

EUROPEAN COAL AND STEEL COMMUNITY

**Auditor's Report
for the year
1972**

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FOREWORD

- 1 - The duties of the Auditor to the ECSC were defined in article 78, paragraph 6 of the Treaty of Paris of 18 April 1951, establishing the European Coal and Steel Community.

Under article 21 of the treaty of merger of the Executives dated 8 April 1965, establishing a single Council and a Commission of the European Communities, some of the provisions were amended and adapted to the structure of the single Executive.

The result, briefly, is that the Auditor's responsibilities are now limited to auditing the ECSC's operating expenditure, whilst administrative expenditure is audited exclusively by the Audit Board.

The Auditor is thus required to examine and approve the ECSC's balance sheet and statement of revenues and expenditures, i.e. to exercise regular and permanent supervision of the Community's own resources (income from the levy, investment of funds and fines and interest on arrears); specific expenditure charged to own resources (incurred by the financing of technical and social research, re-adaptation and industrial redevelopment and reconversion), together with all borrowing and lending activities undertaken in fulfilment of the tasks assigned to the ECSC by the Paris Treaty.

- 2 - The Treaty of Paris established a virtually autonomous Community by conferring on the High Authority, now the Commission of the European Communities, both executive and legislative powers in the coal and steel sectors.

In the operating field covered by this report, the Community is authorised to pursue its policies using the financial resources it is able to raise through the twofold channels of its own funds and its ability to borrow funds.

One result of uniting executive and legislative powers in one Institution, which also holds the power of decision regarding both revenues and expenditures, was inevitably a lack of the detailed regulations which are generally speaking necessary to define limits of competence and relationships within an institution.

The outside auditor, in assessing the facts and the overall manage-

ment, must thus base his audit essentially on the criteria of good financial management, without, of course, neglecting to ensure that operations are in accordance with the provisions of the Treaty and materially in order. These criteria are determined, on the one hand, by banking practice (service of borrowings and loans) and, on the other hand, by a sensible administration of public finances (levy and budgetary expenditure).

The outside Auditor thus bases himself on regular and permanent observation of the Institution's day-to-day activities in drawing up his annual report, which is a both descriptive and critical document and which is sent to the Council, the Commission and, via the Commission, to the Assembly of the Parliament.

Although the Treaty contains no provision for examination of the report or a procedure to approve it, the Assembly increasingly discusses in depth the elements and opinions furnished by the Auditor in his annual report. This provides him with the critical guidance and political support which are essential if his work is to be used to maximum advantage.

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3 - This report contains two major sections, followed by general conclusions and three annexes.

Part one presents the ECSC's balance sheet, statement of revenues and expenditures, the allocation of the excess of revenues over expenditures at 31 December 1972, and the relevant analyses and notes. The statistical tables in this part show operations for the year and a breakdown of figures for the balance sheet and management account.

Part two gives details of the ground covered in our audit and our conclusions for some of the ECSC's large sectors of activity. Our observations are intended as constructive criticism and occasionally quote the statistics and comparative data which guided us in our audit. The areas of activity specifically controlled by the ECSC are nine in number: the levy, readaptation, research, reduced-interest loans granted under articles 54 and 56 of the Treaty, assistance to coking coal, administrative expenditure, borrowing, lending and guarantee operations, management and investment of funds and social housing construction.

In conclusion, our report sums up the most typical features of the ECSC's financial activity for the year 1972 and makes recommendations prompted by our main critical observations.

This report also comprises three annexes.

Annex I gives a summarized description of the financial mechanisms of the ECSC and the way in which they have evolved since the ECSC was established. As there is no systematic codification of this material, it seemed to us a good idea to group it under a separate annex, and we have dealt with it under eight headings: the levy, readaptation assistance, financial aid to technical and social research, borrowing, lending and guarantee operations, management and investment of funds, financial aid to social housing construction, to coking coal and coke, and the ECSC pension fund.

Annex II shows the compensation operations for iron and steel scrap, current settlement of which is handled by the ECSC. As the latter only acts as an intermediary in distributing the compensation resources, operations prompted by this procedure are not shown in the ECSC's balance sheet.

Annex III shows the changes in the balance sheets for 1971 and 1972 and traces the main elements of the Community's finances during the last few years.

4 - All amounts in this report (tables and text) are expressed in units of account of the European Monetary Agreement, rounded up or down to the nearest whole unit.

The following conversion rates were used as per 31 December 1972:

| | | |
|---------------------------|---------|----------------------------|
| one EMA unit of account = | 3.66 | Deutsche Mark (DM) |
| | 50 | Belgian francs (BFr) |
| | 5.55419 | French francs (FFr) |
| | 625 | Italian lire (Lit) |
| | 50 | Luxembourg francs (LFr) |
| | 3.62 | Dutch florins (Fl) |
| | 4.0841 | Swiss francs (SFr) |
| | 1.08571 | US dollars (\$) (1) |
| | 1 | European Monetary Unit (E) |

In the text which follows and the tables, the initials UA stand for a unit of account of the European Monetary Agreement (EMA).

In the interests of clarity, we use the abbreviation ECSC to indicate the Community carrying out its specific tasks under the Treaty of Paris and the term "Institution" when referring to the Commission of the European Communities acting on behalf of the High Authority as a Community Executive.

(1) New rate of conversion against the EMA unit applying since the parity of the US \$ was changed on 9 May 1972.

PART ONE

P A R T O N E

I N T R O D U C T I O N

- 5 - The three tables 33, 34 and 35 at the end of this report constitute a synopsis of the ECSC's financial position, with which the notes of part one are most particularly concerned.

For easier simultaneous comparison of the analysis and notes and the various items and figures shown in these three tables (balance sheet, management account and allocation of the excess to the various reserves and provisions) the three tables can be fully unfolded to the right, so that they are constantly visible to the reader of the report, whatever point he has reached.

- 6 - Part one of the report gives first of all notes and an analysis of the assets, liabilities and suspense account items in the ECSC financial statement (balance sheet) shown as table 33. The balance sheet total is 1 307 197 127 UA at 31 December 1972 as against 1 167 640 045 UA at 31 December 1971.

Secondly, there follow notes, in the order in which the items appear in table 34, and an analysis of the management account statement of revenues and expenditures and changes affecting the Community's net assets from one financial year to the next. The excess of revenues over expenditures for 1972 was 10 618 305 UA as compared with 5 035 940 UA for 1971, which represents an increase of some 100%. As regards the movements affecting the Community's net assets (table 34) in particular, the notes will be found chiefly in the analysis of the balance sheet items carried as liabilities (changes in the various provisions and reserves).

- 7 - The way in which the balance sheet (table 33) and management account (table 34) are presented in our report differs somewhat from that of the balance sheet and statement of revenues and expenditures officially published by the ECSC in the Official Journal of the European Communities. The reason for this is that from 1968 onwards the Institution, in an effort to simplify the procedure, made these two statements less unwieldy by grouping and arranging the earlier headings differently and attaching brief notes in appendix. We for our part, in our desire to provide ease of comparison with previous years and to make the balance sheet and statement of revenues and expenditures more explicit, have retained the official headings but supplemented them with those used in the earlier presentations.

NOTES TO THE BALANCE SHEETASSETSI. Disbursed loans

- 8 - The sum of 958 433 510 UA represents the total value of all loans granted out of borrowed funds and own funds - including the former ECSC pension fund - which had been paid out at 31 December 1972, net of redemptions already made.

Compared with the position for the preceding year, this represents an increase of 122 249 167 UA, accounted for as follows :

| | | |
|--|----------------|----------------------|
| - increases | | 195 936 255 UA |
| a) new loans or disbursements | 195 321 557 UA | |
| b) transfer of the exchange difference from the attribution in BFr of two loans converted in 1969 from funds borrowed in SFr but carrying an exchange guarantee from the credit body acting as agent | 614 698 UA | |
| - decreases | | 73 687 088 UA |
| a) redemptions | 55 901 065 UA | |
| b) net adjustment resulting from change in \$ parity | 17 786 023 UA | |
| | | <hr/> 122 249 167 UA |

In all cases, the projects approved were financed only partially out of loans granted by the ECSC.

9 - A. Loans granted out of borrowed funds

Loans out of borrowed funds procured by the ECSC from its inception up to 31 December 1972 total 1 192 982 240 UA (1), or 869 282 347 UA net of repayments.

At 31 December 1972, borrowed funds totalling 49 315 499 UA remained which had not been disbursed as loans. These included on the one hand the sum of 295 273 UA from two loans repaid ahead of schedule after the borrowers went bankrupt and, on the other hand, a sum of 718 802 UA due to a timing discrepancy between disbursement of the loans and receipt of the corresponding borrowing. The greater part of the balance, i.e. 40 983 607 UA, represents the entire product of a loan floated in December 1972. Also remaining are some 5 930 000 UA from loans floated in the second half of 1972, 430 000 UA from the first half of the year plus a residue of almost one million UA dating from August 1971.

Total loans at 31 December 1972 break down as follows into the following three types of financing :

- 10 - The first and largest receivers of loans are industrial investment projects submitted by Community enterprises under article 54 of the ECSC Treaty. Loans for this purpose were granted to the iron and steel industry (454 139 408 UA), coal mines and coking plants (97 240 650 UA), iron mines (9 694 044 UA), power stations (74 821 105 UA) and shipyards (6 906 080 UA).

Total loans were up by 91 135 338 UA and 39 new loans to a value of 147 337 409 UA were given to industrial investment projects.

- 11 - A second category of operations is the financing of social housing construction projects in the iron and steel and mining sector. In this case the loans are granted to industrial enterprises or organisations specializing in this field.

These projects are completed under programmes which are implemented over a number of years in the six countries of the Community.

All in all these loans decreased by 1 470 771 UA compared with the previous year, only one loan to the value of 924 000 UA having been extended. These projects are mainly financed by loans granted out of own funds (see next section "other loans").

- 12 - The third category of operations financed is that of industrial redevelopment and reconversion in areas particularly affected by closures of steelworks and pits. Compared with the previous year, total loans rose by 23 932 857 UA and 19 new loans to the value of 32 394 335 UA were granted.

Table 1 gives a breakdown, by country and use, of loans disbursed or still outstanding, after redemption or anticipated repayment, at 31 December 1972, together with movements affecting loan operations during the year. Changes shown in the table make allowance for currency adjustments.

