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COMMISSION WORKING DOCUMENT UPDATING
THE COMMUNICATION TO THE COUNCIL ON THE FUTURE OF
THE ECSC TREATY - FINANCIAL ACTIVITIES

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I. INTRODUCTION

1. In its communication on "The future of the ECSC Treaty, financial activities" (SEC(92)1889 final), the Commission outlined its general option for the ECSC Treaty as such to expire as scheduled in 2002, whilst in the meantime being applied flexibly in order to integrate the coal and steel industries gradually into the EEC Treaty. On this basis, the Commission presented a scenario for the possible phasing-out of budgetary expenditure between now and 2002, taking account of the financial requirements and economic situation of the sectors concerned and dealing with the use of the reserves existing in 2002.

2. The Council discussed its general approach on the basis of the communication at its meeting of 24 November 1992. At the same meeting, it adopted conclusions in which it invited the Commission to reduce the levy as far as possible, submit proposals for the reserves to be used up during the transitional period, envisage a rapid reduction in borrowing/lending activities, possibly by the EIB taking over these operations, and examine the possibility of transferring ECSC research activities to the EEC. In this connection, the Council stressed the need to take account of the social aspects.

   At its meeting of 21 September 1993, the Council noted that the Commission intended to submit a report to the next meeting of the Industry Council on the financial future of the ECSC and the financial impact of the voluntary restructuring measures for the steel industry on the ECSC operating budget and the level of reserves.

3. Since the communication on the future of the ECSC Treaty, the Council's discussions on the financial activities of the steel and coal industries have involved three new aspects:

3.1 The Commission received a request to authorise, under Article 53 a) of the ECSC Treaty, agreements between three groups of undertakings which are drawing up joint arrangements for the partial financing of the industrial costs linked to reducing production capacity for hot-rolled wide strip, heavy plate and heavy structural sections. The Commission proposed, under the terms of its communication of 8 September 1993 on financial arrangements for the restructuring of the steel industry (SEC(93)1241 final), to authorise these three agreements. At its meeting of 21 September 1993, the Council gave its opinion under Article 53 a) and noted the Commission's intention to prefinance these financial arrangements by means of loans under Article 54, first paragraph, of the ECSC Treaty, up to a maximum of ECU 1 billion.

3.2 Since the end of 1992, the Council has not given its assent to requests for loans under Articles 54, second paragraph ("consumption") and 56 (2) ("redevelopment") submitted by the Commission. Several delegations stated at discussions of the ECSC group and COREPER, that assent had been withheld to encourage the Commission to reduce or even abandon borrowing/lending activities, with the aim of abolishing the ECSC levy and using the reserves accumulated so far to fund the ECSC's budgetary activities. Other delegations, on the other hand, stressed the usefulness of these loans and the damage caused by withholding assent.

3.3 The discussion on the future of the ECSC Treaty went a step further in the first half of 1993 as a result of a note from the Danish Presidency of the Council and a memorandum from the French Government.
In its note, the Danish Presidency felt that to end the freeze on Council assent to loan applications under Articles 54, second paragraph, and 56(2)(a), the use of this type of loan should be reduced and, in particular, new loans under Article 54, second paragraph, should no longer be granted, while loans under Article 56(2) would be covered by a reduction programme. Generally speaking, according to the note, the Commission should provide more details on the loans submitted to the Council for an opinion (e.g. amount, duration, terms and conditions) and pursue its discussions with the EIB on the question of transferring borrowing/lending activities to it.

In its memorandum, the French Government recommended that ECSC funds should be redirected towards social measures connected with restructuring in the steel sector. For this purpose it called for a halt to borrowing/lending activities in 1994, when they should be taken over by the EIB, and social measures should be financed from the reserves gradually becoming available as guarantees covering loans are released. Similarly, any expenditure other than social expenditure would be swiftly abolished. According to the French Government, these measures should not hinder the gradual reduction of the levy.

4. Given these new aspects, it appeared necessary to update the communication on "The future of the ECSC Treaty - financial activities". The present document was drawn up on the basis of the draft ECSC operating budget for 1994. We will first outline the framework of the draft budget (section II) before examining the possibility of transferring borrowing/lending activities to the EIB (section III) and ways of phasing out areas of budgetary expenditure (section IV).

