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AIDE-MEMOIRE

ON THE FIXING OF THE ECSC LEVY RATE AND ON THE DRAWING UP
OF THE ECSC OPERATING BUDGET FOR 1981

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	<u>Page</u>
<u>Preface</u>	
I. GENERAL INTRODUCTION	5
A. ECONOMIC CONTEXT	5
1. The economic outlook for 1980 and 1981	5
2. Outlook in the coal industry	8
3. Prospects in the iron and steel industry	11
B. POLICY CONTEXT	12
1. Coal policy	13
2. Iron and steel policy	15
3. Social policy	18
4. Financial activities	20
C. FINANCIAL CONTEXT	22
II. ANALYSIS OF REQUIREMENTS REPORTED AND RESOURCES AVAILABLE FOR THE FINANCIAL YEAR 1981	24
A. REQUIREMENTS REPORTED FOR 1981	25
1. Ordinary requirements	25
2. Requirements not entered in the budget: loans for financing subsidized housing	39
3. Summary of requirements reported	41

	<u>Page</u>
B. ORDINARY RESOURCES AVAILABLE	41
1. Resources for the financial year	41
2. Covering of requirements not entered in the budget	45
3. Summary of possible ordinary resources available for 1981	45
III. DRAFT OPERATING BUDGET FOR 1981	46
A. COMMISSION APPROACH	46
B. FINANCING PROPOSALS	47
C. DRAFT BUDGET	49

ANNEXES

A. IMPLEMENTATION OF THE ECSC OPERATING BUDGET FOR 1979	50
B. FORECAST OUTTURN OF THE ECSC OPERATING BUDGET FOR 1980	51
C. PROVISIONAL SITUATION OF THE ECSC AT 30 JUNE 1980	53
D. DRAFT ECSC OPERATING BUDGET FOR 1981	54
E. CONTROL OF ECSC ACTIVITIES	55

AIDE-MEMOIRE

on the fixing of the ECSC levy rate and on the drawing up of the operating budget of the ECSC for 1981

It is customary for the views of Parliament to be sought before the Commission takes a decision on the levy rate and the ECSC operating budget for the financial year 1981.

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

- I. General introduction;
- II. Analysis of requirements reported and resources available for the financial year 1981;
- III. Draft operating budget.

Specific factors affecting the covering of budgetary requirements for 1981 are described in Chapter III.

At point 16 of its Resolution of 22 May 1980 (OJ No C 147, 16 June 1980) on the Court of Auditor's report on the ECSC's financial and budgetary activities for the financial year 1977 and on the discharge in respect of that financial year, Parliament instructed the Commission/High Authority to submit a report "on its concept of control and how it could be exercised".

The Commission's thoughts on this are set out at Annex E to this aide-mémoire.

The aide-mémoire is also being sent to the ECSC Consultative Committee for information.

I. GENERAL INTRODUCTION

This chapter summarizes the information necessary for setting the draft ECSC operating budget for 1981 in its economic, political and financial context.

A. ECONOMIC CONTEXT

1. The economic outlook for 1980 and 1981

Following a period of relatively good rates of growth (an annual average of 3.4% between 1976 and 1979), economic activity is now slackening in the Community. With the deflationary impact of the rise in oil prices in 1979/80 (estimated at around 150% from the end of 1978 to 1 July 1980) mainly to blame, the Community's GNP in real terms can be expected to decline as between the first and the second half of 1980; the growth rate for the year as a whole could be as low as 1.25%.

As this slackening in economic growth is coinciding with a quite substantial increase in the active population, partly due to demographic factors, unemployment has been rising again since the beginning of the year, even though the shortage of skilled labour persists in certain industries.

The effect of rising oil and commodity prices is now being felt sharply at the retail stage. In some countries this has sparked off compensatory wage rises, though in others the secondary effects have to some extent been contained. For the Community as a whole, the implicit retail price index is expected to rise by approximately 12% in 1980 (though this figure includes increases in rates of indirect taxation). The gap between the highest and lowest rate of inflation has widened to about 15 percentage points in 1980.

For the Community as a whole the balance of payments deficit is expected to amount to 31 000 million ECU in 1980 (largely on account of the effect of the oil price increases decided on in June). The current-account deficit of the Federal Republic of Germany is expected to account for roughly a third of the Community's overall deficit in 1980. Financing this should not pose major problems, whereas the size of the deficits of some of the smaller Member States does give cause for concern.

Figures currently available suggest that growth could gradually pick up again in 1981. Private consumption, which is likely to remain stagnant for most of 1980, should be boosted by an improvement in real disposable incomes as prices rise more slowly than nominal incomes. In addition, the process of inventory adjustment, which is having a considerable deflationary effect in 1980, is probably nearly complete and should be followed in the second half of 1981 by a more normal pace of stock-building. Exports, particularly to OPEC countries, should be a moderate plus factor both this year and next. All in all, Community GDP should begin to increase again next spring, even though the year-to-year rate of growth will substantially fall short of the rate achieved in 1980. It must be remembered that these aggregate forecasts encompass somewhat different growth prospects for the various Member States individually.

The following table shows the trend in Community GDP by volume between 1978 and 1980.

GROSS DOMESTIC PRODUCT IN VOLUME TERMS

(% change over the previous year)

	1978	1979	1980 ¹
Denmark	1,0	3,5	- 1
Federal Republic of Germany	3,2	4,6	2
France	3,8	3,2	1 3/4
Ireland	6,0	1,9	1
Italy	2,6	5,0	3 3/4
Netherlands	2,5	2,2	1
Belgium	2,4	2,4	1 1/4
Luxembourg	4,3	2,7	3/4
United Kingdom	3,1	0,9	- 2 1/2
Community	3,0	3,4	1 1/4

¹Rounded.

Source: EUROSTAT and Commission departments.

2. Outlook for the Coal Industry

During the first six months of 1980 the consumption picture of the Community's coal market was strongly coloured by the economic situation in the United Kingdom and, in particular, by the steel strike in that country. The shift in output to other Member States during that period was even more marked for pig iron, as electric furnace steel production in the United Kingdom is largely in the hands of private companies and was not seriously affected by the strike at the nationalized British Steel Corporation. Taking account of these factors and the general recession during the second half of 1980, coke consumption during the year is likely to be around 45 Mt.

In the field of electricity generation, 1980 is likely to witness only marginal growth. In fact, a substantial drop in the United Kingdom and, probably, a slight drop in Germany may more than counterbalance modest growth in other Member States and lead to lower gross electricity production in the Community in 1980 than in the previous year. The principal reasons are the depressed level of economic activity, the after-effects of strikes in the United Kingdom, a mild winter and, probably, energy saving measures.

The share of conventional thermal in total electricity generation was substantially lower due to an extra 7.1 TWh of nuclear generation, mainly in France, and to an extra 3.3 TWh of hydraulic generation, resulting from exceptionally high snow and rainfall. However, these factors will probably be reflected in a drop in oil-burn, and the level of coal consumption will have been maintained at around 176 Mt, the same as the previous year.

Except for a slight rise in coal consumption by the cement industry, 1980 will have witnessed little change from the previous year in the

quantities absorbed by markets other than those of the iron and steel and the electricity generating industries.

On the other hand, coal production in 1980 is likely to have exceeded that of the year before by several million tonnes and to be of the order of 241-243 Mt. The principal reason has been rising productivity in the United Kingdom against a background of unchanged output in Belgium and Germany and a reduction of 1 Mt in France.

Coal imports in 1980 will prove to have been substantially higher than in the previous year and are likely to have exceeded 65 Mt. The largest increase will have originated from the USA.

1.0	3.5
5.7	4.6

Coal and coke stocks have shown a rising trend. However, they were at an unusually low level at the beginning of 1980. The shaky performance of the steel industry during the second half of the year and the general economic recession throughout the Community led to rises in producers' coal and coke stocks, but coal consumption for electricity generation is expected to keep the growth of producers' stocks to moderate proportions.