(1) Includes new loans granted out of anticipated repayments of these loans

Table 1 : - LOANS GRANTED OUT OF BORROWED FUNDS- BREAKDOWN BY USE AND COUNTRY- OPERATIONS IN 1972 AND SUMS DISBURSED
AND OUTSTANDING AT 31.12.1972

| CATEGORIES COUNTRIES | Position at 31.12.1971 | | Operations in 1972 | | Position at 31.12.1972 | |
|--|------------------------|-------------|--------------------|---|------------------------|-------------|
| | Sums | Sums | Sums | Redemptions, anticipated repayments and accelerated redemptions | Sums | Sums |
| | disbursed | outstanding | loaned | | disbursed | outstanding |
| I. INDUSTRIAL INVESTMENTS (article 54 of the Treaty) | | | | | | |
| Germany | 408 336 521 | 264 264 324 | 34 680 146 | 17 812 280 | 443 016 667 | 281 132 190 |
| Belgium | 55 038 709 | 38 262 174 | 14 051 758 | 24 413 | 69 090 467 | 52 289 519 |
| France | 154 664 783 | 109 565 844 | 42 133 507 | 3 018 128 | 196 798 290 | 148 681 223 |
| Italy | 161 697 108 | 113 434 027 | 18 980 710 | 6 161 454 | 180 677 818 | 126 253 283 |
| Luxembourg | 3 000 000 | 2 000 000 | - 78 944 | - 78 944 | 2 921 056 | 2 000 000 |
| Netherlands | 25 335 370 | 24 139 579 | 9 501 281 | 1 195 789 | 34 836 651 | 32 445 071 |
| TOTAL | 808 072 491 | 551 665 948 | 119 268 458 | 28 133 120 | 927 340 949 | 642 801 286 |
| II. SOCIAL HOUSING | | | | | | |
| Germany | 14 474 713 | 6 434 574 | - | 734 445 | 14 474 713 | 5 700 129 |
| Belgium | 19 691 000 | 13 645 425 | 924 000 | 1 046 575 | 20 615 000 | 13 522 850 |
| Italy | 8 040 000 | 5 638 400 | - 78 944 | 388 256 | 7 961 056 | 5 171 200 |
| Luxembourg | 1 700 000 | 1 245 162 | - | 64 230 | 1 700 000 | 1 180 932 |
| Netherlands | 2 140 884 | 1 416 022 | - | 82 320 | 2 140 884 | 1 333 702 |
| TOTAL | 46 046 597 | 28 379 583 | 845 056 | 2 315 826 | 46 891 653 | 26 908 813 |
| III. REDEVELOPMENT AND RECONVERSION (article 56 of the Treaty) | | | | | | |
| Germany | 65 148 924 | 64 142 777 | 18 294 225 | 2 280 943 | 83 443 149 | 80 156 059 |
| Belgium | 33 929 949 | 30 300 127 | - 19 736 | 1 195 517 | 33 910 213 | 29 084 874 |
| France | 41 761 881 | 40 194 680 | 12 109 616 | 910 078 | 53 871 497 | 51 394 218 |
| Italy | 25 731 144 | 20 562 449 | -394 719 | 2 096 540 | 25 336 425 | 18 071 190 |
| Netherlands | 20 878 354 | 20 439 359 | 1 310 000 | 883 452 | 22 188 354 | 20 865 907 |
| TOTAL | 187 450 252 | 175 639 392 | 31 299 386 | 7 366 530 | 218 749 638 | 199 572 248 |
| SUM TOTAL | 1 041 569 340 | 755 684 923 | 151 412 900 | (1) 37 815 476 (2) | (3) 1 192 982 240 | 869 282 347 |
| <p>(1) This total takes account of new loans (181 579 744 UA), adjustment for loans disbursed exceptionally in BFR out of SFr borrowings (614 698 UA) and of the devaluation of \$ loans granted in previous years (- 30 781 542 UA).</p> <p>(2) This total takes account of anticipated repayments (327 627 UA), normal redemptions (50 483 368 UA) and of the devaluation of repayments made in \$ in previous years (- 12 995 519 UA).</p> <p>(3) This total comprises sums received as anticipated repayments and accelerated redemptions and made available as new loans.</p> | | | | | | |

13 - B. Other loans

These other loans, totalling 89 151 163 UA, were granted out of funds from three sources : funds from the special reserve to finance social housing construction (74 283 693 UA) and industrial redevelopment and reconversion (3 399 621 UA), own funds raised from the levy to finance readaptation (394 762 UA) and technical research (2 308 796 UA), and the former ECSC pension fund to finance the construction or purchase of housing by officials of the Communities.

14 - Loans granted out of the special reserve for the financing of social housing construction covered, on the one hand, seven normal programmes (plus one special programme), five of which have been completed and, on the other hand, three experimental building programmes two of which have also been completed.

During 1972, total loans of 1 280 000 UA were paid in Italy to finance social housing under the sixth building programme.

The first loans were granted under both the 7th normal programme and the experimental programme. They break down by country as follows :

| | | |
|------------------------------------|-------------|--------------|
| - for the normal programme : | France | 2 660 514 UA |
| | Germany | 1 900 820 UA |
| | Belgium | 276 000 UA |
| | Netherlands | 124 862 UA |
| - for the experimental programme : | Germany | 360 656 UA |
| | Netherlands | 160 221 UA |
| | Italy | 160 000 UA |

Table 2 gives a breakdown, by use and country, of sums disbursed and balances outstanding on loans granted out of the special reserve between 1 January and 31 December 1972. It will be noted that the new loans granted during this year were intended for social housing.

15 - Loans for research and readaptation granted out of own funds raised by the levy totalled 2 703 559 UA at 31 December 1972. No new loans were granted or disbursed in these two sectors during the year in question. Assistance in the research and readaptation sectors has for some years now been financed exclusively by outright grants (see notes on research and readaptation expenditure found directly from income from the levy). The only changes to the total were the result of scheduled repayments in the course of the year.

Loans for technical research in previous years were granted exclusively under the second experimental construction programme for social housing. These loans had been granted at a rate of interest considerably lower than those current on the market at the time, and were for a relatively long term (36 years).

Loans for readaptation were two remaining loans granted in previous years to finance the rehousing of workers displaced in France.

Table 3 shows the pattern of these loans - their amounts, countries in which they were given and the security obtained by the ECSC.

16 - Loans to officials of the European Communities granted out of the former ECSC pension fund for the purpose of building or purchasing family housing totalled 8 764 291 UA. The considerable increase as compared with the previous

Table 2 : - LOANS GRANTED OUT OF THE SPECIAL RESERVE- BREAKDOWN BY USE AND COUNTRY- OPERATIONS IN 1972 AND SUMS DISBURSEDAND OUTSTANDING AT 31.12.1972

| U S E A N D C O U N T R Y | Position at 31.12.1971 | | Operations in 1972 | | Position at 31.12.1972 | |
|---|------------------------|---------------------|--------------------|------------------------------|------------------------|---------------------|
| | Sums disbursed | Sums outstanding | Sums loaned | Redemptions or repayments | Sums disbursed | Sums outstanding |
| <u>SOCIAL HOUSING</u> | | | | | | |
| Germany | 50 331 465 | 41 569 334 | 2 261 475 | 1 388 593 | 52 592 940 | 42 442 216 |
| Belgium | 3 767 500 | 2 535 620 | 276 000 | 207 955 | 4 043 500 | 2 603 665 |
| France | 21 647 657 | 16 553 585 | 2 660 514 | 1 138 082 | 24 308 171 | 18 076 017 |
| Italy | 6 184 000 | 4 651 913 | 1 440 000 | 291 235 | 7 624 000 | 5 800 678 |
| Luxembourg | 2 008 000 | 1 612 031 | - | 84 786 | 2 008 000 | 1 527 245 |
| Netherlands | 4 832 596 | 3 730 927 | 285 083 | 182 138 | 5 117 679 | 3 833 872 |
| Total social housing | 88 771 218 | 70 653 410 | 6 923 072 | 3 292 789 | 95 694 290 | 74 283 693 |
| <u>REDEVELOPMENT AND RECONVERSION</u> | | | | | | |
| Germany | 1 290 911 | 896 671 | - | 243 871 | 1 290 911 | 652 800 |
| Belgium | 72 728 | 50 648 | - | 13 658 | 72 728 | 36 990 |
| France | 368 272 | 255 952 | - | 69 553 | 368 272 | 186 399 |
| Italy | 1 029 218 | 699 025 | - | 263 638 | 1 029 818 | 435 387 |
| Netherlands | 4 256 258 | 2 868 294 | - | 780 249 | 4 256 258 | 2 088 045 |
| Total redevelopment and reconversion | 7 017 987 | 4 770 590 | - | 1 370 969 | 7 017 987 | 3 399 621 |
| Sum total | 95 789 205 | 75 424 000 | 6 923 072 | 4 663 758 | 102 712 277 | 77 683 314 |

Table 3 : - LOANS FOR TECHNICAL RESEARCH (second experimental building programme) AND READAPTATION

- BREAKDOWN BY COUNTRY AND TYPE OF SECURITY OBTAINED

- OPERATION IN 1972 AND SUMS DISBURSED AND OUTSTANDING AT 31.12.1972

| C o u n t r y | Total loans disbursed | Loan balances outstanding at 31.12.1971 | Repayments in 1972 | Loan balances outstanding at 31.12.1972 | Type of security obtained |
|---------------------------|-----------------------|---|--------------------|---|---------------------------|
| <u>TECHNICAL RESEARCH</u> | | | | | |
| Germany | 1 414 918 | 1 151 487 | 38 579 | 1 112 908 | mortgage bonds |
| Belgium | 450 000 | 354 566 | 11 611 | 342 955 | government guarantee |
| France | 596 631 | 460 104 | 14 928 | 445 176 | surety |
| Italy | 225 000 | 172 678 | 5 654 | 167 024 | surety |
| Luxembourg | 75 000 | 65 136 | 2 068 | 63 068 | government guarantee |
| Netherlands | 239 337 | 183 680 | 6 015 | 177 665 | surety |
| Total | 3 000 886 | 2 387 651 | 78 855 | 2 308 796 | |
| <u>READAPTATION</u> | | | | | |
| France | 529 816 | 415 820 | 21 058 | 394 762 | government guarantee |
| SUM TOTAL | 3 530 702 | 2 803 471 | 99 913 | 2 703 558 | |

year (6 492 341 UA) is due to disbursement of the first loans granted under the new system which began operation at the end of 1971 (6 818 740 UA), less repayments on loans currently outstanding (326 399 UA).

Table 4 outlines operations under the two successive systems from one year to the other.

17 - II. Cash and banks

Under this heading (195 261 249 UA) the ECSC has grouped all the cash assets it holds in current accounts (20 365 070 UA) and various fixed deposits (174 896 179 UA).

The decrease in this item as against last year (- 13 779 124 UA) is due to the carrying under a different balance sheet heading (short and medium-term investments) of sums hitherto shown there. Sums at banks are held in a hundred or so banks in the Community countries, Switzerland, the United States and Great Britain.

Whilst the greater part of these funds account for the regular body of the ECSC's liquid assets, it will be noted that a sum of over 49 million UA, which is dealt with in detail under no. ... and represents the product of a large borrowing collected only recently, has not as yet been re-allocated as loans.