II. BUDGETARY FRAMEWORK FOR THE FINANCIAL ACTIVITIES OF THE ECSC

5. The draft ECSC operating budget for 1994 amounts to ECU 393 million, compared with ECU 552 million for 1993. Budgetary expenditure is broken down as follows:

- ECU 157 million for redeployment aid for workers employed in the coal and steel industries (Article 56 of the ECSC Treaty);

- ECU 45 million for aid to research in the mining and steel industries, including social aspects (Article 55);

- ECU 65 million for interest-rate subsidies on redevelopment loans (Article 56);

- ECU 86 million for social measures linked to the restructuring of the steel industry (Article 56); the aim is to increase this to ECU 120 million by releasing all the additional resources for this purpose;

- ECU 35 million for social measures linked to the restructuring of the coal industry (Article 56);

- ECU 5 million for administrative expenses.

6. This draft budget reveals a sharp reduction in the budgetary allocation compared with previous years. It was drawn up with the double constraint of a gradual reduction in the levy, amounting to 0.23% (linear reduction of 0.02% since 1991) and reduced resources owing to unrepaid loans and sums set aside in implementation of a judgment of the Court of Justice concerning the former quota system. For the first time, the draft budget includes the available margin of the special reserve and the former pension fund. It is not possible to make greater use of the guarantee fund, since, as the Court of Auditors also emphasised in its draft report on 1992, this has reached the minimum level given the current borrowing/lending activities (see the following paragraph). It should be stressed that the Commission's main priority is to allocate resources to social measures.

III. POSSIBILITY OF TRANSFERRING BORROWING/LENDING ACTIVITIES

7. Following the Council's request that a reduction in the borrowing/lending activities of the ECSC and the corresponding release of reserves guaranteeing these loans be examined, the Commission has studied the possibility of transferring this activity to the EIB. In so doing it focused on three areas: the type of loan, the stage of the loan and the legal mechanisms for a transfer (COM(93)512). The examination shows that, given the operations in progress, a complete halt to borrowing/lending activities is not in any event possible prior to 1997, which means that reserves cannot be released before then. It should be noted that, as mentioned in the communication on the future of the ECSC Treaty (paragraph 17), the transfer of ECSC loan activities to the EIB is not the only way of releasing reserves, since the granting of a guarantee for ECSC loans under the EEC budget would also have this effect.

8. The Commission's examination showed that the transfer of ECSC lending activities to the EIB can concern only new loan applications. In preference to the other solution, which involves the amendment of the ECSC Treaty, it can legally result in the Commission's suspending the lending activities concerned and the EIB's extending its corresponding loan activities in accordance with the procedures explained in document COM(93)512. As regards the types of operation that could be transferred, a distinction should be made between the following types of activity.

8.a <u>Activities that can be transferred immediately</u> : for the most part these are loans under Article 54, second paragraph, particularly for the consumption of Community steel in major infrastructure projects. However, it should be noted that this type of loan has little effect on reserves and that the "Consumption of Community steel" clause could probably not be used as such by the EIB. This does not mean that, in its choice of the major infrastructure projects to which it decides to contribute financially, the EIB could not take full account of their interest to the Community, as happens, for instance, in the temporary loan arrangement decided on at the European Council in Edinburgh and confirmed by the European Council in Copenhagen.

8.b <u>Activities that can be transferred at a later date</u> : these are loans under Articles 54, first paragraph (investments) and 56 (2) (redevelopment); for loans under Article 54 first paragraph, the Commission proposed, in its communication of 8 September 1993 (SEC(93)1241) on the financial arrangements for the restructuring of the steel industry, pre-financing the financial arrangements which three groups of undertakings had submitted to it for the funding of capacity reduction programmes. The maximum ECSC loans that could be granted for this purpose amount to ECU 1 billion (ECU 700 million for coils, ECU 140 million for heavy sections and ECU 160 million for heavy plate).

For loans under Article 56, which are generally combined with a 3% interest rate subsidy over 5 years, it would in any event be necessary to await the end of the 1994-1996 Community support frameworks of objective 2. Furthermore, the EIB, which is in favour of the transfer, wishes to consider the transfer arrangements in greater depth. It should be noted that the idea of a phasing-out process as from 1996 implies a faster transfer than that proposed in the communication on "The future of the ECSC - financial activities". This is to take account of the change in the period covered by the financial forecasts determined at the European Council in Edinburgh, on the one hand, and the period covered by the Community support programmes, objective 2, on the other.

8.c <u>Activities that cannot be transferred</u> : these are loans for workers' housing and certain loans under Article 54, second paragraph, which cannot be transferred immediately, and the facility of ECU 200 million for the countries of Central and Eastern Europe, in which the EIB cannot or does not wish to intervene without a Community guarantee. It should be noted that the Council has still not yet given its assent to the twelfth programme on workers' housing loans.