1.1	0.9
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There has been little in the way of changes in list prices of Community coals since early in 1980. On the other hand, world-wide rises in fob prices of steam coal and higher freight, aggravated by high demurrage charges due to port congestion in certain areas, particularly on the US east coast, have fuelled a continuing upward movement in cif prices of steam coal imported into the Community from third countries. Whereas towards the end of 1979 cif ARA prices for steam coal were still on average slightly below US \$40, prices in 1980 reached between about US \$45 and US \$55, while the Commission's indicative price for coking coal was in the region of US \$70.

Against the unpredictable economic prospects for 1981, one development is certain, viz the ever growing importance to the coal market of consumption for electricity generation. While as late as 1975 coke ovens used more coal than power stations, by 1979 the latter required twice as much coal as the former.

With two plants of a total capacity of 1278 MW and capable of burning either coal or oil entering operation in 1980 and a further 600 MW plant using coal or blast furnace gas due in 1981, plus measures in Member States designed to promote the use of coal-fired generating capacities, coal consumption by power stations may exceed 180 Mt in 1981. Depending on demand by other coal consumers, this would represent between 55% and 60% of the entire coal market.

No similar predictions are possible with regard to requirements by the steel industry. The full economic effects of the steep oil price rises in 1979 and early 1980 and their duration are not yet clearly discernible, but it is virtually certain that requirements by coke ovens in 1981 will be below the recent peak of 87.1 Mt in 1979.

The general industrial market can be expected to continue to grow slowly in 1981, probably absorbing more than 20 Mt of coal and coke, without counting inhouse electricity generation. However, the potential for large increases in coal consumption by this sector is unlikely to be evident until later in the decade.

Demand for domestic heating must be expected to decline further, probably to below 18 Mt. On the other hand, in the longer term, the space-heating market for factories, offices and other major consumers is likely to witness a growing number of conversions from oil and, possibly, gas to coal-firing.

Community coal production, which has been stable at about 240 Mt since 1977, will probably remain around this level in 1981. On the other hand, no predictions can be made with regard to imports, except that the rapid rise of recent years is unlikely to persist next year.

3. Prospects in the iron and steel industry

1979 ended with total ECSC crude steel output of 140.2 million t, which was exactly what had been forecast. As expected, the rise in production that began in the second quarter of 1978 accelerated and then continued until the end of 1979. For a production capacity then estimated at 203.5 million t, output in 1979 represented a capacity utilization rate of 68.8%, as against 65.5% in 1978.

Total ECSC crude steel production in 1980 is already certain to be well down.

In the first six months, when demand was still firm but output suffered from the protracted strike in the British steel industry, output of crude steel was 68.34 million t, 2% down on the first half of 1979.

The economic outlook for the second half of 1980 presages a decline in demand, particularly from the motor and construction industries, while short-term indicators in most of the steel-using industries have been in decline since mid-1979. Demand from certain capital goods industries is alone in offering the prospect of remaining firm in a few Community countries.

Demand for steel, already declining in the Community in May and June, was particularly low in the summer months, normally a very slack period. At the moment all the signs are that the gloomy picture will persist until the end of the year, even if the seasonal demand of the fourth quarter turns out to be close to the normal. Shorter delivery times, the downward trend of prices and exorbitant storage costs, mainly due to heavy financing costs, constitute so many reasons for believing that demand is unlikely to pick up.

At the beginning of 1980, after the Commission had raised guide prices by 3% for flat products and by an average 7% for long products, some improvement was noted in transaction prices for the first quarter. At the same time, prices for exports to non-member countries yielded extra earnings as the US dollar held up well over the first months of the year, but in the following months conditions deteriorated somewhat as falling demand brought depressed prices and the dollar fell back to its starting value. Prices for flat products

are once again inadequate while prices for long products are still not fully satisfactory for the most modern firms, particularly mini-foundries which for some time have enjoyed the benefit of an advantageous price for scrap metal. It is to be expected that most of the large and medium-sized firms are going to incur losses again this year, under the pressure of rapidly rising production costs.

Given the adverse trend on the Community and world steel markets, crude steel output for 1980 is expected to come out at around 130 million t, some 6.5% below the 1979 level. Against a current production capacity of roughly 208.1 million t, this gives a capacity utilization rate of less than 65% in 1980 compared with 68.8% in 1979. This year should therefore come in below 1978 in terms of both nominal output and the rate of utilization.

As regards the outlook for 1981, the first six months will most certainly be no better than the second half of 1980. Not until the second half of 1980 is there any hope of industrial activity picking up. So as things stand and with a normal trend in Community and world consumption, Community production of crude steel should settle around 128 million t, which includes Greece's output.

B. POLICY CONTEXT

The general objectives of the ECSC are determined for all time by Articles 1 to 5 of the Treaty of Paris.

For both coal and steel, the Commission at intervals presents general objectives or guidelines bearing on the future development of the ECSC industries. Coal is also one of the particular items covered by general papers put out by the Commission on the subject of Community energy policy. The medium-term guidelines for both coal and steel also cover manpower questions, thus indicating the context surrounding the various social policy activities in which the Commission/High Authority engages pursuant to the Treaty. In two annual reports - the Report on the Results of the Survey on

Investment in the Community Coal and Steel Industry and the Financial Report on ECSC Financial Activity -- the ECSC publishes facts and figures on the recent and foreseeable trend of investments and what the Community is doing to finance them.

The following remarks are not intended to take the place of the data in those reports, but are simply concerned with certain key points or recent developments which the Commission wants to highlight in establishing its draft ECSC operating budget for 1981. The industries themselves, the ECSC's social policy and financial activity in the budgetary year are dealt with in turn.

But there is one point that must be made at the outset -- on 1 January 1981 Greece becomes a member and will automatically be sharing fully in ECSC revenue and expenditure, contributing 3 million EUA to the ECSC reserves in three equal annual payments.

1. Coal policy guidelines

Developments on the world energy market since 1979 have confirmed the soundness of the Commission's coal policy since 1974. The objective proposed in 1979 -- to make more use of solid fuels in electricity generation, so that by 1990 coal and nuclear energy would represent a total of at least 70 to 75% of primary energy used -- was approved by the Council in June 1980. Emphasizing the Community's efforts to make itself even less dependent on oil, the Council also decided that by 1980 oil should account for no more than about 40% of gross energy consumption. Last April the European Council stressed the need to agree on a common energy strategy for 1990, and laid the emphasis on replacing oil by coal and nuclear energy.

Since the Council meetings of October and December 1979 both failed to reach agreement on the Commission's proposals to maintain pit production at its 1973 level, simply adapting and improving 1967 arrangements for coking coal for the iron and steel industry, the Commission, in the wake of the massive price increases decreed by the OPEC countries, presented some new ideas for energy policy (COM(80)130, 20 March 1980). In its new approach the

Commission proposes Community action on two major fronts - energy pricing and taxation and investment in the energy industry.

As regards investments involving coal, the following sectors would be considered for Community financing:

- (a) extraction, the objective being to boost productivity and cut long-term costs;
- (b) gasification and liquefaction of coal;
- (c) the building of coal-fired power stations and converting oil- and gas-fired stations to coal;
- (d) converting industrial furnaces to coal;
- (e) transport and transshipment facilities, notably in ports;
- (f) creating coal-extraction capacity outside Europe as a source of Community supply.

The Council should be continuing its deliberations on these ideas shortly.

Under Article 54 of the ECSC Treaty the Commission is still granting funds on commercial terms for industrial investments in Community coalfields. Under the ECSC budget it plans, as in 1980, to grant loans with interest subsidies for projects which satisfy the criteria defined in a notice to undertakings (OJ No C 79, 29.3.1980). It will also continue to encourage coal research within the ECSC under Article 55, and will maintain its efforts to increase the appropriations set aside in the general budget for demonstration projects involving coal gasification and liquefaction (Council Regulation EEC No 726/79, 9 April 1979).