18 - III. Short and medium-term investments

This new balance sheet item (27 149 489 UA) comprises :

- 12 470 252 UA : a number of short and medium-term investments consisting essentially of securities pledged to the ECSC with bank guarantees and kept safe by those banks, and bonds and notes of less than five years, with staggered maturity dates.
- 14 679 237 UA : the product of ECSC debenture bonds redeemed by the ECSC before maturity and which were previously shown under "portfolio".

19 - IV. Portfolio

This item is shown on the balance sheet at its acquisition value of 54 504 754 UA and is down by 10 348 003 UA compared with the value as at 31 December 1971. This change is explained partly by purchases and sales of securities in the course of the year, but primarily by the fact that the amount of the ECSC debenture bonds held by the ECSC and always shown hitherto under this heading were transferred to the new item "short and medium-term investments".

In addition to initial, more diversified investments which were managed by banks, the portfolio is composed exclusively of bonds issued for the most part through the public sector and held for safe-keeping by the banks which acted as intermediaries in the purchase of them.

The proportion of total ECSC funds accounted for by the portfolio fell from 23.7 % to 19.7 % between 1971 and 1972.

Table 4 : - LOANS GRANTED OUT OF THE FORMER ECSC PENSION FUND

- BREAKDOWN BY SYSTEM

- SUMS DISBURSED AND OUTSTANDING BETWEEN 31.12.1971 AND 31.12.1972

| Loan system | Number of loans granted | Position at 31.12.1971 | | Operations in 1972 | | Position at 31.12.1972 | |
|-------------------------|-------------------------|------------------------|------------------|--------------------|------------|------------------------|------------------|
| | | Sums disbursed | Sums outstanding | Sums disbursed | Repayments | Sums disbursed | Sums outstanding |
| Old system (up to 1968) | 277 | 2 535 780 | 1 881 720 | - | 144 222 | 2 535 780 | 1 737 498 |
| New system (from 1971) | 821 | 390 230 | 390 230 | 6 818 740 | 182 177 | 7 208 970 | 7 026 793 |
| Sum total | 1 098 | 2 926 010 | 2 271 950 | 6 818 740 | 326 399 | 9 744 750 | 8 764 291 |

20 - V. Real estate

In addition to a token value of 1 UA for the ECSC's co-ownership of two properties purchased with the other Executives prior to the merger, this item represents the residual value after repayments of a property acquired in Washington and rented to the European Communities for use by their press office. The purchase value, including extensions carried out in 1972 and the incidence of the \$ adjustment, is 354 480 UA. The amount shown on the balance sheet is 120 142 UA after repayment of 114 339 UA in 1971 and 120 000 UA in 1972.

21 - VI. Recoverable issuing costs

This amount (17 580 347 UA) represents costs incurred by the ECSC at the time it borrows funds, less the repayments it makes annually. They are costs such as taking-firm fees, bank fees, redemption charges (discount), printing costs for securities and prospectuses, first listing costs, legal consultants' fees in connection with these operations, etc. They exclude the regular costs of servicing the loans contracted by the ECSC (interest and fees).

The ECSC shows recoverable issuing costs on its balance sheet as assets. At 31 December 1972 they totalled 37 070 645 UA. Given that the issuing costs of loans contracted up to 1961 under the Act of Pledge (5 720 085 UA) have been written off in full and in view of the other cumulative amounts written off (13 770 213 UA, including 3 051 330 UA in 1972), the total still outstanding is 17 580 347 UA.

Issuing costs incurred in 1972 (5 787 360 UA) were for seven borrowings, broken down as follows :

3 180 160 UA for the two loans floated in Lire; 1 331 967 UA for the two DM loans; 945 233 UA for the FFr loan and 330 000 UA for the two Lfr loans.

22 - VII. Miscellaneous

This item (28 486 477 UA) is 40 % higher than the previous year and comprises, on the one hand, two categories of debtors (in respect of the levy and payments due as loan service), plus, on the other hand, the sum held in deposit to pay coupons and bonds which are due but not yet presented.

23 - Debtors under the levy (3 884 502 UA) are sums due from the levy, payment of which has been deferred (1 076 210 UA). They also concern overdue payments (2 703 353 UA) and sums owing from bankrupt enterprises (104 939 UA). Over half the amount overdue is caused by a dispute over interpretation of the rules for assessment of the levy. The rest divides equally between a number of minor debtors in Italy and debtors in the other Community countries where the delays are purely fortuitous.

24 - Financial debtors were up 156 293 UA at 31 December 1972 as compared with the figure for 1971 (1 444 890 UA) which needs to be decreased by 614 698 UA to take account of the transfer mentioned under no. ...

This increase is accounted for principally (74 831 UA) by the failure of two enterprises which received loans and have been unable, as a result of difficulties, to make their repayments for a number of years (580 295 UA) to meet new payment deadlines.

The financial debtors also include the advance given to the European Communities out of ECSC funds to cover housing loans granted to officials (194 030 UA), fines owed by enterprises under the levy (3 200 UA) and the iron and steel scrap compensation system (32 496 UA), sums owed by the iron and steel scrap compensation office (36 175 UA), a number of debtors in respect of overdue loans (54 771 UA), rent and taxes owed by the European Communities for the property in Washington (44 103 UA), overdue payments of coupons under portfolios held for the ECSC by a number of financial organisations (39 634 UA) and real estate advances still to be recovered (1 781 UA).

- 25 - Sums earmarked for the payment of due coupons and redeemable bonds not yet presented (23 615 490 UA) are charged by the ECSC to sundry accounts receivable, given that they are effectively due but not immediately available, rather than included among liquid assets. The rise in this item of nearly 7 million UA compared with the previous year but also of a large number of late presentations of coupons.

26 - VIII. Accrued income

This heading (totalling 25 661 159 UA) groups interest and fees accrued but not yet due at 31 December 1972 (21 669 461 UA) together with sums declared for the levy (3 991 698 UA) for December 1972 but not yet paid (payment becomes due on the 25th of the first month following that of the production on which the amount payable is assessed).

The former amount (21 669 461 UA), relating to the ECSC's investments, loans and guarantee operations, follows from the entering as receipts of interest, guarantee fees and assistance payments (under articles 54 and 56 of the Treaty) which were accrued but not yet collected on 31 December 1972.

The second amount (3 991 698 UA) is not shown among the various accounts receivable because it is rather special in nature. Payment of this levy "debt" is in effect legally due after the date of the balance sheet, whilst the amount of this same debt is assessed on coal and steel production for the month of December 1972 which does come within the year of audit.

LIABILITIES

27 - I. Borrowings

Since inception the ECSC has contracted numerous loans both internationally and on various national markets to a nominal value of 1 213 778 167 UA. The balance outstanding at 31 December 1972, net of repayments, was 918 597 846 UA for loans actually paid out.

Total initial borrowings and balances outstanding at 31 December 1972 are broken down by country of issue in table 4. With the exception of those floated on the international market, the products were paid to the ECSC in the currency of the country of issue.

During 1972 the ECSC floated eight loans in LFr, FFr, SFr, DM, Lire and \$ to a total value of 185 555 249 UA.

As compared to the previous year, the loan total shown on the balance sheet is up by 116 891 139 UA. This is the result of an increase in borrowings collected (185 555 249 UA) and, on the other hand, of a decrease due to repayments and the parity readjustment of loans floated in \$ (68 664 110 UA).

The main characteristics of each of the new loans floated during 1972 are set out in table 6.

28 - II. Reserves

This heading contains :

- 29 - - the guarantee fund which has remained unchanged since 30 June 1956 at 100 000 000 UA. This fund is intended to cover any part of the service on loans contracted by the ECSC which cannot be met out of income on the loans it grants and to cover the extension of its guarantee to loans contracted by enterprises directly.
- 30 - - the special reserve, constituted out of receipts other than the levy (income on investments, fines and arrears interest, interest on loans granted out of own funds), was unchanged at 31 December 1972 at 87 000 000 UA. This reserve has been used exclusively for the granting of loans to finance social housing

Table 5 : - LOANS CONTRACTED BY THE ECSC- COUNTRY IN WHICH FLOATED- INITIAL BOPROWINGS AND BALANCES
OUTSTANDING AT 31.12.1972

| C o u n t r y | Initial borrowing (in UA) | Balance outstanding at 31.12.1972 (in UA) |
|----------------------|------------------------------|---|
| U.S.A. | 225 658 786 | 84 552 966 |
| Switzerland | 56 071 105 | 38 258 123 |
| Germany | 309 556 680 | 245 181 003 |
| Belgium | 55 000 000 | 49 864 000 |
| France | 54 013 276 | 47 261 616 |
| Italy | 184 000 000 | 174 400 000 |
| International market | 229 588 817 | 213 753 133 |
| Luxembourg | 42 500 000 | 35 982 254 |
| Netherlands | 57 389 503 | 29 344 751 |
| Total | 1 213 778 167 | 918 597 846 |

Table 6 : - BORROWINGS

- INDIVIDUAL CHARACTERISTICS OF NEW LOANS
FLOATED IN 1972

| Nature of loan | Date floated | Amounts in currency of issue | Amounts in UA | Interest per annum | Term (years) |
|--|--------------|---------------------------------|------------------|-----------------------|-----------------|
| Bank loan contracted in Switzerland | 4.1.1972 | SFr 50 000 000 | 12 242 599 | 6,25 % | 12 |
| Public loan floated in Italy | 13.1.1972 | Lire 20 000 000 000 | 32 000 000 | 7 % | 15 |
| Private loan contracted in Luxembourg | 3.3.1972 | LFr 300 000 000 | 6 000 000 | 6,75 % | 12 |
| Public loan floated on the international market | 24.3.1972 | FF 150 000 000 | 27 006 639 | 7,25 % | 15 |
| Public loan floated in Germany | 13.6.1972 | DM 100 000 000 | 27 322 404 | 6,5 % | 15 |
| Private loan contracted in Italy | 6.7.1972 | Lire 20 000 000 000 | 32 000 000 | 7 % | 15 |
| Public loan floated in Luxembourg | 23.11.1972 | LFr 400 000 000 | 8 000 000 | 6,75 % | 15 |
| Public loan floated in Germany | 12.12.1972 | DM 150 000 000 | 40 983 607 | 7 % | 15 |

construction programmes since 1970, when sums earmarked for other purposes (assistance to redevelopment and reconversion loans, assistance to coking coal, etc.) were withdrawn from it and entered under adequate provisions.

31 - III. Provisions

This balance sheet item comprises two types of provisions :

- those corresponding to legally binding commitments for financial assistance to readaptation (67 718 338 UA) and research (26 197 014 UA) and for interest reductions either on loans for industrial redevelopment and reconversion granted under article 56 of the Treaty (10 502 914 UA) or loans intended to finance investments under article 54 of the Treaty (6 196 707 UA).
- "other provisions" (18 008 491 UA) to cover sundry risks.

32 - The provision for the social readaptation of workers in the mining and steel industries comprises the sums earmarked and allocated to this assistance at 31 December 1972 (67 718 338 UA).

