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REPORT

drawn up on behalf of the Committee on Budgetary Control

on the financial activities of the ECSC

Rapporteur: Mr V. GABERT

PE 83.317/fin.

English Edition

By letter of 4 May 1983, the Committee on Budgetary Control requested authorization to draw up a report on the financial activities of the ECSC.

On 6 June 1983, the committee was authorized to report on this subject.

The committee held an exchange of views during its meeting of 28 April 1983. At its meeting of 21 June 1983 it examined the draft report and adopted unanimously the motion for a resolution as a whole.

The following took part in the vote: Mrs Boserup, vice-chairman and acting chairman; Mr Gabert, rapporteur; Mr Goerens (deputizing for Mr Irmer), Mr Kellett-Bowman, Mr Mart, Mr Notenboom and Mr Konrad Schön.

The report was tabled on 21 June 1983.

C O N T E N T S

A

The Committee on Budgetary Control hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on the financial activities of the ECSC

The European Parliament,

A. having regard to the report of the Court of Auditors on ECSC loans, borrowings and interest rebates and to the Commission's replies,

B. having regard to its decision of 16 November 1982 granting a discharge to the Commission in respect of the accounts of the ECSC for the financial year 1980[1],

C. having regard to its resolution of 19 May 1983 on combatting the crisis in the European steel industry Doc. 1-238/83,

D. having regard to the report of the Committee on Budgetary Control (Doc. 1-464/83),

National aids

1. Notes that, when drawing up the opinion on applications for loans pursuant to Article 54 the Commission has, since 1981, verified whether the projects to be financed receive subsidies, national aids or national guarantees; this procedure complies with the rules on aids, which are based on Commission Decisions 257/80 and 2320/81;

2. Notes that, according to Commission indications, state guarantees are regarded as national aids and are subject to the rules on aids;

Accounts

3. Notes with satisfaction that the Commission and the Court of Auditors succeeded in reaching agreement on a number of improvements to the accounting system, in particular as regards the authorization of issuing costs;

General objectives

4. Points out that pursuant to Article 46 of the ECSC Treaty the Commission's general objectives should also serve as guidance 'to determine its own

[1] OJ No. C 334, 20.12.1982

course of action';

5. Draws attention to the fact that, particularly in view of the current situation on the steel market, the use of ECSC resources to finance surplus capacity cannot be justified;

6. Points out that it is essential for the departments concerned effectively to apply the general objectives and hopes that the new general objectives in the steel sector will be widely publicized;

Monitoring implementation of the projects financed

7. Welcomes the fact that the Commission has formed its own department to monitor the implementation of the projects financed and notes that a more thorough analysis of the economic situation and the balance sheets of the loan recipients is now being undertaken;

8. Stresses once again the importance of on-the-spot checks and welcomes the fact that an initial programme of checks is now in existence;

Loans pursuant to Article 56

9. Notes that all loans for conversion are granted pursuant to Article 56(2)(a) and points out that, in the Court of Auditors' view, it would in certain cases be more appropriate to apply Article 56(1)(b);

10. Points out that it is absolutely essential to encourage in the best possible way the restructuring of the Community's steel industry and emphasizes in this connection the importance of providing finance for conversion investments;

Interest rebates

11. Notes the Court of Auditors' comments concerning the absence of a sufficient legal basis for interest rebates in respect of loans granted pursuant to Articles 54 and 56; takes the view, however, that such interest rebates represent an important means of promoting restructuring and job creation;

12. Notes that it has proved difficult to monitor and to comply with the 'social clause', which provides that, where interest rebates are granted for conversion loans, the beneficiaries should give priority in their recruitment to former ECSC workers;

13. Believes, therefore, that the social clause should be amended to take more account of regional problems;

Financial planning

14. Emphasizes once again the need for the Commission to develop, within the context of the general objectives, a borrowing and lending programme based on regional priorities and points out that Parliament has called on the Commission[1] to submit a draft ECSC budget for 1984 which includes borrowing and lending activities;

15. Instructs its President to forward this resolution and the report of its committee to the Commission, the Council and the Court of Auditors.

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[1] OJ No. C 13, 17.1.1983

B

EXPLANATORY STATEMENT

I. Introduction

In its decision of 16 November 1982[1] granting a discharge to the Commission of the European Communities in respect of the ECSC accounts for the financial year 1980, the European Parliament felt that the soundness of the financial management of the ECSC should be assessed in a separate report, since the basic document required for such an assessment - the special report of the Court of Auditors on the financial activities of the ECSC - became available only in mid-October 1982.

Parliament is now in a position to deliver an opinion on this important aspect of the Community's coal and steel policy, having regard in particular to the above report and to the resolution adopted on 19 May 1983 on combatting the crisis in the European steel industry (WAGNER report, Doc. 1-238/83).

II. Trend in ECSC financial activities in recent financial years

In the past the ECSC's financial activities were concerned primarily with industrial and social policy and encouraged investments for the restructuring of the Community's coal sector and the transfer of the labour force towards other productive activities.

