifically fall within the scope of the ECSC, recourse to funds provided for certain Community policies under the Treaty of Rome should be considered;

this approach is already being applied in the field of Community energy policy, and has made it possible to enter in Chapter 32 of the Community budget (expenditure under the energy policy) Article 322 covering "Aids to coal stocks". The same applies to the Regional Fund.

Apart from the already existing possibility for the ERDF to contribute to the cost of regional aid granted to reconversion projects, the Commission has proposed - as part of the reorganization of the ERDF in 1978 - that a system of interest

¹In this context it would be appropriate to recall the opinion of the European Parliament's Committee on Economic and Monetary Affairs in 1976, which stated in conclusion that 'the rule of stability to which the Commission understandably wishes to adhere may not be used in future as a principle for making the rate of the levy unchangeable.'

relief grants be set up, outside national quotas, which would enable the Commission to make direct ERDF interest relief grants on certain loans;

- (iii) great importance is attached to coordinated implementation of all the financing instruments which come under consideration: funds specifically available for the coal and steel sector, supplemented by actions falling under the General Budget and, as regards loans, by EIB intervention;
- (iv) as regards the classic interventions of the operational budget (research, resettlement, interest relief grants and loans for low-cost housing), the Commission naturally prefers to continue financing them by the means provided by the ECSC Treaty;
- (v) finally, the Commission takes the view that the exceptional character and the unprecedented importance of the crisis now affecting the ECSC - and, more particularly, the Community's iron and steel industry - justify special measures in the financial sphere aimed at enabling the Community to carry out fully the tasks devolving upon it with regard to the restructuring and redevelopment of the industry and the resettlement of its workers, without excessive increase in the financial burden borne by the sectors in question.

This is why, in June, the Commission suggested that the annual contribution made by the ECSC to the General Budget in respect of Community administrative expenditure be reduced from 18 to 5 million ECU thus allowing the sum released to be used to finance increasing operational requirements. This proposal was approved by COREPER on 26.10.77 for endorsement by the Council as an A point. A further proposal of this nature is presented in pages 50-51 below.

The above approach is fully reflected in the proposals which the Commission has set out in Chapter III of this aide-mémoire.

II. ANALYSIS OF EXPECTED EXPENDITURE AND POSSIBLE RESOURCES IN THE FINANCIAL YEAR 1978

Article 49 of the Treaty establishing the European Coal and Steel Community authorizes the Commission to procure the funds it requires to carry out the activities laid down in that Treaty by imposing levies on the production of coal and steel. Pursuant to Article 50, these levies are assessed annually on the various products according to their "average value", but the "rate" may not exceed 1% unless previously authorized by the Council.

For the purpose of fixing this rate, it is necessary first to estimate the financing requirements and then to see how far they can be met from resources other than the levies, in particular interest on investments and on loans financed out of capital resources and also provision cancellations. In this way, the amount to be covered by the levies can be determined.

In addition, on the basis of a preliminary and thus sometimes unavoidably inaccurate assessment of the average value of the various products, and of the likely volume of output during the year, the probable levy yield is calculated: first of all in terms of the yield anticipated from a rate of 0.01%. The calculation, therefore, hinges on an estimate of production which is difficult to make owing to the extreme sensitivity of the industries concerned to any sudden change in market conditions.

These are the two elements set out in this Chapter. It is then necessary to determine to what extent the Community should forego satisfying the requirements reported, which considerably exceed the resources provided by the present rate, or to what extent the rate should be revised upwards or downwards. This matter is dealt with in Chapter III.

The following presentation of expected expenditure and foreseeable resources is modelled on the systematic analysis of the data on the various budget headings in the General Budget, as shown 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 chapter (legal basis and description of operation, type and breakdown of expenditure, explanation). To permit a better assessment, the explanations given for non-compulsory expenditure (research and interest relief grants) are more detailed than for the other chapters.

A. EXPECTED EXPENDITURE IN 1978

1. Ordinary requirements

CHAPTER B 1 - RUNNING COSTS

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 operating expenditure.

2. Type and breakdown of expenditure

Annual lump-sum payment made in 12 equal monthly instalments.