The net increase in this provision (665 860 UA) as compared with the position at 31 December 1971 is the result of new commitments approved and recorded during the year (15 387 650 UA as against 16 159 971 UA in 1971) and, on the other hand, of a decrease in expenditure for the year (14 518 629 UA) and the cancellation of loans no longer necessary (203 161 UA).

New commitments subscribed during the year, slightly down overall, break down by country as follows : France 77 %, Germany 20.3 %, Italy 2.4 % and Belgium and the Netherlands 0.3 %.

Table 7 shows details, by country and sector (coal and steel) of new assistance approved and amounts disbursed at 31 December 1972.

Table 8 indicates, by type, country and sector (coal and steel), the components of sums remaining in the provision at 31 December 1972.

Examination of all operations by the ECSC from inception up to 31 December 1972 reveals the following position :

| | |
|---|-----------------------|
| - net allocation (1) to the provision | 178 125 796 UA |
| - less : total expenditure by ECSC | <u>110 407 458 UA</u> |
| - amount of the provision at 31 December 1972 | 67 718 338 UA |

33 - The provision for technical research (26 197 014 UA) comprises sums earmarked for commitments contracted at 31 December 1972 towards various research institutions.

Compared to the position at 31 December 1971 this research provision shows a net rise of 3 143 197 UA. This is due to new research agreements concluded in 1972 (15 184 791 UA) and, on the other hand, to a decrease resulting from

(1) Total allocations, less total cancellations and transfers.

Table 7 : - READAPTATION ASSISTANCE- MOVEMENTS IN 1972

| Country and sector | No. of beneficiaries | New allocations | Financial operations (cancellation of credits - disbursements and repayments) | Change in the provision between 31.12.1971 and 31.12.1972 |
|--------------------|----------------------|-------------------|---|---|
| Germany | | | | |
| Coal | 8 853 | 2 948 087 | 4 042 667 | - 1 094 580 |
| Steel | 1 643 | 187 159 | 185 226 | + 1 933 |
| Belgium | | | | |
| Coal | - | 40 000 | 440 255 | - 400 255 |
| Steel | - | - | 49 404 | - 49 404 |
| France | | | | |
| Coal | 3 672 | 7 597 868 | 8 283 390 | - 685 522 |
| Steel | 3 589 | 4 254 536 | 461 198 | + 3 793 338 |
| Italy | | | | |
| Steel | 433 | 360 000 | 133 927 | + 226 073 |
| Netherlands | | | | |
| Coal | - | - | 1 122 523 | - 1 122 523 |
| Steel | - | - | 3 200 | - 3 200 |
| Total | 18 190 | 15 387 650 | 14 721 790 | + 665 860 |

Table 8 : - COMMITMENTS AUTHORIZED, DISBURSEMENTS AND READAPTATION
PROVISION AT 31.12.1972
- BREAKDOWN BY COUNTRY, SECTOR AND TYPE OF ASSISTANCE (1)

| | Commitments authorized | Disbursements (less repayments) | Amounts still covered in the provision |
|---------------------------------|------------------------|---------------------------------|--|
| <u>GERMANY</u> | | | |
| <u>Paragraph 23</u> | | | |
| Steel | 48 483 | 48 483 | - |
| Coal | 6 417 464 | 6 417 464 | - |
| <u>Article 56</u> | | | |
| Steel | 5 099 626 | 2 061 287 | 3 038 339 |
| Coal | 51 648 583 | 34 433 782 | 17 214 801 |
| GERMANY TOTAL | 63 214 156 | 42 961 016 | 20 253 140 |
| <u>BELGIUM</u> | | | |
| <u>Paragraph 23</u> | | | |
| Coal | 5 281 142 | 5 281 142 | - |
| <u>Article 56</u> | | | |
| Steel | 2 241 969 | 1 377 958 | 864 011 |
| Coal | 13 750 924 | 8 331 555 | 5 419 369 |
| <u>Article 95</u> | | | |
| Special allocation unemployment | 5 184 572 | 5 184 572 | - |
| Financing of stocks | 969 804 | 969 804 | - |
| BELGIUM TOTAL | 27 428 411 | 21 145 031 | 6 283 380 |
| <u>FRANCE</u> | | | |
| <u>Paragraph 23</u> | | | |
| Steel | 399 612 | 399 612 | - |
| Coal | 616 071 | 616 071 | - |
| <u>Article 56</u> | | | |
| Steel | 9 722 402 | 3 363 757 | 6 358 645 |
| Coal | 31 691 421 | 19 904 616 | 11 786 805 |
| <u>Article 95</u> | | | |
| Financing of stocks | 588 227 | 588 227 | - |
| FRANCE TOTAL | 43 017 733 | 24 872 283 | 18 145 450 |
| <u>ITALY</u> | | | |
| <u>Paragraph 23</u> | | | |
| Steel | 6 466 743 | 6 466 743 | - |
| Coal | 1 923 580 | 1 923 580 | - |
| <u>Article 56</u> | | | |
| Steel | 5 311 200 | 2 525 582 | 2 785 618 |
| Coal | 672 112 | 103 317 | 568 795 |
| ITALY TOTAL | 14 373 635 | 11 019 222 | 3 354 413 |
| <u>LUXEMBOURG</u> | | | |
| <u>Article 56</u> | | | |
| Steel | 12 648 | 12 648 | - |
| <u>NETHERLANDS</u> | | | |
| <u>Article 56</u> | | | |
| Steel | 276 243 | 64 803 | 211 440 |
| Coal | 29 765 194 | 10 294 679 | 19 470 515 |
| <u>Article 95</u> | | | |
| Financing of stocks | 37 776 | 37 776 | - |
| NETHERLANDS TOTAL | 30 079 213 | 10 397 258 | 19 681 955 |
| COMMUNITY | 178 125 796 | 110 407 458(2) | 67 718 338 |

(1) The "steel" sector also includes iron mines and steelworks coking plants. The "coal" sector also includes colliery coking plants.

(2) Of which 14 518 629 UA were disbursed in 1972.

expenditure for the year (11 638 790 UA) and the cancellation of credits still unused on completion of a number of research projects (402 804 UA).

New commitments subscribed during 1972 (15 184 791 UA) were divided among the steel sector (7 636 398 UA), the coal sector (3 856 551 UA), the social sector (3 083 330 UA) and the iron ore sector (608 512 UA).

Table 9 shows details, by sector and country, of new assistance approved in 1972 and amounts disbursed.

Table 10 gives a breakdown by sector of the component items of sums still covered in the provision at 31 December 1972.

Examination of all operations by the ECSC from inception up to 31 December 1972 reveals the following position :

| | |
|---|-----------------------|
| - net allocation (1) to the provision | 131 067 080 UA |
| - less : total expenditure by ECSC | <u>104 870 066 UA</u> |
| - amount of the provision at 31 December 1972 | 26 197 014 UA |

- 34 - The provision for industrial redevelopment and reconversion (article 56) (10 502 914 UA) is designed - by the granting of assistance credits - to reduce the interest on loans granted in this field out of borrowings. Compared with the position at 31 December 1971 this provision shows a net increase over the year of 519 379 UA. This is the result of a new allocation (3 047 336 UA) and, on the other hand, of a decrease due to assistance paid out in the course of the year (2 462 909 UA), an adjustment for the month of December 1971 (- 61 375 UA) and the adjustment required by the change in the \$ parity for assistance granted in \$ (- 3 674 UA).

Examination of all operations by the ECSC since this policy of interest reductions on loans for industrial redevelopment and reconversion was introduced (30 June 1967), reveals the following position :

| | |
|---|---------------------|
| - allocation to the provision (1) | 16 858 088 UA |
| - less : total assistance disbursed | <u>6 355 174 UA</u> |
| - amount of the provision at 31 December 1972 | 10 502 914 UA |

- 35 - The provision for assistance to investments (article 54) (6 196 707 UA) is designed - under the same financial terms as for industrial redevelopment and reconversion - to reduce the interest on investment loans granted under article 54 of the Treaty, subject to their fulfilment of certain requirements.

Compared with the previous year this provision showed a marked increase (+ 3 170 017 UA). This is due to a new allocation of 4 020 354 UA (1), part of which (1 553, 518 UA) corresponds to assistance to be paid under loan agreements approved but not yet signed and part to assistance to be paid under loan agreements which had been duly signed and the funds disbursed and, on the other hand, to a decrease caused by assistance disbursed during the year (850 337 UA).

(1) Less compensations or adjustments resulting from the change in parity of the \$.

Table 9 : - TECHNICAL AND SOCIAL RESEARCH
- MOVEMENTS IN 1972

| Sector | New allocations | Financial operations (cancellations of credits, payments and repayments) | Changes in the provision between 31.12.1971 and 31.12.1972 |
|---------------------------------------|-----------------|--|--|
| Steel | 7 613 880 | 5 305 869 | + 2 308 011 |
| Coal | 3 792 146 | 4 940 224 | - 1 148 078 |
| Iron ore | 608 512 | - | + 608 512 |
| Social | 3 083 226 | 1 707 046 | + 1 376 180 |
| Social housing | - | - | - |
| Making available of research findings | 87 027 | 88 455 | 1 428 |
| Total | 15 184 791 | 12 041 594 | + 3 143 197 |

Table 10 : - TECHNICAL, ECONOMIC AND SOCIAL RESEARCH

- OVERALL BREAKDOWN BY SECTOR OF FINANCIAL ASSISTANCE GRANTED,
DISBURSED AND HELD IN THE PROVISION AT 31.12.1972

| Sector in which conducted | Total assistance granted | Total disbursed | Total still held in the provision |
|---|--------------------------|----------------------------|-----------------------------------|
| <u>STEEL</u> | | | |
| - Completed projects | 12 428 729 | 12 428 729 | - |
| - Current projects | 33 562 265 | 25 715 069 | 7 847 196 |
| - Assistance to new projects granted in 1972 | 7 613 880 (1) | 379 407 | 7 234 473 |
| TOTAL STEEL | 53 604 874 | 38 523 205 | 15 081 669 |
| <u>ORES</u> | | | |
| - Completed projects | 4 801 366 | 4 801 366 | - |
| - Current projects | 575 787 | 296 319 | 279 468 |
| - Assistance to new projects granted in 1972 | 608 512 (1) | | 608 512 |
| TOTAL ORES | 5 985 665 | 5 097 685 | 887 980 |
| <u>COAL</u> | | | |
| - Completed projects | 24 505 101 | 24 505 101 | |
| - Current projects | 13 802 516 | 10 368 261 | 3 434 255 |
| - Assistance to new projects granted in 1972 | 3 454 304 (1) | 1 505 246 | 1 949 058 |
| TOTAL COAL | 41 761 921 | 36 378 608 | 5 383 313 |
| <u>INDUSTRIAL SAFETY, HEALTH AND MEDICINE</u> | | | |
| - Current projects | 24 326 202 | 21 789 856 | 2 536 346 |
| - Sums granted in 1972 | 3 044 720 ⁽¹⁾ | 883 913 | 2 160 807 |
| TOTAL INDUSTRIAL SAFETY, HEALTH AND MEDICINE | 27 370 922 | 22 673 769 | 4 697 153 |
| <u>EXPERIMENTAL SOCIAL HOUSING CONSTRUCTION (2)</u> | | | |
| - 1st programme | 995 838 | 995 838 | |
| - 2nd programme | 973 551 | 904 176 | 69 375 |
| TOTAL SOCIAL HOUSING | 1 969 389 | 1 900 014 | 69 375 |
| <u>MAKING AVAILABLE RESEARCH FINDINGS</u> | | | |
| - In previous years | 313 738 | 245 651 | 68 087 |
| - In 1972 | 60 571 ⁽²⁾ | 51 134 | 9 437 |
| TOTAL FOR MAKING AVAILABLE RESEARCH FINDINGS | 374 309 | 296 785 | 77 524 |
| SUM TOTAL | 131 067 080 | 104 870 066 ⁽³⁾ | 26 197 014 |
| <p>(1) Figures include both new commitments for the year (15 184 791 UA) and cancellation of credits extended in previous years (402 804 UA).</p> <p>(2) Part 2 of this report gives details of overall ECSC assistance to social housing construction.</p> <p>(3) Of which 11 638 790 UA were disbursed in 1972.</p> | | | |