8.d To maximise the gradual release of ECSC reserves between now and 2002, the following measures could be taken for the types of loan that can be transferred immediately or in the longer term.

1. ECSC loans approved from 1 January 1994 (other than those not involving the freezing of reserves) should not have a life extending beyond 2002.

2. ECSC loans granted between 1993-1996 should not involve the freezing of more reserves than are released during the same period as a result of the repayment of current loans.

3. The freezing of reserves against ECSC loans to be paid from 1997 should not exceed a percentage to be set annually during preparation of the draft ECSC budget. That percentage would refer to the amount of reserves to be released during the accounting year in question.

4. The EIB should be invited to intervene, applying its own criteria, in the financing of projects of the Article 54 (first and second paragraph) type.

IV. WAYS OF PHASING OUT ELEMENTS OF ECSC BUDGETARY EXPENDITURE

9. Ways of phasing out elements of ECSC budgetary expenditure have already been discussed in the communication on "The future of the ECSC Treaty financial activities". At this stage, the Commission has decided to carry out measures to phase out the ECSC

Treaty and concentrate ECSC budgetary and financial resources on measures which will best contribute to solving the serious difficulties experienced by the coal and steel sectors. These are measures which can promote the process of industrial restructuring and lighten the burden of the resulting social measures. With this in mind, the following measures could be carried out:

- global redevelopment loans (Article 56) could be discontinued after 1996, which implies a reduction in interest rate subsidies;

- part of expenditure on redeployment aid could be charged to the new objective 4 of the European Social Fund (occupational retraining). As a result of this and taking into account the restructuring in progress, a linear reduction between now and 2002 can be envisaged;

- research support should be incorporated into the general framework of research policy, starting with the fourth framework programme (1995-1998 period), and continue in the fifth framework programme;

- in a situation of crisis and restructuring, social measures are an important element of expenditure. The political option should therefore be to use the ECSC's financial instruments to deal with the crisis affecting the two sectors. As regards the steel industry in particular, it should be remembered that, according to the Commission in its communication "Towards greater competitiveness in the steel industry: the need for further restructuring" (SEC(92)2160), the sum of ECU 240 million is required for the 1993-1996 period. The restructuring of the coal sector will also require special financial support for the 1994-1996 period. The Commission will submit proposals along these lines at the appropriate time.

V. CONCLUSION

11. The possible development of ECSC budgetary expenditure, taking into account the possibilities of transferring lending/borrowing activities to the EIB and phasing out elements of budgetary expenditure, is set out in the illustrative scenario annexed, which takes account of the policy of a linear reduction in the levy. It should be emphasised that the negative balances which appear in the 1994 to 1996 financial years should be financed or covered by corresponding reductions in expenditure in the budgetary procedure.

ECSC 2002 - ILLUSTRATIVE SCENARIO

Nature of expenditure / Revenue	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1. Administrative expenditure	5	5	5	5	5	5	5	5	5	5
2. Redeployment	185	157	119	112	70	60	60	50	30	10
3. Total research	124,8	45	35	30	25	15	10	0	0	0
3.1 Steel	58	34								
3.2 Coal	51,8	10								
3.3 Social	15	1								
4 Total interest-rate subsidies	127	65	55	55	55	20	15	10	0	0
4.1 Investment	0	0	0	0	0	0	0	0	0	0
4.2 Redevelopment	127	65	55	55	55	20	15	10	0	0
5 Social measures - steel	60	120	60	35	30	20	10	10	10	10
6 Social measures - coal	50	35	30	30						
7 Damages	0	0	0	0	0	0	0	0	0	0
TOTAL EXPENDITURE	551,8	427	304	267	185	120	100	75	45	25
1 Levies	117	102	92	84	68	44	0	0	0	0
2 Internal income from interest	252	150	120	85	55	45	39	34	31	27
3 Use of reserves	0	22	0	0	55	35	35	33	42	43
4 Other	82,8	119	56	49	42	35	28	21	14	0
TOTAL REVENUE	51,8	393	268	218	220	159	102	88	87	70
BALANCE	0	-34	-36	-49	35	39	2	13	42	45
Percentage of levy	,25	0,23	0,21	0,19	0,17	0,11	0	0	0	0

From 1997 onwards, a single total amount is given for the social measures for "steel" and "coal".