3. Explanation

In its Communication COM(77)280 final of 16 June 1977, supplemented on 11 October 1977 by COM(77)511 final, the Commission proposed that the sum of 18 million EUA fixed by the Merger Treaty be reduced to 5 million EUA so as to make additional money available for increased operational requirements.

A decision on this proposal is a matter for the Council under Article 20 of the Merger Treaty, and COREPER decided on 26.10.77 to propose that it be agreed as an A point at a forthcoming Council meeting.

CHAPTER B 2. - AID 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 training of workers having to change their employment.

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

Earmarking of funds intended 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 expenditure estimates made by the governments, taking into account the budgetary necessity of delaying until 1978 the contracting of certain commitments belonging to the 1977 financial year, ⁽¹⁾ is as follows :

m EUA

Country	Coal	Iron and steel, iron-ore mines	Total per country
Germany	6	3	9
Belgium	2	6.5	8.5
France	9.5	22.5	32
Italy	-	5	5
Luxembourg	-	2	2
Netherlands	-	3	3
United Kingdom	17	5	22
Total per industry	34,5	47	81,5

The social repercussions of the present situation remain difficult to predict and it is to be noted that the forward figures are highly unreliable.

3. Explanation

The coal industry's foreseeable expenditure is down on 1977, mainly as a result of the progress made in rationalizing the industry in Germany and France though the fall in pig iron production has also led to the closing of a number of coke plants. On the other hand, foreseeable expenditure in the iron and steel industry is rising owing to the gradual rationalization and restructuration of the industry. The reduction in employment in the iron and steel industry is estimated at several tens of thousands of workers.

(1) The cases concerned are chiefly applications from nationalised coal industries which are generally submitted only at the end of the year.

CHAPTER B 3 - AID TO RESEARCH

1. Legal basis and description of the operation

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

The High Authority/Commission grants non-repayable aid to finance technical and economic research into the production and increased use of coal and steel and occupational safety in the coal and steel industries.

2. Type and breakdown of expenditure

Earmarking of the amounts intended for 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 justified costs.

The applications can be broken down as follows:

m EUA

Heading	Sector	Aid requested
B 3.1	Steel	40.5
B 3.2	Coal	32.2
B 3.3	Social and medical	9.8
	TOTAL	82.5

3. Explanation

Steel research

The general orientation of ECSC research in the steel sector for the present decade is outlined in the "General Objectives for Steel 1975-1980" and indicates the direct link between the programme and the medium-term technological requirements within the Community's industry. In assessing the specific resources needed and the priorities to be allocated for this collaborative effort, consideration must be given to the following developments which are having profound consequences for the ECSC:

- the steel industry of the Community remains in depression with reduced demand causing capacity utilization to fall to below 65% of production potential; - in the resulting economic and financial climate, considerable pressures are being exerted on the funds available from within the industry for research;
- the rising cost of raw materials and, particularly, of energy is having obvious repercussions on production costs while the industry's heavy dependence on external sources of supply raises also the problem of availability;
- the establishment of steel manufacturing industries in the ore-rich and oil-rich countries of the developing world will have important consequences on international trade and on the sharing of the world market.

One certain outcome from the present situation is that international competition will become increasingly severe and it will be vital for the European iron and steel industry to successfully meet this challenge in a changing pattern of world trade. An essential requirement will be to maintain the most advanced standards of technology in all aspects of steel production and processing and to ensure that our technical expertise is reflected in the quality and sophistication and the price of our steel products. This will only be achieved, however, if the necessary research programmes are undertaken so that they form part of an integrated and coherent strategy aimed at improving the competitiveness of the Community's industry.

To meet current requirements within the Community, priority will be given to the following areas of research in the allocation of resources for 1978:

(i) Process-oriented research

- process technology (optimization and automation of production processes to improve efficiency and reduce costs; development of alternative processing routes)
- energy utilization (conservation and increased flexibility in the use of different forms of energy)
- rolling mill technology and quality assessment of mill products (improved mill operation, quantitative evaluation of surface and internal quality of steel products).