Examination of all operations by the ECSC since this system of assistance to investments (article 54) was introduced in 1970 reveals the following position :

| | |
|---|-------------------|
| - allocation to the provision (1) | 7 181 919 UA |
| - less : total assistance disbursed | <u>985 212 UA</u> |
| - amount of the provision at 31 December 1972 | 6 196 707 UA |

- 36 - The other provisions (18 008 491 UA) consist of sums put to provision to cover requirements and sundry risks.

These are as follows :

- 37 - - the balance formed by the excess of revenues over expenditures from the service of loans granted and contracted and guarantees extended (9 885 133 UA).

This provision, totalling 9 960 481 UA at 31 December 1972, thus decreased by 75 348 UA. It should be noted that this decrease affects exclusively the provision for "doubtful debts in respect of borrowings" and is the result of partially abandoning claims against a defaulting borrower in accordance with earlier agreements.

This provision breaks down as follows :

- 38 - - the balance of the service of borrowings and corresponding loans secured under the Act of Pledge (614 000 UA), unchanged
- 39 - - the balance of the service of borrowings and corresponding "direct" loans or loans not secured under the Act of Pledge (5 521 546 UA)
- 40 - - the provision for doubtful debts in respect of "borrowings" (1 920 759 UA) which concerns, as previously, the total of interest and principal due from three enterprises receiving loans granted out of borrowed funds
- 41 - - the balance of the service of fees and income from guarantees given by the ECSC for loans contracted by enterprises of the Community (1 828 828 UA).
- 42 - - the provision for depreciation of the securities portfolio (1 350 000 UA). At 31 December 1972 this appears a mere eventuality, as the difference between the acquisition price and market value of the securities in the portfolio represents an appreciation of 850 620 UA.
- 43 - - the provision for compensation of borrowing costs (1 100 000 UA), constituted in 1972, is intended to offset the probable loss, estimated at 3 % and indicated in our previous report (2), on the \$ loan floated on the international market with a clause of reference to the LFr.
- 44 - - the provision for doubtful debts under the levy, constituted because recovery of certain debts under the levy appeared dubious, is unchanged from its position at 31 December 1971.

(1) Less compensations or adjustments resulting from the change in parity of the \$.

(2) 1971 report, no 114

- 45 - - the provision for compensation of the exchange loss on the accession contributions made (2 473 358 UA) was assessed on the market rate for the pound sterling and on the sums payable by the United Kingdom and Ireland in 1973.
- 46 - - the provision for currency risks (2 700 000 UA) was considerably higher than at 31 December 1971, when it totalled 431 131 UA.

47 - IV. Former pension fund (25 859 895 UA)

The increase in the former ECSC pension fund as compared with the position at 31 December 1971 (25 651 446 UA) is due to the allocation to this fund of interest payments from beneficiaries of loans granted out of the fund previously.

48 - V. Miscellaneous (24 538 494 UA)

This heading includes the sum of 23 615 625 UA payable on coupons due and redeemable bonds which are due but not yet presented and, on the other hand, a variety of accounts in credit to a total of 922 869 UA.

The first item concerns a provision constituted by the ECSC with its banks to enable them to service the loans it contracts. The contra is under the assets "miscellaneous" heading. The increase of almost 7 million UA in the sums entered under this heading as compared with the previous year has already been commented on under the assets heading "miscellaneous" under no. ...

The second item (922 869 UA) comprises mainly a provision for exchange differences on investments carrying a retransfer obligation (839 062 UA). The balance breaks down into provisions for fines being recovered (35 696 UA), sums deducted for insurance on loans granted to officials to finance their personal housing (17 581 UA), banking errors (29 825 UA) and \$ coupons which have become void (705 UA).

49 - VI. Accrued liabilities (22 396 879 UA)

This account, which includes the amount of interest and fees accrued but not due at 31 December 1972, increased by 4 514 024 UA in comparison with the previous year as a result of new loans contracted. Just as accrued income includes the figure resulting from the entering as receipts of interest and guarantee fees due to the ECSC, these accrued liabilities accordingly include the figure resulting from the entering as expenditure of interest and agents' fees payable by the Institution.

50 - VII. Unallocated balance

The sum of 180 549 UA shown under this heading represents all ECSC assets available at 31 December 1972 but not yet allocated. Compared with last year, this balance was down by 533 346 UA.

51 -

THE SUSPENSE ACCOUNTS

The suspense accounts shown below the balance sheet at 31 December 1972 totalled 68 571 711 UA for assets and liabilities together.

An amount of 44 434 343 UA represents the product of three borrowings for which taking-firm agreements were signed at the end of 1972 whilst the bonds were not due to be issued until 1973.

A second sum (24 137 368 UA) represents the total of commitments undertaken by the ECSC and the rights of recourse open to it as a result of its securing of loans contracted by Community enterprises under articles 51, 52 and 54 of the Treaty. In the present case, these were two loans granted to German enterprises. The security obtained by the ECSC in return was a mortgage on these enterprises' land and plant.

No new guarantees were given by the ECSC during 1972. Total loans secured by the ECSC decreased by the amount of scheduled repayments on the two loans (1 202 796 UA).

NOTES TO THE STATEMENT OF REVENUES AND EXPENDITURES
(MANAGEMENT ACCOUNT)

EXPENDITURES

I. Service of borrowings and guarantees (57 601 598 UA)

- 52 - A. Expenditures for the service of borrowings (57 589 393 UA) comprise interest due on the ECSC's borrowings (53 177 637 UA), fees to custodians and agent banks (938 868 UA), miscellaneous expenditure (421 559 UA) and repayments of recoverable issuing costs (3 051 329 UA).

Miscellaneous expenditure totalled 421 559 UA (compared with 419 386 UA for the previous year). Most of this expenditure arose from exchange differences (212 347 UA) on the \$ 20 million loan floated in Luxembourg in 1971, from the premium on the annual scheduled repayment (101 275 UA) on a French borrowing (12 % over the nominal value) and from the abandoning (75 348 UA), under the terms of an earlier agreement, of credits granted out of Dutch florin borrowings to an industrial enterprise which proved unable to repay. The ECSC waived part of the debts on terms similar to those governing all debts owed to it. At 31 December 1972 the accrued total of the debt abandoned by the Institution was 1 015 185 UA.

Repayments in 1972 of recoverable issuing costs for borrowings totalled 3 051 329 UA, or 15 % of all initial borrowing costs still to be repaid at 31.12.1972.

- 53 - B. Expenditure incurred by the service of guarantees (12 205 UA) was exclusively for fees due in the course of 1972 to financial intermediaries responsible for supervising the loan and guarantee dossiers.

- 54 - II. "Budgetary" expenditure (49 171 465 UA)

Under this heading we have placed not only the ECSC's share of the administrative expenditure of the Communities, expenditure on research, readaptation and assistance to coking coal, but also that incurred by the granting of interest reductions on redevelopment and reconversion loans (article 56 of the

Treaty) and investment loans (article 54). These are "operating" expenditures drawn from the ECSC's own funds in the context of the objectives of the Treaty, even if they are linked in the second instance to the ECSC's lending operations (reduction of interest rates on loans granted out of borrowed funds).

Expenditure for the main items named under this heading is broken down in detail in the tables which form part of the notes to the balance sheet.

- 55 - A. Administrative expenditure (18 000 000 UA) corresponds exactly to the ECSC's annual flat-rate contribution to the administrative budget of the Commission of the European Communities, as fixed when the treaty of merger of the Executives came into effect.
- 56 - B. Readaptation expenditure (14 518 629 UA) was somewhat lower (5.5 %) than the previous year. The percentage breakdown by country is as follows : France 60 %, Germany 28 %, Netherlands 8 %, Belgium 3 % and Italy 1 %.
- 57 - C. Research expenditure (11 638 790 UA) was 3.6 % higher than the previous year's figure. It breaks down as follows by sector of research :
- technical research, iron and steel 5 305 869 UA
 - research on industrial safety, health and medicine 1 668 540 UA
 - expenditure on the dissemination of research findings 61 999 UA
- 58 - D. Total assistance granted to reduce the interest on loans for industrial redevelopment and reconversion (article 56) rose from 2 099 202 UA in 1971 to 2 462 909 UA in 1972. For the first time the Institution granted assistance to an enterprise (82 650 UA) without tying this to a loan which it had itself granted.
- 59 - E. Assistance granted to reduce the interest on loans under article 54 of the Treaty totalled 850 337 UA in 1972 (compared with 134 875 UA in 1971) and was used to finance investments in coal and steel enterprises which fulfil certain specific requirements. In the internal accounts, the amount of this assistance, which is drawn from own funds, is credited to the loan service profit and loss account to offset the reduction in interest on the corresponding borrowings.
- 60 - F. Community assistance to coking coal (1 700 800 UA) comprises the Community contribution earmarked from 1970 to 1972 on the basis of the Commission's decision no 1/70. These disbursements relate to assistance for the years 1970 (40 000 UA), 1971 (583 500 UA) and 1972 (1 077 300 UA).

Examination of all such ECSC assistance operations since 1970 reveals the following position :

| Years | Estimated disbursements UA | Actual disbursements UA | Balance outstanding UA |
|-------|-------------------------------|----------------------------|---------------------------|
| 1970 | 3 400 000 | 3 400 000 | - |
| 1971 | 2 550 000 | 2 497 500 | 52 500 |
| 1972 | 1 700 000 | 1 077 300 | 622 700 |
| Total | 7 650 000 | 6 974 800 | 675 200 |

The only countries which receive this assistance are Germany and Belgium, which are the only countries exporting part of their coke production.