However, faced with the scale and persistence of the crisis in the steel industry which began in 1976, such financial aid has proved too meagre to ensure that restructuring and conversion activities did not lead to serious imbalances in terms of production or employment.

The volume of ECSC financial aid based on Articles 54 and 56, that is loans for industrial investments and for conversion, has developed as follows:

	1952-1979	1980	1981	1982	m ECU
Article 54	5,311	757	286.9	559.7	
Article 56	621	266	86	162.8	
TOTAL	5,932	1,023	372.9	722.5	

[1] OJ No. C 334, 20.12.1982

The resumption of ECSC financial activity in the last financial year was thus of major importance, given that, between 1980 and 1981, it fell from 1,023 to 372.9 m ECU, while in the same period investments in the coal and steel industry rose from 4,100 m ECU to 4,800 m ECU.

Given the serious problems currently facing the European steel industry, the net increase in 1982 in the contraction and granting of ECSC loans is to be welcomed, although it remains essential carefully to verify that the aid in question is effective and conducted in a proper manner.

III. Problems relating to the effectiveness and proper conduct of the ECSC's financial activities

The special report of the Court of Auditors on loans, borrowing and interest rebates (Doc.), annexed to the 1980 annual Report, raises a number of problems relating to the sound management of these financial activities. An assessment of the management should therefore be based on the Court's comments and on the replies of the Commission of the European Communities, which are attached to the special report. In this connection your rapporteur has been able to take advantage of the considerable cooperation offered by the institutions in question, whose representatives have attended numerous information meetings and discussions relating to the most important points.

(1) National aids

National aids in the steel sector are governed by ECSC Decisions 257/80 and 2320/81[1], relating to specific aids to the steel industry and non-specific aids respectively. Under these decisions, national aids should be notified to the Commission, which assesses whether they comply with the criteria laid down in the decisions and on this basis may then grant authorization.

The Court of Auditors points out that the Commission should have recourse to Article 54, fifth paragraph, of the ECSC Treaty and, when delivering its opinion on an industrial investment programme, should analyse any national subsidies or guarantees granted to the investment in question. On the basis of this analysis it may then deliver an adverse opinion, prohibiting the undertaking from drawing on loans of any kind to carry out the programme. The Court therefore criticizes the Commission's failure to follow this procedure.

[1] OJ No. L 29, 6.2.1980
[2] OJ No. L 228, 13.8.1981

It should be pointed out that as since 1981 all national aids and guarantees have been the subject of prior notification to and authorization by the Commission, they presumably do not conflict with the ECSC Treaty ('If the High Authority finds that the financing of a programme or the operation of the installations therein planned would involve subsidies, aids, protection or discrimination contrary to this Treaty, the adverse opinion ( ) shall have ( ) the effect of prohibiting the undertaking concerned from drawing on resources other than its own funds to carry out the programme.'). Decisions 257/80 and 2320/81 may therefore be considered to provide a definition of the national aids regarded as compatible with the ECSC Treaty.

Nevertheless, when taking the decision on applications for loans for industrial investments, it is still essential carefully to assess their impact when added to existing national aids.

(2) General objectives

Under Article 46(3) the Commission should 'periodically lay down general objectives for modernization, long-term planning of manufacture and expansion of productive capacity'. These objectives are designed to guide the undertakings' activities and to help the Commission 'determine its own course of action'.

The Court of Auditors feels[1] that the most recently published general objectives for the steel sector[2], together with the updated version of 1978, are drafted in excessively general terms and would not enable the Commission to determine its own course of action, particularly in relation to the granting of loans for investments, because of the absence of sufficiently detailed and practical objectives and, within these, of well-defined priorities.

The point of the Court of Auditors' comment is that great care should be taken to ensure consistency between the general objectives and the financing decisions and that in this connection the provision of Community funds to finance the creation of additional productive capacity, as in the case referred to in point 28 of the Court of Auditors' report, reveals a profound contradiction both in the Commission's actions and between the demands of economic rationality and political desirability. The need to make optimum use of Community funds involves compliance with the basic guidelines that have been laid down. In the case in question, financing was granted despite the fact that the 1978 review

[1] Report of the Court of Auditors, points 17-27
[2] OJ No. C 232, 4.10.1976

of the general objectives for steel revealed surplus productive capacity.

(3) Monitoring implementation of the projects financed

The information provided by the institutions concerned shows that a major effort is being made to improve this activity which is essential for an assessment of the effectiveness of Community aid. Parliament will examine the results of this effort, in particular with regard to the programme of on-the-spot checks, in the context of the forthcoming ECSC discharge procedure for the financial year 1982.

(4) Loans for industrial conversion (Article 56)

The ECSC Treaty provides for the granting of such loans in two separate cases:

(a) technological changes which lead to an exceptionally large reduction in labour requirements, giving rise to employment problems in one or more Community regions;

(b) fundamental changes in market conditions for the coal or steel industry which compel undertakings to discontinue, curtail or change their activities.