(ii) Product-related research

- service properties of steel (properties of welded joints, formability and magnetic properties of sheet material)
- utilization of steel (application of steel in building and bridge construction)
- basic research (to generate the necessary scientific understanding for the development of steels with improved properties such as strength, toughness and high temperature deformation resistance).

Coal research

The coal research requirements are closely allied to the Community's energy policy objectives, particularly the objective of maintaining the production level at 250 m toe per year up to 1985.

One means to achieving these productivity and production targets is to intensify research. The quantified research targets published by the Commission on 30 January 1975 (OJ No C 22) specified the grant of annual aid totalling from 15 to 20 m EUA, to promote research projects in the extraction and upgrading of coal; these projects form part of the medium-term coal research aid programme (1975 to 1980) published on 25 May 1974 (OJ No C 60) and supplemented by the Communication published on 30 December 1974 (OJ No C 160).

In view of the present energy crisis and the particular difficulties facing the coal and steel industries, it is vital that research efforts be concentrated in those areas specifically referred to below, which consider coal as both a source of energy and as a raw material in the production of metallurgical coke.

Attention should be devoted to the area of "Coal-face working" and its allied areas, i.e., "Automation and mining problems" (firedamp, mine climate, strata pressure) and this is the first area to which research effort should be directed.

In view of the inadequate coking coal reserves in the Community and the high price thereof, research must also centre on improving output and capacity from traditional coking plants to render coke more economic and on developing alternatives, such as formed coke, which will have helpful results for the metallurgical industry.

Finally, under the energy policy aiming at making Europe less dependent on imports of petroleum products, aid must be given to certain fundamental scientific research projects in the field of coal gasification and liquefaction in order to improve existing and known processes and determine which are most profitable.

The applications which have already been submitted or notified concern the following research headings :

Underground

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

Upgrading

- coking
- coal preparation

Conversion into hydrocarbons

- gasification
- coal liquefaction

Social research

The heading "Social research" covers research designed to improve working conditions, the safety and health of workers and the protection of worker's health in the ECSC industries.

During 1977 the demand for research in these fields has not abated, which is proof enough of the practical usefulness of this form of intervention.

The year 1977 saw the launching of two multi-annual research programmes, namely:

- "Chronic respiratory diseases" (Third programme)
- "Mine safety".

These two programmes are part of a series of measures to promote safety at the workplace and improve the prevention and treatment of occupational diseases; these measures have operated continuously since 1955, when the original decisions on social research were taken by the ECSC High Authority.

The new programme on "Mine safety" effectively got under way in 1977 with the granting of substantial aid to 15 research projects. A number of these correspond to the research proposals put forward by the Mines Safety and Health Commission.

The fight against pneumoconiosis is still the major problem facing the mining industry in 1977. In spite of the progress made in prevention and treatment which has reduced the likelihood of the disease and checked its progression to the stage of invalidity, considerable efforts are still required.

The aim is to guarantee miners a normal working life and thus facilitate the recruitment of manpower to sustain the basic output level planned for the Community. The problems of reducing atmospheric dust are the principal concern of the "Fourth Health in Mines Programme" proposed to the Commission in 1977 for implementation in 1978.

To this must be added the research projects relating to the improvement of mine climate, measures against noxious emissions of nitrous vapours and the reduction of noise in underground workings.

Under the "Ergonomics and retraining programme", work is continuing in relation to worker comfort, job-matching and the search for a better balance between man, machine and the environment. The significant research aid planned for 1978 reflects the industry's concern to improve working conditions by ergonomic methods, especially in workshop design and production techniques.

Lastly, the steel industry has actively continued to seek ways of reducing the pollution it generates and of attenuating emissions at the work place. The major five-year research programme decided by the Commission in 1974 will finish in 1978. The distinguishing feature has been its greater emphasis than in earlier programmes on the treatment of the problem of industrial nuisances. Apart from atmospheric pollution, the programme has investigated the problems of water pollution (chiefly in coke ovens), waste treatment or recycling and noise from arc furnaces.

A new programme is to be devised in 1978 which will take account of the foreseeable development in steel production techniques.