2. Iron and steel policy guidelines

Commission steel market measures

The measures adopted by the Commission in 1978 and 1979 were extended for 1980, though some of the restrictions were eased somewhat, the general aim being to revert gradually to a free market so as to speed up the process of restructuring the Community steel industry.

With this in mind, the binding minimum basic prices for concrete reinforcing bars and merchant bars were waived for the first six months and then for the rest of the year. The minimum basic prices for hot coils were also waived for the second half of 1980. The rules requiring dealers to abide by producers' prices and issue certificates of conformity to minimum prices were withdrawn.

In view of the worsening market situation the Commission was forced to introduce production programmes for crude steel as well as limiting supplies. In spite of this, the recession in demand by early October signalled a state of crisis giving reason to believe that voluntary restraint measures are no longer enough to restore an element of balance to the market.

The Commission has therefore proposed the introduction of a compulsory system of quarterly production quotas under Article 58 of the ECSC Treaty.

With these new arrangements the Commission hopes to restore market stability and satisfactory price levels so that the steel industry can continue the restructuring progress and workers can be given the necessary assurances as to their employment prospects.

At the end of the year the Commission will make an appraisal of the situation and will determine, if need be, the measures that will apply in 1981 in the light both of experience and of the results of the efforts made in the second half of 1980.

Steel: External aspects

As in 1978 and 1979, measures relating to the Community steel market were supplemented by arrangements for monitoring imports. The Commission made a number of changes here, too, in order to simplify things by cutting the number of understandings with the major supplier countries (12 instead of 17), reducing the product coverage and making the consultation clause on products for first processing more flexible. There is no evidence that these changes have had any substantial influence on trade flows with the countries concerned.

The Commission continued to publish basic reference prices for imports and stepped up surveillance of quantities imported and prices in close cooperation with the Member States.

Exports to the United States, Iran and other countries fell back sharply, both because of the demand trend and because other exporters are selling harder.

External policy in 1981 will depend, as in past years, on the internal measures and on the degree of cooperation with non-Community countries that is found to be expedient.

Community solutions to structural problems

The Code of Practice for coordinating State aids to the steel industry was adopted by the Council late in March 1980. Specific aids to the steel industry financed by a Member State or by means of State resources in any form whatsoever are considered compatible with the orderly functioning of the common market provided they do not affect competition and trade between Member States to an extent contrary to the common interest. Such aids are permitted provided they comply with criteria laid down by the Commission.

Steel firms that have embarked on a process of restructuring have been able to ward off further deterioration of the financial situation.

Considerable progress was made in long products where net capacity was reduced by 2.3 million tonnes from its 1976 level and efforts were made to concentrate on the most modern works.

In the flat products sector, restructuring measures concentrated on cutting cost prices in the production of pig iron and steel, notably through more widespread use of continuous casting techniques. Capacity for the latter attained 66 million tonnes in 1980, compared with 55 million tonnes in 1978. In contrast, reorganization of hot rolling capacity did not keep pace with the economic downturn and some excess persists; the restructuring process will therefore have to continue.

At first sight it might seem that modernization and rationalization of the Community steel industry proceeded at a slower pace in 1979 and 1980 than in the two previous years. But firms have at least consolidated their position in branches where they enjoy more favourable conditions. For instance, the share of total output accounted for by special steels rose from 9.5% in 1974 to 15.5% in 1979.

Despite these advances, problems remain and it will only be possible to define them accurately when a thorough study has been carried out with the industry on actual production capacities at the works, product by product.

Although restructuring appears to have come to a halt the fact is that progress is still being made, but for social and political reasons it tends to be somewhat sporadic.

Restructuring remains the main objective of the anti-crisis measures. The Commission is pressing on with its endeavours to ensure that proper attempts are made to attain the objective, despite the fact that some undertakings will again be faced with cash-flow problems. Before the end of the year the Commission is to send the Council a full report on restructuring and the attainment of the General Objectives, supplemented by a detailed survey of the application of the rules on aids to the steel industry.

Restructuring aid under the ECSC budget is granted in the form of interest subsidies both for investment projects and for conversion in depressed areas.

3. Social policy

The main features of the Commission's social policy under the ECSC Treaty are:

- (i) aid granted under Article 56 to help redeploy workers;
- (ii) the financing of research projects on occupational safety under Article 55;
- (iii) the granting of low-interest loans from own funds under Article 54 to promote workers' housing.

Actions planned for 1981 in connection with redeployment, social research and housing will continue on the basis of the principles previously applied by the Commission and outlined in Chapter II. Consequently the developments described below cover only the social aid envisaged to help alleviate the effects of the crisis.

However, it must be stressed in this connection that the cost of the redeployment measures approved in 1980 under Article 56(2)(b) for execution within the framework of bilateral agreements between the Member States and the Community amounts to 82 million EUA, or 15 million EUA more than the amount earmarked for this purpose in the 1980 ECSC budget. The 15 million EUA shortfall will therefore have to be charged to the 1981 budget, along with the appropriations needed for (further) redeployment. This sum is included in the figures proposed on page 27; the 75 million EUA entered in the 1981 ECSC budget will only cover redeployment measures under existing agreements between Member States and the Commission.

The above measures will be supplemented by those provided for in the Commission's communication to the Council on the social aspects of restructuring in the steel industry.

It will be remembered that on 4 May 1979 the Commission sent a Communication to the Council on the social aspects of restructuring in the steel industry, setting out four temporary measures to assist steel workers:

- allowances for early retirement from the age of 55, or even below for certain categories of workers;
- an allowance for reductions in working hours (short-time working) to allow the loss of jobs to be staggered;
- allowances for changes in shift patterns;
- allowances for reductions in overtime.

In the light of its assessment of the situation on the steel market, and in view of its proposal to invoke Article 58, the Commission intends for the present to limit its interventions to:

- retirement allowances;
- short-time working allowances.

The Commission is currently considering applications for both types of allowance.

The Commission considers that ECSC aid for early retirement schemes and short-time working should be granted under bilateral agreements with the Member States concerned. It would apply for three years. Allowances for short-time working, however, should be limited to the period for which Article 58 of the ECSC Treaty is applied.

On the basis of these considerations and in view of the current applications, it will be necessary to enter an appropriation under Chapter 54 on the basis of Article 235 and to make a transfer from the general budget to the ECSC budget in order to meet expenditure for 1981.

These measures are currently under discussion in the Council in connection with the package of social measures; the Council is due to take a decision on 24 November.

The Commission will then consider the resulting budgetary implications.

4. Financial activities

ECSC Financial Report No 25 summarizes the Community's borrowing and lending in 1979 and sets out statistics analysing and comparing activities since 1954. The Community's balance sheet as at 31 December 1979 appears in Annex C to this aide-mémoire.

Borrowings contracted in 1979 totalled 837 million EUA, compared with 1 069 million EUA in 1978, 729 million EUA in 1977, 956 million EUA in 1976 and 731 million EUA in 1975. Loans paid out in the same periods totalled 676 million EUA compared with 798 million EUA, 742 million EUA, 1 064 million EUA and 805 million EUA. As in the previous year, some sums borrowed, notably in Swiss francs, were not for on-lending but to repay previous sums borrowed at higher rates, the benefit being passed on to the undertakings which had received loans from these borrowed funds.

For the first time the ECSC floated a dollar loan on the Tokyo market for public subscription and also at the same time on the Euro-dollar market.

Industrial loans¹ amounted to 595 million EUA compared with 667 million EUA in 1978 and 713 million EUA in 1977, conversion loans² to 59 million EUA compared with 113 million and 16 million EUA, and subsidized housing loans³ to 22 million EUA compared with 18 million and 12 million EUA.

Total borrowing and lending since the inception of the ECSC is thus brought up to 6 256 million EUA and 6 076 million EUA respectively (including 227 million EUA in loans from own funds). The balance outstanding at 31 December 1979 was 4 675 million EUA of which 2 512 million EUA fall due for redemption between 1980 and 1984.

