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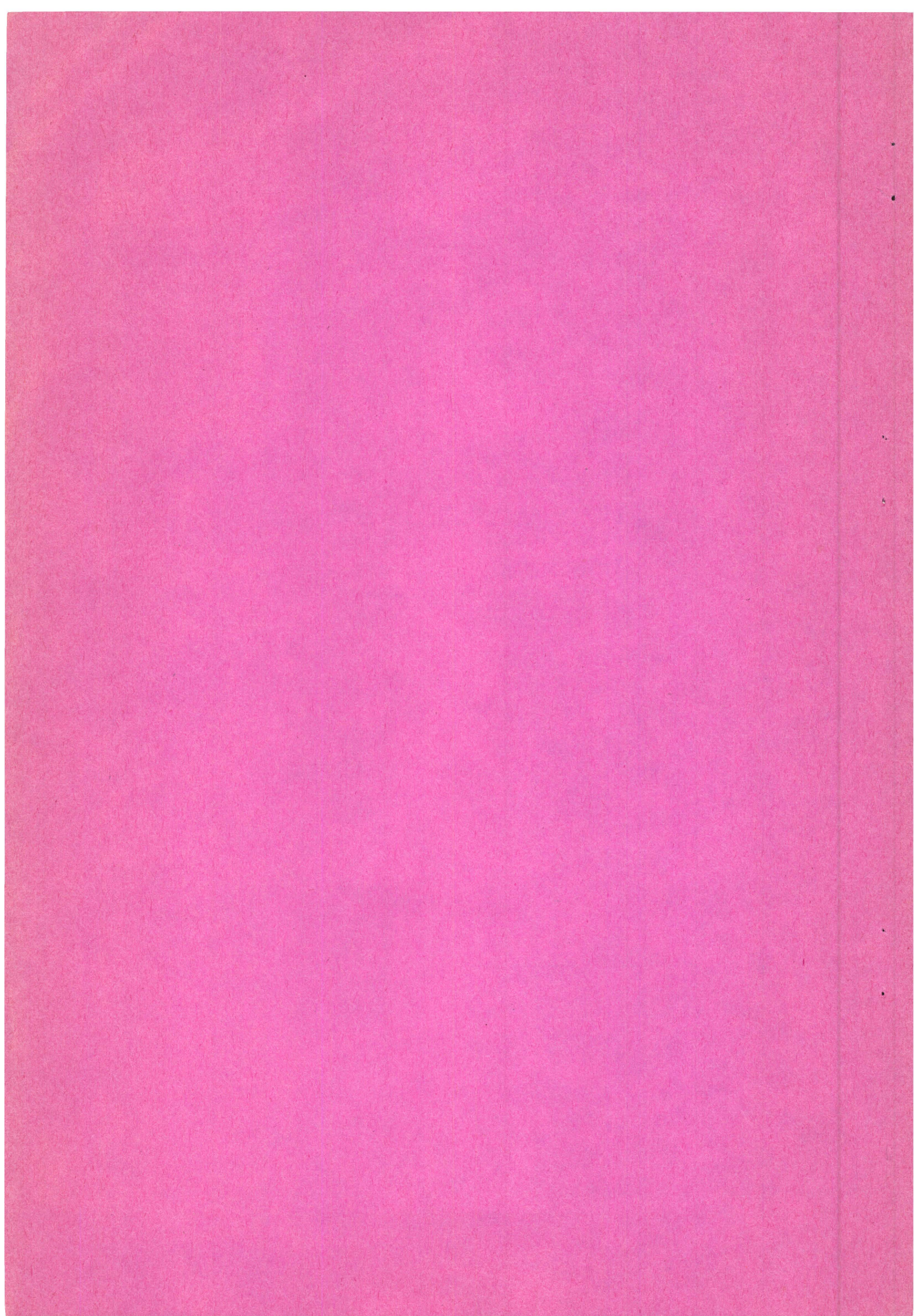
Brussels, 30 October 1974

## A I D E - M E M O I R E

on the fixing of ECSC levies and on  
the operational budget for 1975

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## A I D E - M E M O I R E

### on the fixing of ECSC levies and on the operational budget for 1975

Article 49 of the Treaty establishing the European Coal and Steel Community empowers the Commission to obtain the funds needed to finance the activities provided for in the Treaty by imposing levies on the production of coal and steel. These levies are assessed annually on the various products according to their "average value", but under Article 50 the "rate" of the levies may not exceed 1% of this "average value" without the previous authorization of the Council.