The projects to be financed in 1978 chiefly concern the following fields:

- (i) mine safety;
- (ii) pollution control in the steel industry;
- (iii) industrial health in mines;
- (iv) chronic respiratory diseases;
- (v) ergonomics and retraining.

CHAPTER B 4 - AID IN THE FORM OF INTEREST RELIEF

1. Legal basis and description of operation

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

The ECSC may use its own funds to offer reduced interest rates for certain types of loan. The relief is calculated in EJA on the basis of criteria set by the Commission. Calculations are at present based on interest relief of 3% over 5 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 details of requests received are as follows:

Title	Sector	Aids requested
B 4.1	Investment	50
B 4.2	Redevelopment	35
	TOTAL	85

3. Explanation

Investment

In the investment field, the chief aim of loans at reduced interest rates 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 on 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 intended 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 interest 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 (see pages 14 to 16 above).

Redevelopment

Reconversion loans granted at reduced interest rates help maintain employment in regions hit by the decline or cessation of activity in industries covered by the ECSC Treaty. The Commission grants these loans to firms which either absorb redundant workers from the coal industry or the iron and steel industry or maintain the level of employment in these two industries in the regions concerned by establishing economically sound activities. The firms concerned obtain reduced interest rates if they undertake to create new jobs in these regions and give priority to former employees of the ECSC industries as regards recruitment.

Requests for this type of aid are still on the increase, mainly because of the structural problems of the iron and steel industry. Restructuring can only proceed on a socially acceptable basis if steps are taken to provide continuing employment for the employees directly affected (see also pages 18 and 19 above).

The criteria and procedures for granting interest relief on reconversion loans were published in OJ No C 178 of 27 July 1977. These loans can be made to firms directly, or indirectly through financial intermediaries in the form of global loans. Reconversion loans may also be granted for investment in services or in the establishment of industrial estates and advance factories; these do not, however, enjoy interest relief. The Commission attaches special importance to reconversion activities in its iron and steel policy.

CHAPTER B 5 - AID BASED ON ARTICLE 95 OF THE ECSC TREATY (COKING COAL AND COKE FOR THE IRON AND STEEL INDUSTRY)

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 sale of Community coking coke 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.

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 coal and coke 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 appropriate to have an aid system taking account of the fact that the question of Community coking coal production concerns all the Member States, particularly since only coking coal is the subject of significant intra-Community trade.

2. Requirements not included in the budget - loans for financing subsidized housing

In addition to the requirements to be financed by grants from the year's resources, account should be taken of the ECSC social housing subsidy scheme, financed 'below the line', which has been in operation since 1956. Forecasts for this programme are included in this aidé-mémoire to complete the picture of overall ECSC interventions provided to 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 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 helps to ease 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 second phase of the eighth subsidized housing building programme (1975-78), covering 1977 and 1978, envisages a sum of 30 m EUA spread over the financial years 1977 and 1978, depending on funds available. Allocations to the various interested parties in the nine countries were decided by the Commission after all due prior consultation on 29 July 1977.

3. Explanation

The main reason for proposing to set aside 30 m EUA for the second phase (1977-78) as compared with the 25 m EUA for phase one (1975-76) is the increase in construction costs. Moreover, the requirements put forward continue to be far in excess of the amount of aid available.

This scheme is intended to subsidize the following projects:

- (i) housing for labour employed in the new coastal steelworks;
- (ii) housing linked with industrial restructuration in the traditional steel centres and in those coal fields where production is to be increased;
- (iii) specific solutions for immigrant workers;
- (iv) housing to be modernized as part of the move to renovate urban centres in steel and mining districts.

The scheme is thus 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 indirectly facilitates restructuration.

The number of dwellings subsidized by means of ECSC loans as at 1 January 1977 was 147 327.

3. Summary of requirements put forward

Total requirements put forward therefore amount to 273 m EUA to be financed under the operational budget, plus 15 m EUA in the form of below-the-line loans at low interest rates for the building of subsidized housing. The figures for requirements put forward are summarized in Annex E, in the "applications" column.

*

*

*

B. POSSIBLE RESOURCES

1. Resources for the financial year

CHAPTER R 1 - CURRENT RESOURCES

1. Legal basis and description

Legal basis:

- Articles 49 and 50 of the ECSC Treaty
- Decisions No 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.