These two cases are provided for under Article 56(1) and (2) respectively. Article 56(2) was adopted in 1960, when it was realized that, in addition to technological changes, structural shifts on the market could give rise to the need to convert ECSC sectors. In both cases, the programmes to be financed should provide for the creation of economically sound activities capable of reabsorbing the redundant workers.

According to the Court of Auditors, the fact that in 1980 all the conversion loans granted by the Commission were based on Article 56(1), was because the procedure provided for therein is simpler and requires less justification.

There is no question that efforts closely to monitor trends in the employment situation in specific regions and thus to provide adequate justification for aid, would help to make conversion measures more effective.

It is therefore highly desirable, as called for by the Court of Auditors, to define a genuine ECSC conversion policy, by identifying those areas which

Moreover, there has been a substantial increase in the volume of this type of aid, the appropriations earmarked having risen from 32 m ECU in 1981 to 47 m ECU in 1982, with a figure of 53 m ECU estimated for 1983.

(6) The social clause

With regard to interest rebates on conversion loans (Article 56), the Commission communication on the criteria for granting such loans provide that, beneficiaries should give priority in their recruitment to former ECSC workers (the 'social clause').

The checks carried out by the Court of Auditors[1] show that the estimated recruitment by the undertakings of former ECSC workers (which determines the proportion of the loan to benefit from the interest rebate) far exceeds the result actually achieved.
The numbers recruited naturally depend on a wide range of factors (economic situation, availability of the right kind of labour force) and it is therefore unreasonable to use such unreliable information as the basis for granting the rebates (the Court of Auditors quotes as an example the case of a global loan decided in 1979 in which of the estimated 197 jobs for former ECSC workers, only 23 were actually filled in this way[2]).

If the social clause is maintained in its present form, it could lead to the creation of an additional parallel labour market and could encounter major legal and trade union problems. It would therefore be preferable to amend the social clause so that, when determining the volume of the loan eligible for a rebate, reference is made primarily to regional criteria, that is, to the seriousness of the employment situation in the various areas, and in particular to the current decline in employment in the coal and steel sector. Former ECSC workers will in any event benefit from a reduction in unemployment at regional level.

This revision of the social clause should therefore be linked with the regional aspects referred to as the basis for granting the conversion loans themselves.

(7) Financial planning

The European Parliament has for some time felt that there is a need for more detailed financial planning in connection with the contraction and granting

1 Report of the Court of Auditors, points 60-62
2 Report of the Court of Auditors, point 61

of loans. This view is endorsed by the Court of Auditors' comments[1], but the Commission feels[2] that it is impossible to provide more detailed planning beyond a global figure for the loans and the volume of interest rebates charged to the operating budget.

The European Parliament's position, as expressed, for example in the decision on the ECSC discharge for the financial year 1976[3], in which it called for the submission of a structured programme for borrowing and lending policy, is consistent with the request, which is also a long-standing one, for the budgetization of these financial activities and for a merger between the ECSC's general and operating budgets. This demand was made most recently in the resolution of 14 December 1982 on the fixing of the ECSC levy rate and on the drawing up of the ECSC operating budget for 1983[4].

An operational programme of financial activities is therefore required which takes account of specific regional priorities, in conjunction with the need to concentrate efforts on the areas worst hit by job losses in the steel sector and in coordination with the other structural aid funds, in particular the ERDF. Such a requirement emerges from the comments made in connection with loans granted under Articles 54 and 56.

The European Parliament, in particular, has called for the drafting of integrated regional development programmes for the regions most affected by restructuring measures in which the ECSC's financial activities should play an important role.

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1 Report of the Court of Auditors, points 76 et seq.

2 Commission replies to the special report of the Court of Auditors, p. 16

3 OJ No. C 6, 9.1.1978, paragraph 13

4 OJ No. C 13, 17.1.1983

5 Resolution of 19.5.1983

Loans to finance industrial investments (Article 54)

m ECU

Country	Total volume of loans paid at 31.12.1980	Loans granted in 1981	Loans granted in 1982
DK	55.8	-	-
FRG	1,767.89	78.88	136,1
B	216.79	-	-
F	1,217.49	100.89	62,0
I	1,154.49	96.22	62,7
L	156.57	-	-
NL	160.88	-	39,3
UK	2,050.28	-	176,9
IRL	18.43	10.96	-
GR	-	-	10,9
Outside the Community	6.96	-	71,8
	6,805.26	286.95	559,7

Trend in loans granted for conversion measures in the individual countries

m ECU

COUNTRY	Total volume of loans paid at 31.12.1980	Loans granted in 1981	in 1982
DK	-	-	1,7
FRG	223.92	7.57	43,6
B	56.35	-	17,0
F	285.46	8.22	3,4
I	72.40	-	-
L	8.82	-	5,2
NL	28.95	-	4,4
UK	250.24	70.20	87,5
IRL	1.59	-	-
GR	-		-
Community	927.73	85.99	162,8