In 1979 ECSC financial activity continued to satisfy the strong demand from undertakings wishing to modernize or restructure, not only in the steel industry but also to a large extent in the coal industry, which received loans totalling 238 million EUA in 1979 compared with 263 million EUA in 1978, 217 million EUA in 1977 and 180 million EUA in 1976.

¹Article 54 ECSC.

²Article 56 ECSC.

³ECSC special reserve funds.

At 15 September 1980 loans raised totalled 829 million EUA and loans paid out 706 million EUA. The balance outstanding at 30 June 1980 was 5 000 million EUA.

The ECSC has continued to obtain favourable terms on the capital market and has successfully developed a policy of private loans when conditions on the open market were unfavourable. ECSC issues are also favourably quoted on the secondary bond market.

It is clear from outstanding applications for conversion loans from the coal industry that ECSC borrowing and lending activity is likely to continue at a high level in the coming months.

It is difficult for the moment to give a precise estimate of the 1981 position since borrowing operations are carried out solely in response to loan applications which are not always submitted very far ahead. Also, certain applications sometimes await settlement for a long time on account of particular conditions imposed by undertakings in respect of currencies or rates.

At the end of August 1980, total loan applications approved by the Commission but awaiting settlement amounted to 2 051 million EUA for the ECSC industries (Article 54) and 306 million EUA for conversion (Article 56). Applications being processed amount to 1 973 million EUA for the ECSC industries and 147 million EUA for conversion. The repayment period concerned by some of the applications received extends over several years.

However, a general estimate of the likely trend in loan applications may be inferred from the planned investments in the Community coal industry: over 1 500 million EUA in 1980 and in 1981 as against the 1 167 million EUA invested in 1979.

Investment in the steel industry, which dropped to 2 000 million EUA in 1978 and 1979, has been picking up again this year.

It can thus be envisaged that borrowings made by the ECSC could amount to between 1 000 and 1 500 million EUA in 1981 if market conditions work to the advantage of the undertakings concerned.

C. FINANCIAL CONTEXT

All the budget figures given in this aide-mémoire are expressed in European Units of Account. Since 1976 the ECSC operational budget has been drawn up and implemented in EUA and, beginning this year, the claims and commitments under the budget and the relevant contracts are denominated and settled in the same units of account.

However, the Commission feels that following the entry into force of the European Monetary System based on the ECU, which is defined in terms of the same basket of Community currencies as the EUA, the unit of account used in the ECSC should be changed from the EUA to the ECU. A draft decision to this effect has been transmitted to the bodies concerned¹ and, assuming that a decision is taken before the end of 1980, the ECSC operational budget and the scale of levies will henceforth be adopted in ECU. As the two units of account are defined in terms of the same basket of Community currencies, the changeover would not necessitate any changes to the figures in this aide-mémoire.

With regard to the assessment of the draft 1980 budget, the rise in prices remains an essential factor in the final comparison between the financial years 1980 and 1981. It may be assumed that the price rise between the two years will be greater than 12%.

The main financial problem involved in drawing up the ECSC budget for 1981 remains the problem of balancing the budget at a time when industry, notably the Community iron and steel industry, is encountering serious difficulties.

The approach adopted for 1980 envisaged using special resources to cover two interventions specifically linked to structural reform in the iron and steel industry:

- aid in the form of interest rebates for conversion loans would be met by an ad hoc contribution from the Member States;

¹ COM(79)723 final, 10 December 1979; Opinion of Parliament dated 23 May 1980, OJ No C 147, 16 June 1980, pp. 135-6.

- the proposed new temporary social measures for steel workers would be covered by the general budget (Chapter 54).

The remaining financing requirements under the 1980 operational budget will be met from ordinary resources, the Commission having decided, with the approval of Parliament, to increase the rate of levy from 0.29% to 0.31%.

After lengthy negotiations the Member States agreed on an ad hoc contribution of 28 million ECU towards interest rebates for conversion loans, as against the 43 million ECU requested. The Commission believes that it can limit commitments for 1980 to 28.5 million ECU (of which 0.5 million ECU will be met by ordinary resources) by strictly applying the relevant criteria and rejecting applications totalling about 10 million ECU and by carrying over to the 1981 financial year admissible applications amounting to at least 3.5 million ECU. As the financing requirements originally estimated for 1980 amounted to 52 million ECU, there is no avoiding the conclusion that the general slowdown in economic activity has been reflected by a drop in the expected rate of job-generating investment.

Under these circumstances the Commission has not requested any additional contribution for 1980.

The present situation as regards temporary social measures has been described earlier (I.B.3). On the financial side, the Commission is upholding its proposal that expenditure should be met from the general budget. It has, however, revised its proposal for a decision to this effect (COM(80)134 final, 25 March 1980), particularly in the light of a number of suggestions made in Parliament. As regards the possibility of other means of finance, the Commission notes with regret that, despite Parliament's support, its proposal that ECSC customs duties should go to the Community is still blocked by the objections on legal and budgetary grounds of a number of Member States.

The Commission's proposals with regard to the balance of the 1981 operating budget are set out in Chapter III of this *aide-mémoire*.

II. ANALYSIS OF REQUIREMENTS REPORTED AND RESOURCES AVAILABLE FOR THE FINANCIAL YEAR 1981

This chapter first of all gives a detailed account of the two factors traditionally taken into account by the Commission in determining the levy rate on which to base the Draft Budget for the next financial year, namely expected requirements and the estimated yield from resources.

Article 49 of the ECSC Treaty empowers the Commission to procure the funds needed to pursue the activities set out in that 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, pursuant to Article 50, the rate thereof may not exceed 1% unless previously authorized by the Council.

To fix this rate it is first of all necessary to estimate requirements, then to consider how far these may be covered from budgetary resources other than the levies, namely the interest on investments and on loans financed out of own funds and cancellations of provisions. The amount which will have to be covered by the levies can then be determined.

Next, the likely yield from the levies is calculated on the basis of a preliminary - and thus sometimes unavoidably inaccurate - estimate of the average values of the various products, and in the light of the estimates (also somewhat tentative) of the volume of output during the year. The probable levy yield is first expressed as the estimated yield from a rate of 0.01%.

These are the two main elements described in this chapter.

The next stage is to determine the extent to which the Community must forgo satisfying the requirements which exceed the resources provided by the present rate, or, conversely, how far the rate must be either raised or lowered. This question is discussed in Chapter III.

The following presentation of requirements reported and foreseeable resources is modelled on the systematic analysis of the data for the various budget headings in the General Budget, set out 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 heading (legal basis and description of the operation, type and breakdown of expenditure, explanation). Three categories of expenditure are unavoidable, in that they derive from decisions already taken (administrative expenditure, aid to coking coal and coke for the steel industry) or from framework agreements with the Member States (on aids to resettlement). To give a clear picture, the explanation for expenditure which is not unavoidable (research and interest relief grants) is more detailed than for the other chapters.

A. REQUIREMENTS REPORTED FOR 1981

1. Ordinary requirements

CHAPTER B 1: ADMINISTRATIVE EXPENDITURE

1. Legal basis and description of operation

Legal basis:

- Article 50 of the ECSC Treaty;
- Article 20 of the Merger Treaty;
- Council Decision of 21 November 1977 (OJ No L 306, 30 November 1977, p.28)
- ECSC contribution to the Commission's administrative expenditure.

2. Type and breakdown of expenditure

Annual lump-sum payment in four equal quarterly instalments.

3. Explanation

The Council has set the annual amount of the lump-sum payment at 5 m ECU.

CHAPTER 5.1 AIDS 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 retraining for workers having to change their employment.

In some cases, the tideover allowance is replaced by a contribution corresponding to the cost of a bridging-pension scheme.

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

Creation of a provision to subsidize, by means of a 50% reimbursement, expenditure incurred by the Governments within the scope of the agreements signed.

