COMMISSION OF THE EUROPEAN COMMUNITIES

SEC(92)1889 final   Brussels, 18 November 1992

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

THE FUTURE OF THE ECSC TREATY

FINANCIAL ACTIVITIES

INTRODUCTION

1. Of the various possibilities for the future of the ECSC Treaty, the Commission has opted for allowing it to expire as scheduled in 2002 (phasing-out), whil making use of the flexibility provided by the Treaty to adapt its application in the two sectors in such a way as to integrate them gradually into the EEC Treaty (phasing-in).

   In its communication of March 1991 on the future of the ECSC Treaty (Doc. SEC(91)407 final), the Commission states that it has decided to:

   1) "adopt, as its political position, the general option which provides for the ECSC Treaty to expire as scheduled in 2002, taking advantage of the flexibility which that Treaty provides in order to modify its application, as far as possible, to the two industries so that they are gradually taken over by the EEC Treaty in 2002;

   2) between now and 2002, add, when appropriate, to this option the incorporation into the EEC Treaty of certain provisions of the ECSC Treaty, including the maintenance of such financial instruments and social provisions as may be deemed useful or necessary;

   3) in the case of the ECSC Treaty being amended before the period preceding its expiry, and independently of points 1 and 2 above, to rescind the provisions relating to the price rules (Article 60) and to commercial policy (Articles 71-75), on the understanding that these subjects will then be covered automatically by the EEC Treaty;

   4) in parallel, to rapidly complete the study of the evolution of the Community's financial instruments with a view to contributing to the setting up of Economic and Monetary Union."

2. At the Council meeting on Industry of 29 April 1991, the majority of Member States endorsed the Commission's view that the Treaty should be maintained until its expiry in 2002 but should be applied with greater flexibility in the meantime. The Council stressed that the Commission would have to analyse the question more thoroughly, particularly with regard to the treatment of the reserves and the ECSC levy during the transitional period.

3. At its meeting of 18 November 1991, and again at its meeting of 17 June 1992, the Council on Industry asked the Commission to submit, in good time so that it could be discussed at the next meeting, a document setting out several options for ECSC financial activities up to 2002 together with an analysis of the effects of the various options on the amount of the levy and reserves, including lowering and abolishing the levy and exhausting the reserves.

4. Coal and steel undertakings want the levy to be abolished gradually by 2002 and wish to benefit from the liquidation of reserves. Attention should also be drawn to the disturbing situation in the two sectors. The steel industry, in particular, has called for a set of measures in the social and financial fields, together with action to promote its internal and external competitiveness, in support of the radical restructuring it intends to carry out as a matter of urgency, which may well result in a substantial loss of jobs.

5. This communication is intended as a reply to the request by the Council and aims to provide further material for the discussion on its political position planned for the meeting of 24 November 1992 in the form of the information available and the Commission's current proposals, particularly concerning the Community's financial perspectives (Delors II).

   It is based on the generally held view that the ECSC levy needs to be phased out by 2002, and deals with the following three aspects:

   i) the possibilities for phasing out ECSC budgetary expenditure;
   ii) assessing these phasing out possibilities in the light of the economic situation in the coal and steel industries;
   iii) fate of the reserves existing in 2002.

I. Possibilities for phasing out budgetary expenditure

6. The ECSC budget currently amounts to ECU 536 million (including a surplus of ECU 4 million).

   ECU 386 million of this budget is financed by the ECSC's asset-management income and ECU 150 million by a levy on coal and steel undertakings, the rate of which in 1992 is 0.27% of turnover.

   Budgetary expenditure breaks down as follows:

   - ECU 170 million for readaptation aid for workers employed in the coal and steel industries (Article 56 of the ECSC Treaty);
   - ECU 130 million for interest-rate subsidies on investment and conversion loans (Articles 54 and 56);
   - ECU 123 million for aid to research in the mining and steel industries, including social aspects (Article 55);
   - ECU 103 million for steel/coal social measures (Article 56);
   - ECU 5 million for administrative expenses.

7. The phasing-out rate would depend on four factors:

   a. gradual abolition of the levy, as repeatedly requested by the coal and steel industries, which think the levy puts Community producers in an unfavourable competitive position relative to producers in non-member countries;

   b. the possibilities for phasing-out of the ECSC Treaty. The transfer of ECSC activities to the EEC gives rise to the general question of whether or not to maintain a sectoral approach, with all the possible implications for the general budget. The policies covered by the EEC Treaty could be applied to the coal and steel industries, but not exclusively. Thus, these industries have no guarantee that they will continue to benefit from the present level of aid;

c. the desirability of a gradual transition. Although the specific nature of certain ECSC activities is becoming less marked, the current situation in the mining and steel industries precludes any rapid or abrupt phasing out of specific aid and hence the corresponding ECSC budgetary expenditure. This aspect will be dealt with further in the second section of this communication;

d. the possible availability of ECSC reserves. Maintaining the favourable borrowing terms which the ECSC enjoys on the financial markets thanks to its AAA rating will depend on the continuing existence of reserves in keeping with the amount borrowed.