Resources from interest on investments and loans from non-borrowed funds will be finally determined when the Commission closes the accounts at 31 December 1977. Pursuant to the decision it adopted on 30 April 1975, the Commission will enter the interest available from the previous financial year in the budget of the current year.

2. Type and breakdown

Levy resources represent claims identified in respect of levies due on production in the 1978 financial year and calculated on the basis of the production declarations made by undertakings.

Interest will be credited in accordance with the allocations decided by the Commission when it closes the accounts on 31 December 1977.

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

Title R 1.1: Levy

Tonnage subject to the levy, and yield from a rate of levy of 0.01%

Product	Production serving as basis for calculating the levy million tonnes	One levy "point" in m EUA
Brown-coal briquettes and semi-coke	4.0	0.01
Hard coal - all types	208.4	0.08
Coal - total		0.81
Pig iron other than that required for the manufacture of ingots	5.5	0.07
Steel in ingots	133	1.94
Finished products	95.8	0.63
Steel - total		2.64
GRAND TOTAL		3.45

Other titles

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

3. Explanation:

The latest estimates of the average values which serve as the basis for calculating the levies show that the figures for the 1978 financial year which relate to the reference period from 1 July 1976 to 30 June 1977 will be some 9% higher in the case of coal and at least 10% for steel, as compared to those for 1977.

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.

The figure for interest revenue is based on an advance estimate of the resources which the Commission will be in a position to allocate when it closes the accounts on 31 December 1977.

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

1. Legal basis and description

The allocation of funds earmarked on the strength of Commission aid decisions must be made firm within a reasonable period of time by the contracting of legal commitments.

The Commission's internal rules on the drawing-up and implementation of the ECSC operational budget therefore provide that in the exceptional event of undue delay at this stage, the earmarked funds will be cancelled.

They also provide that once all parties have discharged their obligations under a legal contract, any remaining unused allocation 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 2 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 2 m EUA is based on an average rate for 1978 in view of the exceptional efforts allowed for in 1977 to release funds amounting to 6 m EUA.

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.

2. Covering of requirements not included 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 (7.5 m EUA).

3. Summary of possible resources for 1978

The estimates of resources other than levies amount to 20 m EUA (interest available - 18 m EUA; cancellations - 2 m EUA). As the yield from a levy rate of 0.01% has been estimated at 3.45 m EUA, the yield obtained from levies can be estimated at 100 m EUA on the basis of the current rate of 0.29%. The estimated resources are summarized in Annex E in the section on "resources".

III. DRAFT OPERATIONAL BUDGET FOR 1978

Before examining the problems arising in respect of 1978, it should be remembered that the situation in 1977 is already complicated by the increased requirements established by the Commission for restructuring and redevelopment in the iron and steel industry which already led, in April 1977, to an additional allocation of funds to the Chapter "interest subsidies". To finance this priority measure, the Commission was forced to reduce the research allocation from 42 m EUA to 38.4 m EUA and to provide for the entry on the revenue side of the contingency reserve constituted in the balance sheet as at 31 December 1976. If the research appropriations were again reduced in this way, it might jeopardize the Community's capacity to take the measures necessary in this sector to ensure the competitiveness of Community products.

A. IRREDUCIBLE REQUIREMENTS

The Commission is faced by even more difficult conditions than normal in drawing up its proposals on the draft ECSC operational budget for 1978.

The Commission wishes to stress from the very outset that, given the extent of the problems facing the coal and steel industry, it is determined to propose and pursue a policy matching up to the extent of the difficulties; at a time when the steel industry is passing through a serious crisis, it considers that the ECSC must increase its aids and not resign itself to reducing them. It is with this in mind that the Commission will assess the various financing requirements to determine the minimum amount. It is aware of the serious problems this will raise on the revenue side.

These exceptional difficulties are accompanied by the normal difficulties linked with the uncertainty of proposals, which is only to be expected in economic conditions susceptible to unforeseen changes in the short term.