61 - III. Other expenditure (1 808 792 UA)

This other expenditure arises out of the ECSC's financial operations proper and comprises :

| | |
|--|--------------|
| - the adjustment resulting from the change in parity of the \$ made to ECSC assets held in \$ | 1 530 067 UA |
| - exchange differences resulting from the use of fixed exchange rates in the accounts whereas transfers from one currency to another are always based on the ruling rate | 124 874 UA |
| - the second repayment on the purchase price of the Washington property | 120 000 UA |
| - portfolio management costs | 33 456 UA |
| - various banking fees, including fees for the keeping of loan dossiers | 395 UA |

REVENUES

I. Service of loans and guarantees

62 - A. Revenue from the service of loans granted out of borrowed funds

(58 543 697 UA) includes interest levied on loans granted by the ECSC (50 799 550 UA), interest at the average liquid assets rate on borrowed funds received but not yet loaned (3 081 381 UA) and miscellaneous revenue (4 662 766 UA).

The rate of interest on loans granted out of borrowed funds is, in principle, standard, whatever the rate on the corresponding borrowings, but this rate may be changed by the Institution. Thus the rate on loans was set successively in 1972 at 8.25 % per annum up to 29 February 1972, at 7.75 % from 1 March and at 7.5 % from 13 July 1972. For certain types of loans granted to finance either industrial redevelopment and reconversion operations (article 56 of the Treaty) or industrial investment projects in the iron and steel or coalmining industries (article 54), the ECSC grants a temporary reduction (5 years) in the standard rate of interest. The rate was thus lowered in 1972 to 5.5 % per annum up to 29 February, 4.75 % from 1 March and 4.5 % from 13 July 1972. Loans granted to finance social housing construction are all given at the standard rate but are often combined with loans out of own funds which, being loaned at a low rate of interest, make the average rate a very moderate one.

Interest on borrowed funds not yet loaned (3 081 381 UA) was 4.8 % higher than in 1971 because these funds, not yet loaned at the end of the financial year, had themselves increased (49 315 499 UA).

Miscellaneous revenue, which increased from 3 461 617 UA in 1971 to 4 662 766 UA in 1972, consists mainly of the amount of assistance corresponding to the interest reduction on loans granted under articles 56 (2 462 909 UA) and 54 (850 337 UA) of the Treaty. The amount of this assistance is paid into miscellaneous revenue from the service of borrowings and loans, out of the Institution's own funds, to offset the decrease in interest revenue on loans granted as compared with the interest expenditure on loans contracted. Another large item of the miscellaneous revenue from the service of loans granted out of borrowed funds (1 277 122 UA) stems from the profit realised by the Institution on redemptions of ECSC debenture bonds.

- 63 - B. Guarantee fees are those received by the Institution in return for acting as surety for loans contracted by enterprises of the Community. Their total was lower than the previous year (121 949 UA compared with 129 703 UA in 1971), partly because no new guarantees were extended by the Institution in 1972 and partly because the amount of existing guaranteed commitments decreased.

64 - II. Income from the levy

Income from the levy in 1972 was 47 208 890 UA compared with 37 775 999 UA in 1971, i.e. up by 25 %. This marked increase over the past year is due both to a better economic climate in the steel sector and a rise in the average per ton values of the products subject to the levy, despite the fact that the rate of the levy was reduced from 0.30 % to 0.29 % as from 1 January 1972.

Receipts from the levy cover all sums declared for 1972, including those due on production for the month of December 1972 but not payable until 5 February 1973 at the latest.

Table 11 gives a breakdown, by country and group of products, of levy amounts declared and recorded in 1972 together with the percentage of the whole accounted for by each of the six countries for each group of products. The percentage of levy income from the coal sector is only 15.9 %, compared with 53 % when the ECSC began operations.

- 65 - The levy total outstanding at 31 December 1972 was 3 884 502 UA (overdue payments, deferments, sums owed by bankrupt enterprises) to which must be added those levy amounts declared for December 1972 but payable after 31 December 1972 (3 991 698 UA). These two items are held on the balance sheet under assets among, respectively, sundry debtors under the levy ("miscellaneous") and under accrued income.
- 66 - As a result of decisions taken by the ECSC in January 1959, a number of coalmining enterprises are authorized to defer payment of sums due under the levy. These decisions were prompted by "serious difficulties in marketing which, in several coalfields of the Community, have led to an exceptional pile-up of stocks of hard coal, coke derived from hard coal and hard coal briquettes". In such circumstances, no interest is charged and the amount of the levy is payable as from the 25th of the month following that in which the quantities held in stock have fallen again.

Table 12 shows changes in the position from 31 December 1971 to 31 December 1972 in the case of deferred payments collected.

Table 11 : - INCOME FROM THE LEVY

- BREAKDOWN BY GROUP OF PRODUCTS AND COUNTRY

- AMOUNTS DECLARED AND RECORDED IN THE ACCOUNTS IN 1972

| C o u n t r y | Coal | | Steel | | Levy total per country | |
|-----------------|-----------|-------|------------|-------|------------------------|-------|
| | Figures | % | Figures | % | Figures | % |
| Germany | 5 417 687 | 72,2 | 15 627 263 | 39,4 | 21 044 950 | 44,6 |
| Belgium | 506 586 | 6,8 | 4 946 942 | 12,4 | 5 453 528 | 11,6 |
| France | 1 434 431 | 19,1 | 8 066 571 | 20,3 | 9 501 002 | 20,1 |
| Italy | 7 163 | - | 7 410 274 | 18,7 | 7 417 437 | 15,7 |
| Luxembourg | - | - | 1 657 919 | 4,2 | 1 657 919 | 3,5 |
| Netherlands | 141 880 | 1,9 | 1 992 174 | 5,- | 2 134 054 | 4,5 |
| Community total | 7 507 747 | 100 % | 39 701 143 | 100 % | 47 208 890 | 100 % |

Table 12 : - INCOME FROM THE LEVY
 - CHANGES IN DEFERRED LEVY PAYMENTS FOR
QUANTITIES OF HARD COAL STOCKED

| Country | Deferred payments at 31.12.1971 | Changes between 1.1.1972 and 31.12.1972 | | Deferred payments at 31.12.1972 |
|-------------|---------------------------------|---|---------|---------------------------------|
| | | + | - | |
| Germany | 408 637 | 612 450 | 106 734 | 914 353 |
| Belgium | 293 | 1 488 | 1 191 | 689 |
| France | 121 370 | 77 684 | 48 910 | 150 144 |
| Netherlands | 8 604 | 7 567 | 5 147 | 11 024 |
| Community | 539 003 | 699 189 | 161 982 | 1 076 210 |

Levy payments deferred for quantities of hard coal stocked in the course of the year are not included or calculated in the levy total shown in table 15. On the other hand, deferred levy payments falling due during the year are of course included and attributed to the various periods of production.

III. Other revenue

67 -

This heading totals 13 325 623 UA and covers interest on bank deposits and portfolio (11 688 885 UA), interest on loans granted out of own funds (1 345 791 UA) and miscellaneous revenue (290 947 UA).

68 - - Revenues from bank deposits and portfolio were 11.2 % down on the figure for 1971. The annual average yield (1) overall for funds managed by the ECSC was 5.4 % in 1972 compared with 5.5 % for 1971. The reduced yield on ECSC investments in 1972 was due to the less favourable conditions prevailing on the money market in 1971.

Table 13 shows a breakdown by currency of revenue generated in 1972 by the ECSC's investments. This includes income from bank accounts and portfolio securities, together with the product of redemptions and sales of ECSC bonds.

In the case of revenues from bank accounts and investments maintained by the ECSC :

- the interest amounts shown include, as well as receipts during 1971,
- the accrued total pro rata at 31 December 1972 on fixed deposits and portfolio securities, from which must be deducted the interest accrued at 31 December 1971

- the revenues shown in table 13 are gross. Costs incurred by the ECSC's banking operations and the constitution and management of its portfolio (particularly in respect of the buying and selling of securities) are calculated separately under the heading "financial costs"
- a deduction of 2 531 611 UA has been made from the revenue total shown in table 13, to be charged to revenue from the service of loans granted out of borrowed funds. This figure represents the interest on borrowed funds which, not yet having been reallocated as loans, were included for the interim among the Institution's liquid assets.

69 - - Interest from loans granted out of own funds (1 345 791 UA) is 29 % higher than the previous year.

Loans granted out of own funds (chiefly the special reserve) are used to finance social housing construction. Some were given earlier to technical research, readaptation and industrial redevelopment and reconversion. All these loans, whether granted by themselves or in conjunction with others also drawn from own funds, are always made at a very low rate of interest (1 %) and for a fairly long term (up to 35 years).

70 - - Miscellaneous revenue (290 947 UA) comes essentially from large-scale exchange differences (248 662 UA compared with 89 453 UA in 1971) which, it should be recalled, are also found on the debit side under miscellaneous expenditure (124 874 UA), and the annual rent on the property in Washington due to the ECSC from the European Communities (42 000 UA). The balance consists of adjustments and roundings-off.

71 -

EXCESS OF REVENUES OVER EXPENDITURES

As shown in table 34 "management account", the net excess of revenues over expenditures in 1972 totalled 10 618 304 UA, compared with 5 035 940 UA in 1971. This surplus was allocated to the various provisions, and the relevant notes are given in the analysis of the balance sheet liabilities.

Table 35 shows changes in the allocation of overall assets managed by the ECSC (its own funds and the former ECSC pension fund) from 31 December 1971 to 31 December 1972. The figures give a synoptic picture of how the Institution's assets allocated to the provisions and reserves are broken down at 31 December 1972 and gives details of the transfers affecting these provisions and reserves during 1972.

As far as these particular movements are concerned, it will be seen that certain provisions or reserves in existence at 31 December 1971 were cancelled or reduced (shown by a dash in column 2) in the course of the year whilst other provisions were created or increased in 1972 by the partial or total transfer of funds previously held in reserves constituted earlier.

From this table it is apparent that the difference between revenues and expenditures for the period, i.e. the increase in ECSC assets (10 618 304 UA), was apportioned to the reserves and provisions as follows :

(1) Based on the arithmetical average for the financial assets of the ECSC during the year.