The breakdown by industry and by country of the requirements as estimated from the data provided by the Governments is as follows:

m EJA

Country	Coal	Steel and iron-ore mines	Total per country
Germany	2.5	10.0	12.5
Belgium	5.0	5.0	10.0
Denmark	-	-	-
France	12.0	6.0	18.0
Ireland	-	-	-
Italy	-	3.0	3.0
Luxembourg	-	5.0	5.0
Netherlands	-	3.5	3.5
United Kingdom	6.5	16.5	23.0
Total per industry	26.0	49.0	75.0

The social repercussions of the present situation remain difficult to predict, of course, and the forward figures, which are in principle based on the policy now in force, are therefore no more than tentative.

3. Explanation

The coal industry's requirements are more or less on a par with those estimated for 1980, mainly as a result of the progress being made in reorganizing the industry. On the other hand, requirements in the iron and steel industry continue to be at a high level, owing to the gradual rationalizing and restructuring of the industry. The reduction in employment in the iron and steel industry is estimated at several tens of thousands of workers.

CHAPTER B 3: AID TO RESEARCH

1. Legal basis and description of operation

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

The High Authority/Commission is required to encourage technical and economic research into the production and increased use of coal and steel and occupational safety in the coal and steel industries. To this end it grants aid to finance research after receiving the Council's assent.

2. Type and breakdown of expenditure

Creation of provisions to cover 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 substantiated costs.

The applications can be broken down as follows:

m EUA

Heading	Sector	Aid requested
B 3.1	Steel	54
B 3.2	Coal	33
B 3.3	Social and medical	12
	TOTAL	99

3. Explanation

Steel research

The economic recession which set in around 1975 is at the root of the crisis currently racking the Community steel industry, a crisis which has revealed major structural weaknesses arising from serious overcapacity. The situation has been further aggravated by the fact that a number of developing countries are industrializing rapidly and have given top priority to the establishment of their own steel industry.

The Japanese response to the recession was to introduce cost-saving schemes and new technologies as rapidly as possible, while the United States closed down plant as a way of balancing supply and demand. Not only has the reaction in Europe been slower than elsewhere, but also, over the last few decades, the decisions of the vast majority of the Community's iron and steel producers has been conditioned by financial considerations and an expanding market. As a result insufficient attention has been paid to technological development in the Community steel industry.

The three main input parameters entering into steel production costs are raw materials, labour and energy, each of which accounts for approximately 30% of the total. Although there are only slight differences in input costs from one industrialized country to another, production costs for one tonne of European steel are 32% higher than those for one tonne of Japanese steel. Some 75% of the difference between European and Japanese pig-iron production costs can be attributed to higher energy consumption in Europe, 17% to higher prices for raw materials and 7% to higher labour costs. Japan's lead is clearly due not so much to lower input costs, although this does play a role, but more to higher productivity per manpower unit (as opposed to lower labour costs) and to more efficient utilization of energy (rather than to lower energy costs).

The Community steel industry must be able to compete technologically if it is to remain viable. Over the next ten years emphasis must be placed on putting right past mistakes. This calls for technological improvements to ensure that the Community iron and steel industry can remain competitive and keep pace with concurrent advances made by its competitors abroad.

One of the prime objectives will be to supplement the reorganization and modernization programmes currently in operation with research and development work on improved production methods. These efforts should focus on making optimum use of energy and developing more advanced production methods and technology in which labour costs will account for a smaller proportion of the total.

But the R&D work cannot be confined to production methods alone. Pressure from dynamic industries has led to increasing use of steel substitutes. The Community steel industry must not forget that quality, sophistication, efficiency and marketing should play a key role in its efforts to stop the rot and in its plans to corner the new markets opened up by the development of new technologies in certain industries.

R&D will therefore have to operate on two fronts if it is to provide adequate support for the rationalization and reorganization programmes currently under way.

The ECSC steel programme can make a major contribution to the attainment of the joint research objectives by providing further support for a number of joint programmes in key areas. Past projects in such fields as continuous casting, alternative forms of energy, and the complex problems attaching to maritime structures have showed that this type of Community action is not only along the right lines but is also effective and of general benefit. Concentration of effort is an essential prerequisite for efficient use of the available financial resources with a view to meeting the technological needs of the steel industry throughout the Community.

Coal research

Prices for petroleum products have been rising steadily and there are no immediate prospects of this stopping.

Accordingly, both the European Council meeting in Venice and the summit meeting of the industrialized countries recommended cuts in oil imports, the introduction of energy-saving schemes and the development of alternative sources of energy coupled with intensified use of coal for power generation and in industry.

The Commission too has frequently made its viewpoint clear, most recently in its new medium-term guidelines for technical coal research*. It feels that research is one way of improving the position of the Community coal industry. But despite the progress made, the industry continues to encounter many grave difficulties due to labour problems, the diversification and exhaustion of coal seams, the increasing depth of the workings and so on.

Today mining engineering research is concentrating on the winning of coal, roadway drivage, outbye operations underground, measures to combat firedamp and, finally, rock pressure. Progress is also being made in the application of modern management techniques aimed at more rational organization of the mines which, in turn, will help increase yield.

*OJ No C 94, 17 April 1980.

Research and development work has also been stepped up in the field of product treatment in preparation plants, where the rapid spread of modern methods and automation has assumed major importance for the industry.

Since coking plants are among the coal industry's main customers much research has been devoted to increasing the yield and capacity of coking plants, to improving the quality of steel plant coke and to tackling the associated environmental problems.

Finally, product upgrading and research into new methods of converting solid fuels into hydrocarbons are highly relevant in the present energy situation.

The 1981 ECSC coal research programme will cover the following topics:

Mining engineering

- Development work
- Firedamp, ventilation and rock pressure
- Winning and working
- Outbye operations underground
- Modern management techniques.

Coal beneficiation

- Preparation of coal
- Coking
- Physical and chemical upgrading and underwater methods.

Social research

The broad lines of social research in 1981 are set out below.

Two new research programmes will be launched during the year.

- (i) the fourth programme on ergonomics, which was approved on 3 September 1980. A total of 13 million EUA has been earmarked for this programme, which will run for five years. It follows on from earlier programmes on ergonomics and will concentrate on developing ways of putting previous findings to practical use.
- (ii) the programme on the control of air pollution in ECSC plants, which has been in preparation throughout 1980.

The mining safety programme will enter its final year in 1981. Since further research is urgently needed in this sector, in 1980 the Commission decided to prepare a second programme to take over from the first one at the end of 1981.

So far there is no social research department specializing in safety in the steel industry. This research is concerned more with accident prevention than with medical or ergonomic research, which is covered by the above programmes.

Steel producers in the Community have asked that appropriations be made available in 1981 to make good this shortcoming and provide for appropriate research into ways of improving accident prevention in steelwork. There are plans to make a start on this work in 1981.

This research would also be a logical extension of the work of the General Commission on Safety and Health in the Iron and Steel Industry, which, until now, has aimed at providing a forum in which experts can discuss their experiences with a view to furthering occupational safety.

To sum up, the ECSC social research programme for 1981 will cover the following topics:

- air pollution in ECSC plants
- ergonomics
- mine safety
- industrial health in coal mines
- pollution control in the steel industry
- safety in the steel industry.

CHAPTER B 4: AIDS IN THE FORM OF INTEREST RELIEF GRANTS

1. Legal basis and description of the operation

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

The ECSC may use its own resources to provide interest relief on certain types of loan. The relief is calculated in EUA at a rate and for a term fixed by the Commission. It currently stands at 3% over five 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 estimates as regards applications break down as follows:

m EUA

Heading	Sector	Aids applied for
B.4.1	Investment	* 19
B.4.2	Conversion	45
	TOTAL	64

Explanation

ECSC loans with interest relief are the principal financial instruments for promoting priority investments, particularly those connected with creating jobs for former ECSC workers and with meeting the requirements of the coal and steel industries.