The information set out above and summarized in Annex E shows that total requirements for the financial year 1978 amount to 273 m EUA, compared with 163.3 m EUA for the financial year 1977. To cover all the requirements totalling 273 m EUA, the rate of levy would have to be fixed at 0.73%. The budget's total should therefore be adjusted to the requirements deemed irreducible.

In the Commission's view, it is necessary to exclude the possibility of fixing irreducible requirements at such a low level as in last year's initial budget as this amount would mean that only 44% of applications could be met compared with 68% in 1977 and 78% in 1976.

It should also be recognized that the sharp rise in applications submitted by Governments for resettlement aid faces the ECSC with a difficult financing problem in view of the mandatory nature of the expenditure. In the light of past experience and provided that the negotiations which will have to be conducted with the Member States to this end are concluded satisfactorily, the Commission considers that it will be able to limit the requirements which have to be financed in 1978 to a figure of 60 m EUA deferring the contraction of commitments for the remaining applications until later. Such a carry-over of applications to future years could be regarded as an expedient offering only short-term advantages, but it appears possible at present that the level of applications for resettlement aid may drop somewhat from 1979 onwards. The Commission has therefore decided to take a basic figure of 60 m EUA as a working assumption for the 1978 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.

This leaves for consideration the two Chapters involving discretionary expenditure - aid to research and interest subsidies.

As regards research, the Commission considers an allocation of 41 m EUA, distributed as set out in Annex E, to be the absolute minimum in view of the fact that these measures are meant to ensure the competitiveness of Community products. In real terms, this figure is still 10% lower than the initial allocation for the current financial year.

As noted above (see pages 15 and 18), interest subsidies which started off as an operation of secondary importance whose scope depended on the amount of finance available, now play a key part in ECSC industrial policy because of the vitally important character of the restructuring and redevelopment operations proved necessary, notably in order to re-establish the competitiveness of the Community steel industry. Already well in advance of the publication of the overall plan to be drawn up as part of the revision of the general objectives for steel, a growing number of applications are reaching the Commission. The minimum figure which the Commission deems it necessary to enter in the draft budget for this item is 40 m EUA. Although this allocation will only allow under half the applications for subsidies to be granted, it should enable the Commission to play an active role in collaboration with all the interested parties, in promoting the restructuring and redevelopment operations which the Commission considers to be indispensable and urgent in the interests of the industry.

The preceding analysis shows that the financing needs for 1978 judged as irreducible by the Commission and set out in the second column of Annex E, come to a total of 152 m EUA.

B. COVERING OF REQUIREMENTS

To finance the requirements discussed above and amounting in all to 152 m EUA it would be necessary in addition to the use of expected non-levy income of 20 m EUA to make a substantial increase in the levy rate.

In view of the financial situation of the industries which pay the levies, the Commission considers that everything should be done to avoid imposing this additional burden on ECSC undertakings.

On the other hand, for the reasons set out above, the Commission does not consider that it is in a position to recommend a policy which consists merely of adjusting the volume of requirements to the level of resources normally available (120 m EUA at the current rate of 0.29%). A budget of this type just would not match up to the problems needing to be tackled.

In these circumstances the Commission has looked for other possibilities for balancing the budget without resorting to an increase in the levy rate.

The Commission has accordingly studied the possibility of finding a new source of income able to make up the shortfall of 32 m EUA. This could be done by allocating to the ECSC some or all of the customs duties on ECSC products.

From 1 January 1971 onwards, under the Decision of 21 April 1970 relating to the Communities' own resources, provided for the duties from the common customs tariff to be allocated to the Communities as direct Community revenue.

This does not extend to customs duties on coal and steel products governed by the ECSC Treaty, as the common customs tariff adopted in accordance with Article 9 of the EEC Treaty does not cover the products coming under the ECSC Treaty.

The customs duties on ECSC products have been standardized as a result of decisions taken in accordance with Article 72 of the Treaty of Paris, but they still accrue to the individual Member States which collect the dues concerned when the relevant products are imported into their territory.