Table 13 : - INTEREST YIELDS AND INCOME ON INVESTMENTS
 - BREAKDOWN BY CURRENCY AND TYPE OF INCOME
DURING 1972

| Currency | Bank interest (current accounts and fixed deposits) | | Income from portfolio securities various | | Total per currency | |
|------------------|---|-------|--|-------|-----------------------|-------|
| | Figure | % | Figure | % | Figure | % |
| German Marks | 2 305 022 | 35,7 | 3 059 248 | 58,5 | 5 364 270 | 45,9 |
| Belgian francs | 404 591 | 6,3 | 291 602 | 5,6 | 696 193 | 6,- |
| French francs | 1 727 375 | 26,7 | 534 667 | 10,2 | 2 262 042 | 19,4 |
| Italian lire | 1 461 739 | 22,6 | 318 336 | 6,- | 1 780 075 | 15,2 |
| Luxbg. francs | 48 927 | 0,8 | - | - | 48 927 | 0,4 |
| Dutch florins | 321 175 | 5,- | 114 224 | 2,2 | 435 399 | 3,7 |
| Swiss francs | 32 423 | 0,5 | 6 812 | 0,1 | 39 235 | 0,3 |
| Pounds sterling | - 987 | - | - | - | - 987 | - |
| Units of account | - | - | 39 579 | 0,8 | 39 579 | 0,3 |
| US dollars | 156 745 | 2,4 | 867 407 | 16,6 | 1 024 152 | 8,8 |
| Totals | 6 457 010 | 100,- | 5 231 875 | 100,- | 11 688 885 | 100,- |

| | |
|---|----------------------|
| <u>Net increases</u> | <u>13 549 128 UA</u> |
| - in the provision for readaptation | 665 860 UA |
| - in the provision for research | 3 143 197 UA |
| - in the provision for assistance to loans (art. 56) | 519 378 UA |
| - in the provision for assistance to loans (art. 54) | 3 170 017 UA |
| - in the provision for compensation of borrowing costs | 1 100 000 UA |
| - in the provision for compensation of the exchange loss on accession contributions | 2 473 358 UA |
| - in the provision for currency risks | 2 268 869 UA |
| - in the former ECSC pension fund | 208 449 UA |
| <u>Net decreases</u> | <u>2 930 824 UA</u> |
| - in the provision "unspecified, awaiting allocation" | 1 646 130 UA |
| - in the provision for doubtful debts, borrowings | 75 348 UA |
| - in the provision for assistance to coke | 676 000 UA |
| - in the unallocated balance | 533 346 UA |

The net result is thus an increase of 10 618 304 UA, representing the increase in the assets of the ECSC, obtainable by subtracting column 3 from column 2 in table ...

PART TWO

P A R T T W O

REMARKS PROMPTED BY OUR 1972 AUDITING OPERATIONS

INTRODUCTION

72 - In all sectors of the ECSC's financial activity which are subject to our supervision we carried out either full or sample checks during and at the end of the year of audit.

During the year we followed the financial activities of the European Coal and Steel Community closely, receiving and checking the documents and vouchers which were sent to us regularly. These operations enabled us to exchange opinion with the competent bodies in the financial and authorizing sectors which in turn enabled us to make the critical and analytical observations outlined in the following chapters.

At the end of the financial year and in accordance with normal auditing procedure, we checked the balances in the general ledger against the figures of the balance sheet and management account and we satisfied ourselves that all assets and liabilities items shown in the financial statement were true and correct. We had also satisfied ourselves, by the same method, of the correctness of the interim financial statement as at 30 June 1972.

We also checked that the ECSC's expenditures, revenues and other financial operations were in order, correctly charged and in accordance with the provisions of the Treaty and decisions by competent bodies and, in the absence of express provisions, with the normal rules of financial management.

In this part of the report we indicate, for all categories of operations analysed and commented on, the nature and extent of the checks carried out by us during and at the end of the year, together with the remarks prompted by these checks.

INCOME FROM THE LEVY

73 - Extent of our audit

For income from the levy, which is the ECSC's largest single source of revenue, we conducted :

- checks on the vouchers annexed to the day-to-day bank statements and checks as to the correctness of bookkeeping entries for these funds. Since the documents are centralised at the accounting department, we were able to ensure that they tallied with the monthly returns submitted to the Levy Office;
- challenges of the balances owing from the individual enterprises, by comparing the figures kept by the levy department with those provided from the computer listings of the overall accounts department.

We also satisfied ourselves :

- that supervisory operations required under article 49 and 50 of the ECSC Treaty were in fact conducted and we examined the on-the-spot inspection reports compiled by the internal departments during 1972;
- that the Institution had taken due note of the auditors' findings in respect of corrections to incorrect or incomplete returns.

We gave particular attention to the position with regard to disputes between the ECSC and various enterprises concerning the levy and such solutions as were found.

Remarks

- 74 - As from 1 January 1972 the rate of the levy was fixed at 0.29 % of the values taken as the assessment basis instead of 0.30 % as was the case the year before. The new rate for 1972 was the result of a decision taken by the Institution (no. 2733/ECSC) on 15 December 1971 (1).

(1) *Official Journal of the European Communities* no. L 282/22 dated 23 December 1971.

Since 1972 the rate of the levy and the net levy per ton have been as indicated in table 14 for the six categories of products.

In its decision referred to above the Institution also readjusted the basis for assessment of the levy by changing, on the one hand, the average values of the various chargeable products and, on the other hand, by adjusting the figures in the table of deductions for consumption of products already charged at an earlier stage, to keep pace with technical developments. The average values were changed in implementation of article 3 of decision 2/52, whereby the scale must be readjusted whenever the annual survey of these values reveals a change of more than 10 % compared with those on which the scale applied in the previous year was based.

75 - Income from the levy was 5.7 million UA or 11 % higher than initially expected. Compared with the previous year it increased by 9.4 million UA, or 25 %.

The greater part of levy income has for some years now come from the iron and steel industry (39 701 143 UA). This share has steadily risen since the start of the coal crisis in 1958, whilst the part accounted for by coal (7 507 747 UA) continues to fall in proportion to the gradual decline in coal production.

Table 15 illustrates the changes in the proportion of total levy income accounted for by the coal and steel industries from the beginning of the ECSC's activities up to 1972.

The contribution for each sector (coal and steel) is expressed as a percentage for each year of the annual product of the levy.

Within the steel industry, considerable shifts are also discernible as a result of changes affecting the products subject to the levy. Thus the contribution of Basic Bessemer ingots which, up to 1961-1962, had accounted for over 28 % of total income from the levy on steel, fell to their present share of some 7 % whilst that of other ingots produced by more modern methods increased over the same period from 43 to 69 %. The proportion of total receipts from the levy on steel accounted for by finished products rose slightly over this period.

Table 16 shows the changes in the proportions of total receipts from the levy on steel accounted for by the four categories of steel products from inception of the ECSC up to 1972. The contribution of each product is expressed as a percentage for each year of the annual product of the levy on steel.

Marked changes have also occurred in the shares of the product of the levy accounted for by ECSC industries in the respective member countries. The share of Germany, which provided over half the levy in 1964-1965, has fallen in the meantime to 44.6 %, whilst that of Italy has risen over the same period from 11.3 % to 15.7 % and that of Belgium from 8.8 % to 11.6 %. In 1972 France provided 20.1 % of the ECSC's levy resources (against 22.3 % in 1964-1965), the Netherlands 4.5 % (4.2 % in 1964-1965) and Luxembourg 3.5 % (3.2 % in 1964-1965).

This trend has persisted further since the previous year as may be seen from table 17 which shows, for each member country and group of products, changes between 1971 and 1972 in the breakdown of levy income declared. This table clearly reveals the percentage differences between the two years by country and group of products.

Table 14 : - RATE OF THE LEVY AND NET PER TON SCALE IN UA FROM 1952
TO 1972 FOR EACH CATEGORY OF CHARGEABLE PRODUCTS

| Period | Rate % | Brown coal briquettes and semi-coke derived from brown coal | Hard coal | Pig iron other than in ingots | Basic Bessemer steel in ingots | Steel other than basic Bessemer steel in ingots | Finished and end products of iron and steel |
|----------|--------|---|-----------|-------------------------------|--------------------------------|---|---|
| 1.1.1953 | 0,30 | 0,0141 | 0,0372 | 0,1422 | 0,1398 | 0,1884 | 0,0735 |
| 1.3.1953 | 0,50 | 0,0235 | 0,0620 | 0,2370 | 0,2330 | 0,3140 | 0,1225 |
| 1.5.1953 | 0,70 | 0,0329 | 0,0868 | 0,3318 | 0,3262 | 0,4396 | 0,1715 |
| 1.7.1953 | 0,90 | 0,0423 | 0,1116 | 0,4266 | 0,4194 | 0,5652 | 0,2205 |
| 1.7.1955 | 0,70 | 0,0329 | 0,0868 | 0,3318 | 0,3262 | 0,4396 | 0,1715 |
| 1.1.1956 | 0,45 | 0,0212 | 0,0558 | 0,2133 | 0,2097 | 0,2826 | 0,1103 |
| 1.7.1957 | 0,35 | 0,0220 | 0,0448 | 0,1870 | 0,1738 | 0,2925 | 0,1003 |
| 1.7.1959 | 0,35 | 0,0277 | 0,0448 | 0,1870 | 0,1738 | 0,2925 | 0,1003 |
| 1.7.1961 | 0,30 | 0,0237 | 0,0384 | 0,1603 | 0,1490 | 0,2507 | 0,0860 |
| 1.7.1962 | 0,20 | 0,0158 | 0,0256 | 0,1068 | 0,0993 | 0,1672 | 0,0573 |
| 1.7.1964 | 0,20 | 0,0180 | 0,0256 | 0,1068 | 0,0993 | 0,1672 | 0,0573 |
| 1.7.1965 | 0,25 | 0,0225 | 0,0360 | 0,1071 | 0,1337 | 0,2117 | 0,0717 |
| 1.7.1966 | 0,25 | 0,0247 | 0,0360 | 0,1071 | 0,1337 | 0,2117 | 0,0717 |
| 1.7.1967 | 0,30 | 0,0297 | 0,0432 | 0,1286 | 0,1604 | 0,2540 | 0,0860 |
| 1.1.1972 | 0,29 | 0,0287 | 0,0548 | 0,1640 | 0,1814 | 0,2865 | 0,1043 |

Table 15

Changes by sector (coal-steel) in levy income from 1953 to 1971
(expressed as a percentage of the annual product of the levy)