Investments

In the investment field, the chief aim of loans with interest relief is the structural improvement and rationalization of the ECSC industries. The criteria for granting relief are as follows:

- (i) environment: interest relief only for exceptionally heavy capital expenditure on existing plant, and for pilot schemes in new plant (OJ No C 146, 25 November 1974);
- (ii) research and training centres, and the elimination of bottlenecks: relief in the latter sector has been limited to investment to remedy the shortage of coking coal (OJ No C 73, 18 June 1970);
- (iii) stabilization of coal production: relief is limited to investment in shafts, underground workings and haulage and winding equipment (OJ No C 79, 29 March 1980);
- (iv) restructuring: interest relief may be granted for those investments that are of greatest value for restructuring the Community iron and steel industry and re-establishing its long-term competitiveness (OJ No C 174, 22 July 1977).

However, the requirements recorded for 1981 relate solely to the criteria published in 1970 (13 million EUA) and 1980 (6 million EUA). In an attempt to cut back spending to an absolute minimum the Commission has decided not to grant interest relief for restructuring the iron and steel industry in 1981 for the reasons set out in Chapter III.

Redevelopment

Redevelopment loans are granted to firms or public bodies which encourage investments creating new jobs in regions hit by declining employment in the coal and steel industries.

The guidelines drawn up by the Commission for granting these loans are published in OJ No C 178, 27 July 1977. They have since been changed slightly (OJ No C 82, 29 March 1979, p. 8) to tighten up the rules for global loans, which have proved a very effective job creation instrument.

The maximum loan eligible for interest relief at the moment is 20 000 ECU per new job. When recruiting, the recipients give priority to former ECSC workers.

This programme is designed to help provide jobs for workers formerly engaged in the Community's iron and steel or coal industries and thereby to meet one of the Commission's basic obligations under Article 56(2a) of the ECSC Treaty.

In 1981 - as in previous years - priority will have to be given to the redevelopment still needed in the steel industry.

The Commission is working along the same lines as the central and regional authorities in the Member States. It has stepped up the number of redevelopment loans granted from nine (eight direct and one global) in 1977 to 25 (nineteen direct and six global) in 1979. A total of 23 loans (fifteen direct and eight global) were approved during the first seven months of 1980.

But despite these efforts there is a long way to go. The number of jobs lost in the Community is still high. Present estimates suggest that some 150 000 jobs will be lost in 1980 as a result of redevelopment in the steel industry, about a third of them being in the United Kingdom.

Consequently, while it is appreciated that there are limits to what the Commission can do in the way of redevelopment, it should in practice be possible, given the magnitude of the problem, for the Community to grant loans to provide 15 000 replacement jobs in 1981. In order to reach this modest target loans would have to total 300 m EUA, with interest relief grants amounting to 45 m EUA.

CHAPTER B 5:- AIDS UNDER ARTICLE 95 OF THE ECSC TREATY (COKING COAL AND COKE FOR THE STEEL INDUSTRY)

1) Legal basis and description of the 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, 15 September 1973), as last amended by Decision 3058/79/ECSC of 19 December 1979 (OJ No L 344, 31 December 1979).

The ECSC makes a lump-sum contribution to a special fund, administered by the Commission, for subsidizing intra-Community sales of Community coking coal intended for the iron and steel industry. The fund is financed by the Community, the Member States and the steel industry.

2) Type and breakdown of requirements

Provision for a lump-sum contribution of 6 m EUA to the fund (the ECSC annual contribution).

Community aid may be granted in respect of a maximum amount of 47 m EUA, corresponding to 15 million tonnes of coking coal per annum. If trade drops below the 15 million tonne limit, the subsidies required will be reduced and will be drawn first from the Community's contribution and the 23 m EUA contributed by the steel industry and then from the 24 m EUA paid in by the Member States.

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 for the Community's iron and steel industry, and also to enable the coal and the coke derived therefrom 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 necessary to have an aid system which takes account of the fact that the question of Community coking coal production concerns all the Member States. Under the aid system, aids to production and sales in the producer country are financed by that country; aids to intra-Community sales are financed at Community level, the cost being shared by the steel industry, the Member States and the ECSC.

2. Requirements not entered in the budget: loans for financing subsidized housing

In addition to the requirements to be financed by non-repayable grants from the year's resources, there is the ECSC housing subsidy scheme, which has been in operation since 1955.

Forecasts for this programme are included in this aide-mémoire to complete the picture of all ECSC interventions for 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 the 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 from investments and from loans against own funds.

ECSC intervention takes the form of reduced-interest loans, and eases the cost of financing housing by adding the funds lent by the Community to resources provided nationally.

2) Type and breakdown of requirements

Grant of long-term 1% interest-rate loans to the responsible national bodies.

The Commission Decision of 29 June 1979 on the ninth subsidized housing programme (1979-83) allocates the sum of 30 m EUA for the first phase of the programme (1979-81), which averages out at 10 m EUA a year. An additional one million EUA has, however, been allocated for 1981 to cover any additional requirements such as those which might arise as a result of Greek accession to the Community on 1 January 1981.

3) Explanation

This scheme is intended to subsidize the following projects:

- (i) housing linked with industrial reorganization in the traditional steel centres and in those coalfields where production is to be increased;
- (ii) housing for labour transferred to the new coastal steelworks;
- (iii) specific solutions for migrant workers, employees with special skills and persons employed in arduous tasks;
- (iv) housing to be modernized as part of urban renewal in steel and mining districts.

The scheme is both in the interest of workers, since it alleviates the effects of price increases and high interest rates, and of benefit to the industry, since it facilitates reorganization.

The number of dwellings subsidized by means of ECSC loans at 1 January 1980 stood at 165 511.

3. Summary of requirements reported

Total requirements reported therefore amount to 249 m EUA to be financed under the operational budget, plus 11 m EUA in the form of below-the-line loans at low interest rates for the building of subsidized housing. The figures for requirements reported are summarized in Annex D, in the "applications" column.

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B. ORDINARY RESOURCES AVAILABLE

1. Resources for the financial year

CHAPTER R 1:- GENERAL RESOURCES

TITLE R 1.1: Levy

1. Legal basis and description

Legal basis:

- Articles 49 and 50 of the ECSC Treaty
- Decisions 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.

2. Type and breakdown

Levy resources are the sums owing, and duly established, in the form of levies payable on output in the 1981 financial year and calculated on the basis of the production declarations made by the undertakings.

3. Explanation

The latest estimates of the average values which serve as the basis for calculating the levies suggest that the figures for the 1981 financial year, which relate to the reference period from 1 July 1979 to 30 June 1980, will be some 1% higher in the case of coal and roughly 8% for steel than the figures for 1980.

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.

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

Product	Production forecasts on which the levy is calculated million tonnes	One levy "point" in m EUA
Brown coal briquettes and semi-coke derived from brown coal	6.6	0.02
Hard coal of all categories	199.6	1.04
Coal - total		1.06
Pig iron other than that used for making ingots	4.4	0.05
Steel in ingots	128.0	2.09
Finished products	99.0	0.70
Steel total		2.84
GRAND TOTAL		3.90

TITLE R 1.2: Interest: other headings

1. Legal basis and description

Resources deriving from income on investments and on loans against non-borrowed funds will be determined when the Commission adopts the balance sheet at 31 December 1980. Under its Decision of 30 April 1975, the Commission enters in the budget the interest available from the previous financial year.

2. Type and breakdown

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

Titles	Heading	m EJA
R 1.2	Interest on investments and loans against non-borrowed funds	40
R 1.3	Fines and late payment surcharges	token entry
R 1.4	Miscellaneous revenue	token entry

3. Explanation

The figure for interest revenue is based on an estimate of the resources which the Commission will be in a position to release when it adopts the balance sheet at 31 December 1980.

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

1. Legal basis and description

The provisions created in response to Commission aid decisions must be given tangible form within a reasonable period of time by the contracting of legal commitments.

The Commission's Internal Rules for the drawing up and implementation of the ECSC operational budget therefore provide that in the exceptional event of undue delay at this stage the provisions will be cancelled.