   On 31 December 1991 ECSC loans outstanding were ECU 7 200 million, compared with an ECSC guarantee fund of approximately ECU 483 million, i.e. a ratio of around 7%, as demanded by sound financial management. This will permit borrowing/lending activities to be maintained at the present level (ECU 1 500 million).

8. On the basis of the above, and assuming the Commission's current proposals regarding the Community's financial perspectives for 1994-1997 (Delors II) are adopted, the gradual abolition of the levy by 1999 at the latest could be organized according to the following assumptions regarding phasing-out of the ECSC Treaty;

   i) with regard to readaptation aid, it is assumed that from 1994 onwards part of the expenditure could be increasingly charged to the new Objective 4 of the European Social Fund (occupational retraining). This part could be much greater for the new financial perspectives period (1998-2002);

   ii) as regards research, it is assumed that the two sectors could be incorporated into the general framework of research policy in two phases: partially, starting with the fourth framework programme (1994) and in full from the fifth framework programme onwards (1999).

In return, in accordance with Article 55(2)(a) of the ECSC Treaty, the Commission would have to take appropriate measures to strengthen its role in stimulating joint research by the undertakings concerned;

iii) with regard to conversion, it is assumed that the interest-rate subsidies would be paid by the ERDF as from the beginning of the new financial perspectives (1998-2002), in the same way as the interest-rate subsidies provided for in the Maastricht Treaty for trans-European networks.

A provision for interest-rate subsidies for environmental investments will be maintained at a degressive rate until 1997;

iv) lastly, it is assumed that social measures for coal would be maintained after expiry of RECHAR and that new social measures for steel would be necessary. Recent developments in the Community steel industry might necessitate social measures for steel for the period 1993-1997, the substantial costs being financed out of ECSC resources.

9. These assumptions are illustrated in the scenario in Annex 1.

II. The possibilities for phasing-out in the light of the economic situation in the industries

10. The possibilities for phasing out budgetary expenditure described above must be considered in the light of the economic situation in the two industries concerned.

a. Coal

11. Although the coal sector has already seen, and continues to see, substantial reductions in production and employment, we must expect a further very sharp drop in production between now and 2002, since European coal is being increasingly replaced by imported coal and other sources of energy.

Accordingly, employment in the sector can also be expected to drop by 2002. These developments would mean a reduction in the investment activities of the ECSC and in the basis of assessment of the levy, together with an increase in the social aspects.

b. Steel

12. The steel industry constantly has to restructure to keep abreast of technological innovations and developments on the world markets (e.g. difficulties on the American market, opening up of the Community market to products from the countries of central and eastern Europe, the EFTA countries and the CIS, and loss of outlets in these same countries). The seriousness of the present situation resulting from stagnation in demand and a sharp drop in prices could further highlight the existence of structural over-capacity for the production of certain products. Consequent restructuring and rationalization will probably lead to greater job losses than those already envisaged with a view to maintaining an adequate level of competitiveness in a stable production context.

13. It seems likely therefore that at least in the foreseeable future the sector will need substantial financial assistance from the Community, particularly for conversion and the readaptation of workers affected by the plans to reorganize production structures. On the basis of an initial estimate, the Commission considered, in its communication "The need for further restructuring in the steel industry" [1], that the amount required for these social measures would be of the order of ECU 240 million over three years (1993-1995), this being the period deemed necessary and sufficient for rapid introduction of the restructuring process.

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(1) SEC(92)2160 final of 18 November 1992

14. Community intervention in the social sector could be financed as follows:

i) by reducing the levy more slowly. This option could, however, come up against political difficulties since, as already stressed, the wish to see the levy phased out is very widespread in the industries concerned;

ii) by using the reserves. It should be pointed out, however, that apart from being a not unimportant source for the ECSC budget, thanks to the interest they bear, these reserves are used as guarantees for borrowing/lending activities. Thus, if these reserves are used up, the volume of borrowing/lending activity will be reduced accordingly. It is a fact, however, that of the four categories of ECSC loans (coal and steel industries, investment involving consumption of steel, conversion and workers' housing), loans to the coal and steel industries and conversion loans can help in the very restructuring of undertakings and conversion of activities we are aiming at (Annex II).

It is not possible to rule out use of the reserves bearing in mind, in particular, the economic and social situation of the sectors concerned and borrowing/lending policy.

iii) by adapting the rate at which budgetary expenditure is phased out. This could take place particularly as follows:

- by using the provision for interest-rates subsidies for environmental investments;
- by making greater reductions in expenditure on steel research insofar as the research framework programme provides increased scope for phasing-in;
- by increasing the negative balance over the period concerned, although this would pose the problem of covering this balance.[1]

III. <u>The fate of reserves in 2002</u>

15. These reserves are legally the property of the ECSC. The "liquidators" (the ECSC Member States) could therefore use them as they see fit, as and when loans guaranteed by the reserves are repaid after 2002.

1. Cf. footnote 5 of Annex 1.

16. However, it must be borne in mind that these reserves have been built up over the last forty years largely by payments made by the coal and steel industries. This point is all the more significant if no reserves are liquidated before 2002.