In calculating the rate of the levies, several factors must be taken into account. First, the requirements must be scrutinized. Then it is necessary to assess how far they can be financed by the revenues arising from the investment of the Community's own funds and other sources of income (repayments, cancellation of commitments, etc.). In this way it is possible to calculate the sum to be provided through the levies. By taking account of the average values of the various products and the estimated production during the year, the rate of levy needed to yield the sum concerned can be worked out. Calculation of the rate thus depends on estimates of production; these estimates are difficult to make because the industries concerned react very sensitively to the behaviour of the economic cycle.

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

This aide-mémoire forms the basis for the consultation of Parliament. It should be noted that this initial draft of the operational budget is based on the six-monthly conversion rates laid down in Decision No 3542/73/ECSC of the Commission of 19 December 1973 (OJ L 361 of 29 December 1973, page 11) for operations other than that of drawing up the balance sheet.

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It is intended to prolong the validity of this Decision, which was originally intended to cover only the year ending 31 December 1975.

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## I. IMPLEMENTATION OF THE ECSC OPERATIONAL BUDGET FOR 1974 (Annex I)

The table of the estimated implementation appearing in Annex I, shows an increase in resources of 5.69 m u.a. due to the exceptional rise in 1974 in rates of interest on investments. In its amending budget the Commission assigned these additional resources as follows:

- interest subsidies (Article 56 of the ECSC Treaty) as provided for in the initial operational budget. All needs in this field have been covered (3.69 m u.a.);
- research, especially on the extraction and upgrading of coal in pursuit of the new Community energy policy (2 m u.a.).

## II. PRELIMINARY DRAFT 1975 ECSC OPERATIONAL BUDGET (Annex II)

The operational budget for 1975 will show the following five features:

### (i) Resources

- an appreciable increase in steel prices observed during the reference period (1 July 1973 - 30 June 1974) and a consequent increase in the average values of steel (about 30%);
- a wide margin of uncertainty as to the interest yield on investments and on loans from non-borrowed funds, as a result of variations in interest rates;
- foreseeable book losses on certain assets of the ECSC, due to changes in exchange rates;

### (ii) Requirements

- the energy situation, as a result of which the Commission proposes to increase its contribution to financing work on the extraction and upgrading of coal;

- the need to take the actions required of the ECSC in both the social and industrial fields, for which applications are increasing;

### III. REQUIREMENTS REPORTED FOR 1975

#### A. Operations involving non-recoverable expenditure (137 m u.a.)

##### 1. Administrative expenditure (18 m u.a.)

The total fixed by the Merger Treaty is still valid.

##### 2. Aid to resettlement (36 m u.a.)

Allowing for the rise in the cost of living, it is to be observed that the estimated needs for resettlement are decreasing:

36 m u.a. as compared with 42.9 m u.a. in 1973 and 41 m u.a. in 1974.

The following two factors have contributed to this decrease:

- a slowing-down in the rate of closures consequent upon the energy crisis;
- certain closure programmes are now reaching their end.