The Rules also provide that once all parties have discharged their obligations under the legal commitment, any remaining part of the provision 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 1981.

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 1980

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 entered in the budget

Provision has been made for the following resources to cover requirements for the construction of subsidized housing:

- repayments on earlier loans (8 m EUA);
- a part of the special reserve and of the former ECSC pension fund (3 m EUA).

The allocation to the special reserve of the additional resources required will be confirmed when the Commission adopts the balance sheet at 31 December 1980.

3. Summary of possible ordinary resources available for 1981

The estimates of traditional resources other than levies amount to 42 m EUA (interest available = 40 m EUA; cancellations = 2 m EUA). As the yield from a levy rate of 0.01% has been estimated at 3.9 m EUA, the yield obtained from levies can be estimated at 120 m EUA on the basis of the current rate of 0.31%. The total ordinary resources available for 1981, assuming that the levy rate remains unchanged, is estimated at 162 m EUA. The estimated resources are summarized in Annex D in the section on "resources".

III. DRAFT 1981 OPERATING BUDGET

A. COMMISSION APPROACH

The thinking behind the Commission's approach is described below.

Apart from a special arrangement for using the general budget to finance exceptional social requirements generated by restructuring in the iron and steel industry, the Commission has no intention of using special financing arrangements under the 1981 ECSC Budget, in particular, it does not intend to ask the Member States for special contributions. This is not because an increase in ECSC funds is not desirable or necessary, but because the increase so far obtained by this means (28 million EUA per year) has not been adequate to justify continued recourse to what is in the last analysis an unorthodox and hazardous procedure.

This being so, and since applications for assistance from the 1981 Budget are more than 54% in excess of the funds available (assuming an unchanged 0.31% rate of levy), the Commission does not feel that it can propose a reduced rate, even though it is aware that those contributing would like it to do so in view of the present circumstances. However, while the levy in question is an additional burden on firms at a time when many of them are experiencing serious financial difficulties, the fact remains that this tax of quite marginal volume provides the ECSC with the means to finance a whole range of essential operational aid schemes which all benefit firms and workers in the coal and steel industries. What is more, the Institution's financial activities, and particularly its credit rating on the money markets, depend inter alia on its continued power to raise taxes.

Although the Commission regards any reduction in the rate of levy as irreconcilable with its proven financial requirements, nevertheless it agrees that there is no justification for increasing it.

Consequently, allocations for operational assistance in 1981 will be kept within the bounds of the amount available on the basis of the present rate, i.e. 162 million EUA (see II.B.3 above).

B. FINANCING PROPOSALS

A breakdown of the Commission's proposals concerning the 1981 operating budget is given in Annex D and has been arrived at as follows:

- (a) total resources amount to 162 million EUA;
- (b) irreducible requirements total 86 million EUA, viz:
 - . 5 million EUA to cover administrative expenses, fixed at this level pursuant to the Merger Treaty;
 - . 75 million EUA by way of resettlement aid under the current bilateral agreements between the Community and the Member States;
 - . 6 million EUA by way of aid for coking coal and steel plant coke, pursuant to a decision taken under Article 95 of the ECSC Treaty;
- (c) a minimum allocation to the same value as in 1980 - 44 million EUA - should be set aside for aid for research, which is a traditional aid measure provided for in the Treaty and favourably regarded on all sides.

It follows that the balance available for financing interest subsidies totals 32 million EUA. The Commission is aware of the need, in the present circumstances, to give priority to resettlement aid designed to create jobs in areas in which the ECSC industries are declining and has therefore geared its aid policy towards restructuring investments (Article 54 of the ECSC Treaty). Considerable progress now appears to have been made with restructuring measures, and this has pushed up the estimated budgetary expenditure for 1980 (Annex B). Now that this stage has been completed, it is no longer possible to provide assistance on a large scale from the inevitably slender cash resources available for the purpose without running the risk of becoming frankly discriminatory in the selection of recipients.

This being so, the Commission has decided to forgo this type of aid in 1981 preferring to confine interest subsidies on investment by ECSC undertakings to cases involving the stabilization of coal production and cases covered by the criteria drawn up in 1970 and 1974 (notably to encourage investments designed to remedy the shortage of coking coal), and then only as far as funds allow.

The Commission therefore proposes to allocate 25 million EUA to conversion aid and 7 million EUA to aid to investments.

To conclude, the Commission proposes to adopt the 1981 ECSC operating budget totalling 162 million EUA, broken down as shown in Annex D.

Consequently, it proposes to maintain the 0.31% rate of levy.

C. DRAFT BUDGET

The Commission's draft budget of 162 million EUA is set out in Annex D.

IMPLEMENTATION OF THE ECSC OPERATIONAL BUDGET FOR 1979

REQUIREMENTS	BUDGET FIGURES ¹	FINAL FIGURES	RESOURCES	BUDGET FIGURES	FINAL FIGURES
OPERATIONS TO BE FINANCED FROM CURRENT RESOURCES (NON-REPAYABLE)			RESOURCES OF THE FINANCIAL YEAR		
1. Administrative expenditure	5	5	1. Current resources	103	103.2
			1.1 Levy yield (at 0.29%)		
			1.2 Interest on investments and on loans from non-borrowed funds	18	18
			1.3 Fines and surcharges for delayed payment	token entry	0.8
			1.4 Miscellaneous	token entry	-
2. Aid to resettlement (Article 56)	67	67	2. Cancellation of commitments which will not now be implemented	8.7	10.1 token entry
3. Aid to research (Article 55)	46.5	46.7	3. Revaluation of assets and liabilities		
3.1 steel	(20)	(20)			
3.2 coal	(17)	(17)			
3.3 social	(9.5)	(9.7)			
4. Interest relief grants	47	47.2	4. Unused resources carried over from the financial year 1978	5.8	5.8
4.1 Article 54 - Investment	(20)	(21.7)			
4.2 Article 56 - Redevelopment	(27)	(25.5)			
5. Aid to coking coal and metallurgical coke (Article 95)	6	6	5. Drawing on contingency reserve	4	4
6. Effect in ECU of the changes in currency exchange rates on legal commitments to be carried out in currencies	-	0.2	6. Special contribution (Decision of the Member States of 9 April 1979)	28	28
			7. Deficit	4	2.2 ²
	171.5	172.1		171.5	172.1
OPERATIONS FINANCED WITH LOANS FROM NON-BORROWED FUNDS			ORIGIN OF NON-BORROWED FUNDS		
7. Social housing	17.5	17.8	8. Repayments on loans for social housing	7.5	7.8
			9. Special reserve and part of the former ECSC Pension Fund	10	10

¹ Commission's budget estimates at 24 October 1979.

² Covered from interest revenue in 1979.

**FORECAST OUTTURN OF THE
ECSC OPERATIONAL BUDGET FOR 1980**

ANNEX B

(In m ECU)

REQUIREMENTS	Budget figure	Estimated rate of implementation	RESOURCES	Budget figure	Estimated rate of implementation
OPERATIONS TO BE FINANCED FROM CURRENT RESOURCES (NON-REPAYABLE)			RESOURCES FOR THE FINANCIAL YEAR		
1. Administrative expenditure	5	5	1. Current resources	117	116,5
2. Aid to resettlement (Article 56)	67	67	1.1 Levy yield at 0,31%		
3. Aid to research (Article 55)	44	44	1.2 Interest on investments and on loans from non-borrowed funds	23	23
3.1 steel	(19)	(19)	1.3 Fines and surcharges for delayed payment	token entry	0,9
3.2 coal	(16)	(16)	1.4 Miscellaneous	token entry	0,1
3.3 social	(9)	(9)	2. Cancellation of commitments which will probably not be implemented	5	5
4. Interest relief grants	66	61,5	3. Revaluation of assets and liabilities	token entry	-
4.1 investment (Article 54)	(23)	(33)	4. Unused resources carried over from the 1979 financial year	token entry	-
4.2 redevelopment (Article 56)	(43)	(28,5)	5. Special contribution under the Decision of the Member States of 18 March 1980	43	28
5. Aid to coking coal and metallurgical coke (Article 95)	6	6	6. Drawing on contingency reserve	-	10
OPERATIONS FINANCED WITH LOANS FROM NON-BORROWED FUNDS			ORIGIN OF NON-BORROWED FUNDS		
5. Social housing	10	10	7. Repayments on loans for social housing	7	7,5
			8. Special reserve and part of the former ECSC Pension Fund	3	2,5
	188	183,5		188	183,5