Furthermore, if the reserves are liquidated in 2002, commitments resulting from borrowing/lending operations will have to be honoured after that date (Annex 3). Consequently, dividing them among the Member States should not be the only option for the reserves in 2002.

17. It would be possible, therefore, to set up a Guarantee Fund either linked to the EEC budget and managed by the Commission or managed by the EIB.

Three spheres for financial activities based on such a Fund should therefore be investigated:

(i) industrial change relating to the two sectors and the regions concerned in the Community;

(ii) industrial conversion relating to the two sectors concerned in the countries of Central and Eastern Europe;

(iii) financing trans-European networks that consume Community steel in the countries of Central and Eastern Europe.

Conclusion

This communication provides a basis for examining the financial activities of the ECSC in the future with a scenario involving the possible phasing-out of budgetary expenditure between now and 2002.

The Council is asked to discuss its general approach on the basis of this document in the light of the more immediate aspects, particularly in the steel sector, which could influence the Commission's approach. The Council could also usefully take account of the fate of the ECSC reserves in 2002 in terms of the approach adopted for phasing-out budgetary expenditure and the methods of financing the restructuring of the sectors concerned.

ANNEX I

ECSC 2002 - SPECIMEN SCENARIO

ECU million - constant prices (as from 1993)

Nature of expenditure revenue	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Comments
1. Administr. expend.	5	5	5	5	5	5	5	5	5	5	5	(1)
2. Redeployment	170	185	123	119	112	105	68	63	60	58	56	(2)
3. Research												(3)
. steel	58	54	54	28	28	28	28	28	0	0	0	
. coal	50	44	37	30	30	30	30	30	0	0	0	
. social	15	12	10	5	5	5	0	0	0	0	0	
4. Interest-rate subsidies												(4)
. investments	25	0	0	0	0	0	0	0	0	0	0	
. reconversion	106	105	105	105	105	105	70	30	0	0	0	
5. Social measures												
. coal	50	50	50	50	50	50	40	40	40	40	40	
. steeel	53	60	80	100	40	10	10	10	10	10	10	
TOTAL	532	515	464	442	375	338	251	206	115	113	111	
1. Internal revenue	386	329	234	217	217	217	215	215	205	181	163	(5)
2. Levies	150	146	142	130	118	83	36	0	0	0	0	(6)
(% rate)	(0,27)	(0,25)	(0,24)	(0,22)	(0,20)	(0,14)	(0,06)	(0)	(0)	(0)	(0)	
TOTAL	536	475	376	347	335	300	251	215	205	181	163	
BALANCE	+ 4	- 40	- 88	- 95	- 40	- 38	0	+ 9	+ 90	+ 68	+ 52	(5)

1) Maintained for institutional reasons

2) Assuming that training activities are transferred to the ESF from 1998

3) Reduction in two stages in line with the pattern of framework programmes.

4) Reconversion : assuming gradual transfer to ERDF from 1998

5) In addition to internal revenue, possibility of entering net balance in the budget in advance, thus making it easier to finance deficits (1993 to 1997).

6) Assumption: yield for a rate of 0.01% from 1993 = ECU 5.9 million.

ANNEX II : Rate of reduction in the Guarantee Fund under possible scenarios for transfer of activities to the EIB.

1. On 31 December 1991 the Guarantee Fund amounted to approximately ECU 483 million and was used to cover outstanding loans as follows:

(ECU million)

Type of loan	Amount outstanding on 31 December 1991	Corresponding amount in Guarantee Fund
Industrial loans (other than those connected with the consumption of steel)	3,653	239
Industrial loans connected with the consumption of steel	595	39
Redevelopment loans	2,925	191
Other	224	14
Total	7,397	483

2. If it is decided to transfer part of the lending activities to the EIB as from 1 January 1993, the corresponding portion of the Guarantee Fund could be reduced in line with the repayment of the loans in question, as shown in thetable below.

<u>Possible reductions in the Guarantee Fund
connected with transfers of the various categories of loan
(ECU million)</u>

Year	Conversion loans	Industrial loans steel	Other industrial loans	Other	Total
1993	24	6	24	1	55
1994	26	5	40	1	72
1995	34	4	35	1	74
1996	62	4	64	1	131
1997	14	2	24	1	41
1998	11	2	13	0.5	26.5
1999	9	2	25	0.5	36.5
2000	6	2	4	0.5	12.5
2001	3	2	9	0.5	14.5
2002 and after	2	10	1	7	20
	191	39	139	14	483

<u>NB</u>: The possible rate of reduction in reserves shown above is only an estimate. The margin of error is likely to be greatest regarding the rate of amortization of 1992 loans, which is not known at present.

AMORTISATION OF ECSC LOANS ON BORROWED FUNDS
AS AT 31 DECEMBER 1991

ECU million

YEAR	AMORTISATION OF CAPITAL
1992	1,162.8
1993	914.2
1994	1,090.9
1995	1,015.3
1996	1,844.6
1997	564.1
1998	228.5
1999	109.5
2000	55.7
2001	121.9
2002	4.0
2003	0.2
2004	0.2
2005	0.2
2006	p.m.
2007	p.m.
2008	p.m.
2009	83.1
TOTAL	7,195.1