The expected breakdown is shown in the following table:

Country	Coal	Steel-making and iron mines	TOTAL per country
Germany	12.5	0.5	13.0
Belgium	1.0	0.5	1.5
France	6.5	0.5	7.0
Italy	-	0.5	0.5
United Kingdom	10.5	3.5	14.5
Total per sector	30.5	5.5	36.0

##### 3. Aid to research (57 m u.a.)

The promotion of research incumbent upon the ECSC under Article 55 of the Treaty calls for an increase in financial aid so as to enable the Community to meet the requests put forward:

- (a) The increasing steel research requirements are due to the recent reorientation of the steel industry towards high-quality production calling for more complex techniques, more advanced metallurgical knowledge, and the need for this Community industry to be better placed to solve intricate raw-materials problems and to economize on energy. It is proposed to launch research programmes of wider scope in this sector;
- (b) The coal research requirements have been established on the basis of the Commission's proposals on energy policy. In the light of the Commission's aim of maintaining the present production level, the new requirements for ECSC research appropriation relate to the extraction and upgrading of coal, and total 15-20 m u.a. per annum. This increase is in line both with the Resolution of the European Parliament of 11 December 1973 on the ECSC budget for 1974, which recognized the need for a common energy policy and considered that a further effort was necessary in coal research, and with the Council Resolution of 17 September 1974 which advocated a technological research and development programme sufficient to ensure the desired development of the various energy sources;
- (c) The social research requirements refer mainly to working conditions and environmental protection in the ECSC industries. It is proposed to carry out the following programmes in 1975:
  - (a) Pollution in the steel industry
  - (b) Safety in mines
  - (c) Industrial health in the mines
  - (d) Resettlement and ergonomics
  - (e) Chronic respiratory diseases
- (d) The first column of Annex II shows the amounts of aid requested on the basis of 60% ECSC participation in the total cost of the research work. It should be noted that the aid granted to coal and steel research still represents 5-10% of the total research in this field.

4. Aid to coking coal (6 m u.a.)

Aid to coking coal was the subject of Decision No 73/287/ECSC of 25 July 1973 (OJ No 259 of 15 September 1973).

The aim of the aid is to facilitate the production and marketing of coking coal for the Community's steel industries. In addition to aid financed by the producer countries, marketing aids benefit from Community financial support divided between the Community, the Member States and the steel industry, in cases where products are marketed at a great distance from the production sites or outside the producer countries.

5. Interest subsidies (19 m u.a.)

The ECSC can use resources in the form of own funds in order to grant loans at reduced rates of interest.

The subsidy criteria may be varied in accordance with changes in general interest rates, the situation in the financial markets, and the needs arising. At present such a loan enjoys a 3% interest subsidy for a period of five years.

The reduced-rate loans are directed to major economic and social objectives: the essential aim of those granted towards investment being to ensure the structural improvement and rationalization of the ECSC industries, while the conversion loans afford a direct aid to workers in these industries.

(a) In the investment field (Article 54 of the Treaty) the grant of subsidies is subject to the following criteria:

- the elimination of bottlenecks at Community level. This provision has hitherto been used to favour the creation of new coking coal capacities;
- protection of the environment;
- multinational measures;
- the creation of research or vocational training centres.

Major applications are under study for investment of the above types, particularly in connection with the protection of the environment. There is

an increasing volume of rigorous national and regional legislation on this subject, which entails continual expenditure on new and costly anti-pollution programmes which qualify to be considered for interest subsidies.

- (b) As regards industrial conversion (Article 56 of the Treaty), the Commission grants loans (which may be eligible for subsidies in order to facilitate investments by undertakings which set up operations in areas where ECSC activities are declining. These undertakings receive interest rebates if they undertake to create new employment in these areas and to give priority to former workers from the ECSC industries.

These economic and social measures are of particular value at a time when the industries of several member countries are encountering cash-flow difficulties.

B. Operations financed by loans on non-borrowed funds

6. Subsidized housing (12.5 m u.a.)

The first stage of the proposed eighth workers' houses construction programme will cover the years 1975 and 1976 at a total cost of 25 m u.a. divided equally over the two years. This money will be lent at a reduced interest rate of 1%. The aims of this measure are:

- to help steel undertakings to build the dwellings necessitated by the reorganization of the industry;
- to help coal undertakings to engage workers and maintain their labour force, particularly miners obliged to work in other mines as a result of closures.