The Commission will therefore propose to the Council that the necessary procedures be set in operation for allocating the ECSC customs duties to the ECSC operational budget as soon as possible. In the meantime, and in anticipation of a decision along these lines, the Commission considers that the exceptional financial requirements of the ECSC sector in 1978 and the major economic and social interest attached to pursuing an effective Community policy for the restructuring and redevelopment of the iron and steel sector and the resettlement of redundant workers fully justify an ad hoc decision by the Member States to make a special grant of 32 m EUA to the ECSC operational budget to assist the implementation of the financial aid policies envisaged in the draft budget.

The transfer of 32 m EUA could be made in accordance with Article 49(2) of the ECSC Treaty and classified as a donation by the Member States to the Community.

The Commission will keep Parliament informed of the development of Council discussions on this subject. The Commission hopes that the special Council meeting on the steel industry's problems at the end of November will be able to pronounce favourably on the principle of what is proposed.

The Commission wishes to make it clear that, if the proposal meets with insurmountable difficulties, it will not be able to accept a drop in the volume of the ECSC operational budget to a level corresponding to a levy rate of 0.29%, since this amount does not represent an adequate financial basis for a rational and effective policy. In this case, the Commission would immediately submit a new draft budget replacing Annex E and involving an increase in the levy to balance the budget.

C. DRAFT BUDGET

The draft budget drawn up by the Commission for the financial year 1977 and amounting to 152 m EUA is contained in Annex E.

IMPLEMENTATION OF THE ECSC OPERATIONAL BUDGET FOR 1976

(in m ECU)

REQUIREMENTS	BUDGET FIGURES	FINAL FIGURES	RESOURCES	BUDGET FIGURES	FINAL FIGURES
OPERATIONS TO BE FINANCED FROM CURRENT RESOURCES (NON-REPAYABLE)			CURRENT RESOURCES		
1. Administrative expenditure	18	18	1. Levy yield	93	92.61
2. Aid to resettlement (Art. 56)	25	25.12	2. Interest on investments and on loans from non-borrowed funds	14	14.-
3. Aid to research (Art. 55)	43.5	42.67	3. Miscellaneous	token entry	0.37
(a) steel	(17.4	(17.40			
(b) coal	(17	(17.27			
(c) social	(9	(8.-			
4. Aid to coking coal (Art. 95)	6	6.-	4. Cancellation of commitments which will not now be implemented	3.6	4.52
5. Interest subsidies	14	10.01	5. Unused resources carried over from the financial year 1975	-	
(a) Article 54 - Investment	(6	(3.35			
(b) Article 56 - Redevelopment	(8	(6.66			
6. Aid to Friuli victims (allocation to reserves)	6	6.-	6. Drawing of allocation for budgetary contingencies	3	3
7. Deficit from 1975 financial year	1.2	1.2			
8. Surplus allocated to the reserves and funds		5.5			
	113.6	114.50		113.6	114.50
OPERATIONS FINANCED WITH LOANS FROM NON-BORROWED FUNDS			ORIGIN OF NON-BORROWED FUNDS		
9. Social housing	12.5	12.5	7. Repayments on loans for social housing	6.4	6.4
			8. Special reserve and part of the former ECSC Pension Fund	6.1	6.1

53

FORECAST IMPLEMENTATION OF THE ECSC OPERATIONAL BUDGET FOR 1977

(in m EUA)

REQUIREMENTS	ESTIMATES		RESOURCES	ESTIMATES	
	initial	amended		initial	amended
OPERATIONS TO BE FINANCED FROM CURRENT RESOURCES (NON REPAYABLE)					
1. Administrative expenditure.	18	18	1. Current resources	89	81.5
2. Aid to resettlement (Article 56)	25	25	1.1 Levy yield at 0.29% ¹	16	16
3. Aid to research (Article 55)	42	38.4	1.2 Interest on investments and on loans from non-borrowed funds	token entry	token entry
3.1 steel	(16.5)	(12.5)	1.3 Fines and surcharges for delayed payment	token entry	token entry
3.2 coal	(16.5)	(16.2)	1.4 Miscellaneous	6	6
3.3 social	(9)	(9.7)	2. Cancellation of commitments which will probably not be implemented	token entry	token entry
4. Interest subsidies	15	21.8	3. Revaluation of assets and liabilities	(token entry)	0.7
4.1 Investment (Article 54)	(6)	(8.5)	4. Unused resources carried over from the 1976 financial year	111	114.2
4.2 Redevelopment (Article 56)	(9)	(13.3)	5. Drawing on the contingency reserve		
5. Aid to coking coal and metallurgical coke (Article 95)	6	6	ORIGIN OF NON-BORROWED FUNDS		
6. Aid to fruitful victims (allocation to reserves)	5	5	6. Repayments on loans for social housing	7	7
OPERATIONS FINANCED WITH LOANS FROM NON-BORROWED FUNDS			7. Special reserve and part of the former ECSC pension FUND	8	8
7. Social housing	15	15			
	111	114.2			