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 1980 (provisional estimate)

Product	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	2.2	0.2
All types of hard coal	98.6	13.8
Total for coal		14.0
Pig iron other than that required for the manufacture of ingots	2.2	0.8
Steel ingots	66.0	32.4
Finished products	51.0	11.2
Total for steel		44.4
GRAND TOTAL		58.4

DRAFT ECSC OPERATIONAL BUDGET FOR 1981

(in m ECU)

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	120
2. Aid to resettlement (Article 56)	75	75	1.1 Levy yield at 0.31%	
3. Aid to research (Article 55)	99	44	1.2 Interest on investments and on loans from non-borrowed funds	40
3.1 steel	(54)	(19)	1.3 Fines and late payment surcharges	token entry
3.2 coal	(33)	(16)	1.4 Miscellaneous	token entry
3.3 social	(12)	(9)	2. Cancellation of commitments which will probably not be implemented	2
4. Interest relief grants	64	32	3. Revaluation of assets and liabilities	token entry
4.1 Investment (Article 54)	(19)	(7)	4. Unused resources carried over from 1980	token entry
4.2 Redevelopment (Article 56)	(45)	(25)	5. Extraordinary receipts	-
5. Aid to coking coal and metallurgical coke (Article 95)	6	6	6. Drawing on contingency reserve	
	249	162		162
OPERATIONS FINANCED WITH LOANS			ORIGIN OF NON-BORROWED FUNDS	
6. Social housing	11	11	7. Repayments on loans for social housing	8
			8. Special reserve and part of former ECSC Pension Fund	3

CONTROL OF ECSC ACTIVITIES

Annex E

In paragraph 16 of the Resolution of 22 May 1980 on the discharge to be given to the Commission in respect of the ECSC's financial and budgetary activities for the financial year 1977, Parliament asked the Commission to submit a report on "its concept of control and how it could be exercised" in the area covered by the ECSC Treaty. This is the Commission's reply to that request; it sets out to throw some light on the legislation currently in force in this field.

(a) Concept of control

Since ECSC administrative expenditure was lumped together with the administrative expenditure of the other Communities under Article 20 of the Merger Treaty, it has of course been subject to the same auditing measures as the rest of the general budget. There is therefore no need for any special remarks here.

As for the ECSC's other activities, the Treaty of 22 July 1975 amending certain financial provisions of the Treaties establishing the European Communities assigned the external audit functions provided for by the Treaty of Paris to the Court of Auditors. At the same time the Treaty of Paris places the responsibility for establishing adequate internal auditing procedures on the shoulders of the High Authority/Commission. On 2 August 1976 the Commission therefore adopted its internal rules for the drawing up and implementation of the operating budget of the ECSC, consolidating and supplementing the budgetary control procedures applied previously.

- External audit

The Commission made its views on external auditing clear to Parliament on 22 May 1980, at the plenary debate on the discharge for the 1977 financial year. Speaking for the Commission Mr Tugendhat said that the rules and practices which had been developed over the years, within the general framework of the Treaty of Paris and with the full support of Parliament, proved an effective means of auditing. Any formal revision of the Treaty of Paris, seeking to remodel the external auditing procedures on the lines of the EEC Treaty, would be both retrograde and a mistake.

He acknowledged that the powers enjoyed by the Court in the ECSC domain were rather different from those accorded to it in other fields. Under the ECSC Treaty the Court of Auditors did not have the right to carry out autonomous in situ visits in Member States, nor did Parliament have the right to give a discharge for the implementation of the ECSC operating budget.

Mr Tugendhat went on to say that practical arrangements had by 1977 produced a form of audit which included in situ checks and, at the time, was felt to be entirely satisfactory. He recalled that in the debate on the 1976 discharge in December 1977 both Parliament, through Mr Bangemann, and the Commission had expressed the hope that the style of work and the practices developed by the audit authority would serve as a model for the future.

The important point was that the powers bestowed on the Court by the Treaty of July 1975 were virtually identical with those previously enjoyed by the ECSC Auditor. The practice followed by the ECSC Auditor at that time was that he participated in checks organized in situ by the Commission. This practice had been completely abandoned by the Court of Auditors.

The Commission would be glad to pick up the threads and to facilitate the participation of officers of the Court in external audit visits arranged by its staff.

As far as Parliament's involvement was concerned, the Commission had accepted the claim of Parliament to grant its discharge for the financial management of the ECSC and Parliament had been exercising this right since 1976. As a result, the powers enjoyed by Parliament in this domain were identical with those exercised under the Treaty of Rome.

Internal audit

As regards operating expenditure, the Paris Treaty did not endow the ECSC with traditional budgetary structures and procedures in the classical, i.e. standard, universal and annual, mould.

The ECSC's financial activities can be divided into two major sectors: the first - the borrowing and lending service - is administered in accordance with normal banking practice, while the second - the granting of financial aids - is dealt with by the administrative departments of the Commission, notably, as regards financial matters, by one of the departments of the Directorate-General for Budgets. As the title "operating budget of the ECSC" suggests, the Directorate-General for Budgets has chosen to submit the figures as internal estimates.

From the earliest days of the ECSC, its budget, which is confined to aid financed from revenue from levies and interest payments, has been drawn up and implemented by a number of different departments in accordance with ad hoc decisions taken by the High Authority. The decision of 2 August 1976 consolidated and supplemented all previous practices in the "internal rules for the drawing up and implementation of the operating budget of the ECSC". While maintaining the ECSC's financial autonomy, these rules took over the essentials of the general budgetary principles of the Financial Regulation which governs the general budget.

Needless to say, in addition to the internal auditing carried out under the "internal rules", the limited staff of the Commission departments responsible for implementation of the operating budget carry out as many inspections (including in situ visits) as they can in order to ensure that their area is well managed. Comments on these checks, including those carried out by the service responsible for inspecting the levies, are recorded in the reports in the external auditor's notebooks.

(b) Auditing methods

The present situation can be summarized as follows:

The Financial Controller has to authorize in advance all proposals for commitment and subsequent payment from the ECSC operating budget.

Responsibility for external auditing of the granting of aid and the release of resources accruing from levies lies with the Court of Auditors.

This gives Parliament every guarantee that it in turn will be able to exercise the rights bestowed upon it and come to a fully informed judgment of the discharge to be granted to the High Authority.

There are two basic methods of controlling the ECSC's financial activities, viz:

- (i) The Court of Auditors keeps a permanent watch on financial operations. It receives all the requisite accounts and has permanent access to all the Commission's files. It has the right to accompany the Commission officials on any inspection visit it wishes.

The ECSC's balance sheets and statements of revenue and expenditure were subject to endorsement by the ECSC Auditor (up to 1976) and by the Court of Auditors (financial years 1977 and 1978). What is more, comments and observations on these documents have been published every year, in the ECSC Auditor's report for the years up to 1976 and in an Annex to the Annual Report on the Overall Financial Situation of the ECSC in 1977. Detailed accounts of individual operations and general conclusions have also been published.

- (ii) The Commission thought it would be wise if, from 1978 onwards, a firm of accountants of international repute were to audit its accounts in the way that, for example, the European Investment Bank does now. It has every intention of pursuing this policy in the financial years to come.

The Commission feels that, leaving aside the problems caused by staff shortages, the foregoing measures provide an adequate means of monitoring the ECSC's budgetary and financial activities.