This measure also helps the workers by alleviating the effects of the increase in land prices, in building prices in general and in interest rates. In addition, the Commission has decided to extend its activities to the modernization of old dwellings, which is less costly than building new ones.

The total requirements put forward appear in Annex II under the column "applications".



#### IV. FORECAST RESOURCES FOR 1975

##### A. Current resources

##### 1. Yield from levies (at an interest rate of 0.1%, 30.56 m u.a.)

According to the estimates, the yield from levies for 1975 will be influenced by the following factors:

- a slight increase in hard coal production (about 1.5%) over 1974, when there were strikes at the beginning of the year;
- an increase in average values of about 10% for hard coal and 16% for brown coal;
- the maintenance of the present level of steel production;
- an appreciable increase in the average values of steel products (about 30%).

The table in Annex III gives details of the estimated production totals, and for each type of production the unit yield of the levy - i.e., the yield from a levy at the rate of 0.1%. The total estimated unit yield is 30.56 m u.a.

It should be noted, however, that there is a certain margin of uncertainty in this figure, since the departments concerned are not yet in possession of all the necessary data.

##### 2. Interest on investments (21.2 m u.a.)

The yield from interest on investments and loans on non-borrowed funds has been estimated at 21.2 m u.a., allowing for the book loss which may be suffered by certain assets of the ECSC owing to changes in parity rates - a loss which may be estimated at 7-8 m u.a.

##### 3. Miscellaneous revenue (0.1 m u.a.)

Miscellaneous revenue includes gains and losses on exchange rates, receipts from fines, interest and late-payment surcharges, etc.

- 8 -

4. Cancellations (1.5 m u.a.)

The cancellation of commitments which will not be implemented relates to credit balances on successfully completed operations. During past years the settlement of items outstanding from earlier accounting periods has freed considerable sums, but in future the sums will become smaller.

B. Origin of non-borrowed funds

In order to cover the requirements for the building of subsidized housing, the following financing arrangements are proposed:

- use of repayments on earlier loans made from the special reserve (6.4 m u.a.)
- an element of the former ECSC pension fund, used as a guarantee, to supplement these repayments in implementing the first instalment of the eighth subsidized housing construction programme (6.1 m u.a.).

V. THE BALANCE BETWEEN REQUIREMENTS AND RESOURCES

1. Simple addition of the requirements put forward would give a total of 136 m u.a., without taking into account the "subsidized housing" scheme which relates to loans and not to the use of non-recoverable funds. To meet all these requirements, the rate of levy would have to be fixed at between 0.37 and 0.38%.

In view of the necessity, emphasized by Parliament in its Resolution on the fixing of the rate of levy for 1974, of ensuring that the ECSC makes its contribution to the stabilization of prices, it would be inappropriate to raise the rate of levy to such a level. The Commission therefore proposes to maintain the rate of 0.29%, which would entail limiting current resources to 111.4 m u.a. (see Annex II). A review of priorities is therefore necessary

2. The allocation for three of the requirements to be met from current resources has already been fixed:

- the contribution to "administrative costs" must remain at:	18 m u.a.
- the amounts to be allocated as "aid to resettlement" estimated at:	36 m u.a.
- aid to coking coal, set at:	6 m u.a.
total:	60 m u.a.



- 9 -

A sum of 51.4 m u.a. therefore remains to be allocated among the expenditure which is not unavoidable. It does not appear possible to reduce research requirements by much more than a third, i.e., they can be cut back from 57 to about 37 m u.a., so that considerable funds can be assigned to coal research under the Community's energy programme (see point III.3(b), page 4 above) - about 14 m u.a. The remaining sum, 14.5 m u.a., should be assigned to interest subsidies. The allocation of these appropriations is given in Annex II to this aide-mémoire.

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The Commission therefore asks Parliament to agree that the 1975 levy be set at 0.29%.