¹The figures for the first six months of the financial year are contained in the attached table.

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 1977¹

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	102.8	10.5
Total for coal		10.6
Pig iron other than that required for the manufacture of ingots	2.3	0.8
Steel ingots	62.8	24.1
Finished products	48.7	8.5
Total for steel		33.4
GRAND TOTAL		44.0

¹Information available 24 October 1977.

BREAKDOWN OF LOANS FOR THE FIRST SIX MONTHS OF 1977

ANNEX C

(in m EUA)

Sector	Federal Republic Germany	Belgium	Denmark	France	Italy	Netherlands	Luxembourg	United Kingdom	Ireland	Community
I. Coal industry	42.68	-	-	41.10	-	-	-	26.42	-	110.20
II. Iron and steel industry	-	0.60	-	15.61	47.58	-	-	146.49	-	210.29
III. Industrial redevelopment	-	-	-	0.54	0.77	-	-	0.22	-	1.53
IV. Social housing	5.39	-	0.45	0.72	1.65	0.07	0.56	-	-	8.83
GRAND TOTAL	48.07	0.60	0.45	57.97	50.00	0.07	0.56	173.13	-	330.85

This table supplements the information given on pages 19-20 of the aide-mémoire.

PROVISIONAL SITUATION OF THE ECSC AT 30 JUNE 1977

(in m EJA)

ASSETS

LIABILITIES

I. Disbursed loans	3 744,12	I. A. Borrowings	3 671,18
II. Cash and banks	364,98	B. Outstanding redemption premiums	1,44
III. Short and medium-term investments	52,16	II. Reserves	
IV. Portfolio	78,06	A. Guarantee fund	160,-
V. Real estate	0,33	B. Other funds	122,-
VI. Recoverable issuing costs	60,11	III. Provisions	
VII. Miscellaneous	92,66	A. Financial assistance	210,70
VIII. Accrued income	94,79	B. Other provisions	76,69
		IV. Former pension fund	39,08
		V. Miscellaneous	84,69
		VI. Accrued liabilities	114,37
		VII. Unallocated balance	7,06
	<u>4 487,21</u>		<u>4 487,21</u>
Suspense account: Enterprises' liabilities under guarantee	18,40	Suspense account: ECSC's liabilities under guarantees	18,40

(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)	81,5	60	1.1 Levy yield at 0.29% (0.01% = 3.45 m EUA)	100.
3. Aid to research (Article 55)	82,5	41	1.2 Interest on investments and on loans from non-borrowed funds	18
3.1 steel	(40.5	(16	1.3 Fines and late payment surcharges	token entry
3.2 coal	(32.2	(16	1.4 Miscellaneous	token entry
3.3 social	(9.8	(9		
4. Interest subsidies	85	40	2. Cancellation of commitments which will probably not be implemented	2
4.1 Investment (Article 54)	(50	(15		
4.2 Redevelopment (Article 56)	(35	(25		
5. Aid to coking coal and metallurgical coke (Article 95)	6	6	3. Revaluation of assets and liabilities	token entry
			4. Unused resources carried over from the 1976 financial year	token entry
			5. Special contribution in respect of ECSC customs duties	32
	273	152	ORIGIN OF NON-BORROWED FUNDS	
OPERATIONS FINANCED WITH LOANS				
6. Social housing	15	15	6. Repayments on loans for social housing	7.5
			7. Special reserve and part of former ECSC Pension fund	7.5