## ECSC AMENDING OPERATIONAL BUDGET

## ANNEX I

FOR 1974

(in m u.a.)

REQUIREMENTS	ESTIMATES		RESOURCES	ESTIMATES	
	initial	amended		initial	amended
OPERATIONS TO BE FINANCED FROM ORDINARY RESOURCES (NON- RECOVERABLE)			ORDINARY RESOURCES		
1. Administrative expenditure	18	18	1. Levy yield	69.31	69.5
2. Aid to resettlement (Art. 56)	41	41	2. Interest on investments and on loans from non-borrowed funds	15.7	21.2
3. Aid to research	21.5	23.5	3. Miscellaneous	0.1	0.1
(a) steel	(9.5	(9.5			
(b) coal	(6	(8			
(c) social	(6	(6			
4. Aid to coking coal (Art. 95)	5	5	4. Cancellation of commitments which will not now be implemented	5.5	5.5
5. Interest subsidies	5.11	8.8			
(a) Article 54 - Investment	(2.044	(3.45			
(b) Article 56 - Reconver- sion	(3.066	(5.35			
	90.61	96.3		90.61	96.3
OPERATIONS FINANCED WITH LOANS FROM NON-BORROWED FUNDS			ORIGIN OF NON-BORROWED FUNDS		
6. Subsidized housing	10	10	5. Repayments on loans for sub- sided housing	5.5	5.2
			6. Part of the former ECSC Pension Fund	4.5	4.8

PRELIMINARY DRAFT ECSC OPERATIONAL BUDGET FOR 1975

(in m u.a. - conversion rate for second half-year 1974)

XIX/511/74-E

ANNEX II

Requirements	Applications	Proposals	Resources	Proposals
Operations to be financed from ordinary resources (non-recoverable)			Ordinary resources	
1. Administrative expenditure	18	18	1. Levy yield at 0.29% <sup>1</sup>	88.6
2. Aid to resettlement (Article 56)	36	37	2. Interest on investments and on loans from non-borrowed funds <sup>1</sup>	21.2
3. Aid to research (Article 55)	57	36.9	3. Miscellaneous	0.1
(a) steel	(29	(17.4	4. Cancellation of commitments which will not now be implemented	1.5
(b) coal	(22	(13.9	5. Unused resources carried over from the financial year 1974 <sup>2</sup>	token entry
(c) social	( 6	( 5.6		
4. Aid to coking coal (Article 95)	6	6		
5. Interest subsidies	19	14.5		
(a) Article 54 - Investment	(11	( 8.0		
(b) Article 56 - Reconversion	( 8	( 6.5		
	136	111.4		111.4
Operations financed with loans from non-borrowed funds			Origin of non-borrowed funds	
6. Subsidized housing	12.5		6. Repayments on loans for subsidized housing	6.4
			7. Part of the former ECSC Pension Fund	6.1

<sup>1</sup>The surplus resources available under these items will be used primarily to finance interest subsidies and aid to research, particularly in respect of coal.

<sup>2</sup>The appropriations will be used primarily to finance aid to research, particularly in respect of coal.



PRELIMINARY DRAFT ECSC OPERATIONAL BUDGET FOR 1975

XIX/511/74-E

ESTIMATE OF PRODUCTION AND OF THE UNIT LEVY

ANNEX III

PRODUCTS	PRODUCTION SERVING AS A BASIS FOR THE CALCULATION OF THE LEVY in million tonnes	UNIT LEVY (0.1%) in m u.a.
Brown-coal briquettes and semi-coke	5.8	0.10
All types of hard coal	227.8	4.60
Total for coal		4.70
Pig iron other than that required for the manufacture of ingots	5.9	0.44
Bessemer steel in ingots	11.0	1.07
Ingot steel other than Bessemer steel	144.0	18.70
Finished products	120.0	5.65
Total for steel		25.86
GRAND TOTAL		30.56

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