% of the annual
product of the
levy

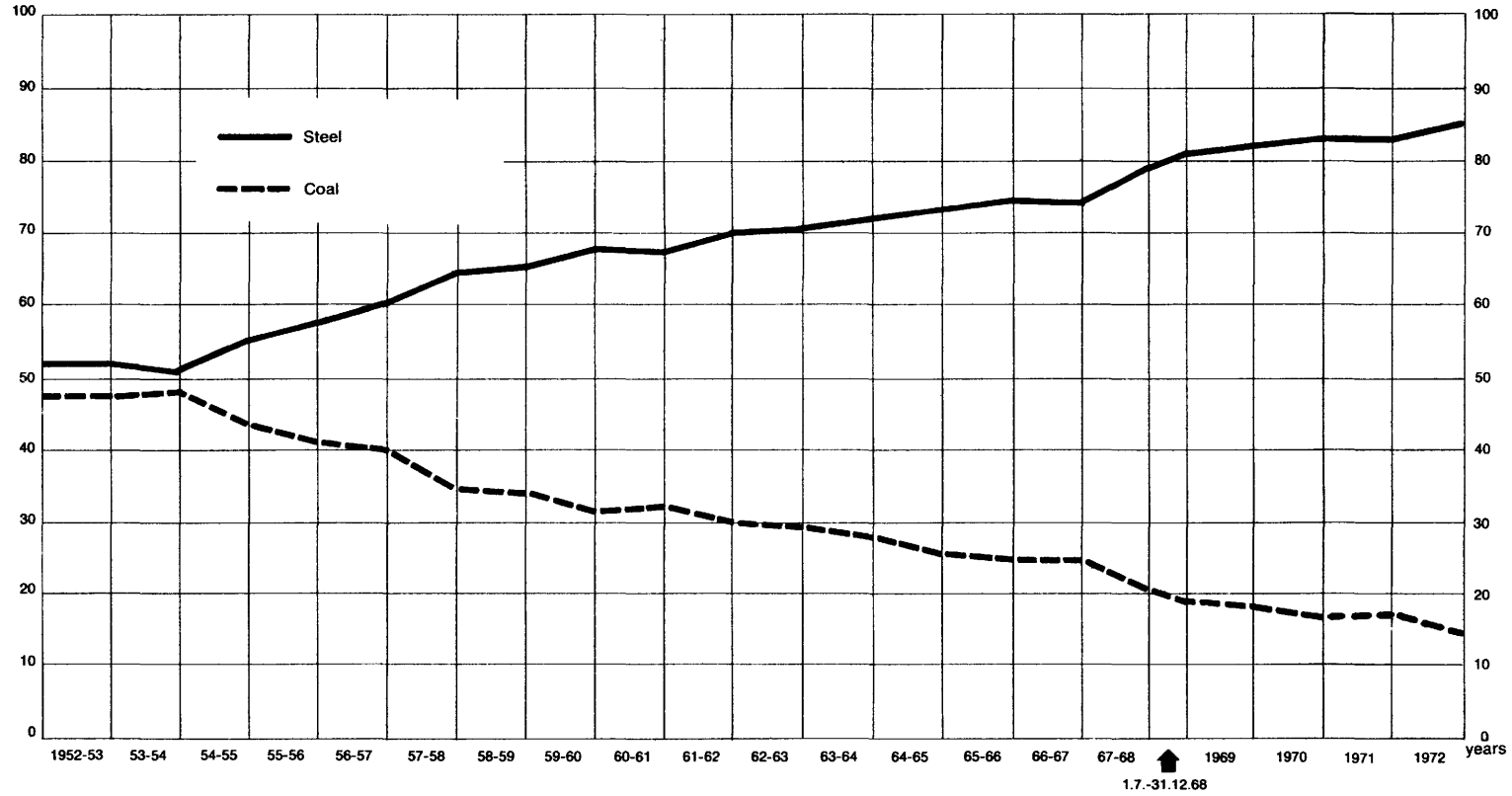
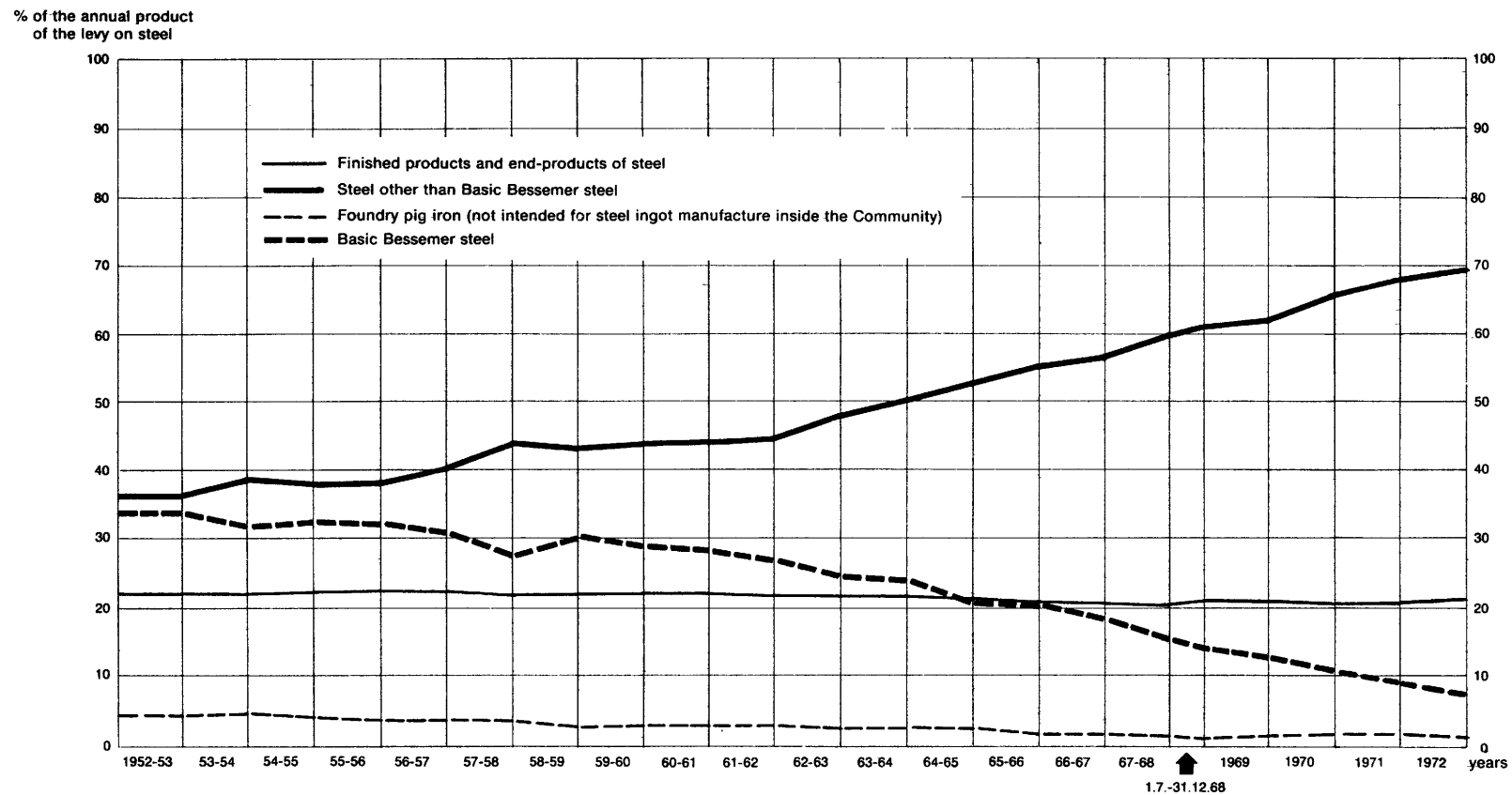


Table 16

Changes in levy income for the four categories of steel products from 1953 to 1971
 (expressed as a percentage of the annual product of the levy on steel)



As regards the percentage changes in levy income for 1972 compared with 1971, as shown in table 17, it should be noted that these increases are explicable in part by a recovery in the iron and steel sector and principally by the raising of the average values on which the levy amounts are assessed.

76 - Allocation of income from the levy must be in accordance with the explicit terms and restrictions of the Paris Treaty (article 50). Briefly, levy payments are used to cover :

- the administrative expenditure envisaged in article 78
- assistance to readaptation provided for in article 56
- assistance to technical and economic research provided for in article 55, paragraph 2
- only after first drawing on the reserve fund. any deficit in the service on borrowings and loans provided for in articles 54 and 56 and any extension of the Institution's guarantee to loans contracted by enterprises directly.

Since the ECSC was established, the funds raised by the levy (excluding all other revenues such as interest on levy income invested) have totalled some 670 million UA. Of this sum, 100 million UA are tied up in a guarantee fund on which the ECSC's credit-raising capacity on money markets is based. 178 million UA have been channelled into the readaptation of workers and 131 million into research. Operating expenses were covered out of the balance. The Institution has thus financed its other initiatives (loans to investments, redevelopment and reconversion and social housing, interest reductions on loans for redevelopment and reconversion and investments, assistance to coking coal, etc.) out of resources other than levy income (borrowings, interest on investments).

77 - As regards our auditing operations during the year, we ascertained that the Institution complied with our request that the application of the procedures for collecting interest in arrears should be revised. Henceforth, notification to debtor enterprises of the supplements due on arrears and the summons to pay are no longer delayed until the notice under article 36 of the Treaty is sent.

Among the accounts receivable we also found sums due under the levy from the enterprise which is contesting interpretation of the provisions governing settlement of sums due. We were assured, however, that the dispute is in the process of being solved.

78 - As regards late payments more particularly, we found that even though the date for payment of monthly levy sums due is not always respected (25th of the month following that of the production charged) by all enterprises, there are no disputes of any importance since the companies chargeable generally clear their debts after one or more reminders from the Institution, so that the latter is not obliged to resort to the coercive procedures provided for in the Treaty. These delays do not extend beyond the current year. We observed, furthermore, that the culprits are usually small enterprises which are experiencing liquidity problems and which produce and declare relatively small tonnages. Strict application of the procedures laid down (letter under article 36 of the Treaty) would in this particular case create timing difficulties with regard to the decision to be taken by the Commission and high staff costs for only low penalty payments.

Table 17 : - INCOME FROM THE LEVY

- BREAKDOWN BY GROUP OF PRODUCTS AND COUNTRY OF SUMS DECLARED
AND RECORDED IN THE ACCOUNTS FOR 1971 AND 1972

| Country | Coal | | | Steel | | | Levy total | | |
|-------------|-----------|-----------|----------|------------|---------------|----------|------------|------------|----------|
| | 1971 | 1972 | % change | 1971 | Steel 1972 | % change | 1971 | 1972 | % change |
| Germany | 4 667 807 | 5 147 687 | + 16,1 | 12 516 188 | 15 627 263 | + 24,9 | 17 183 995 | 21 044 950 | + 22,5 |
| Belgium | 416 716 | 506 586 | + 21,6 | 3 572 838 | 4 946 942 | + 38,5 | 3 989 554 | 5 453 528 | + 36,7 |
| France | 1 253 834 | 1 434 431 | + 14,4 | 6 581 306 | 8 066 571 | + 22,6 | 7 835 140 | 9 501 002 | + 21,3 |
| Italy | 9 742 | 7 163 | - 26,5 | 5 659 566 | 7 410 274 | + 30,9 | 5 669 308 | 7 417 437 | + 30,8 |
| Luxembourg | - | - | - | 1 358 710 | 1 657 919 | + 22 | 1 358 710 | 1 657 919 | + 22 |
| Netherlands | 144 284 | 141 880 | - 1,7 | 1 595 008 | 1 922 174 | + 24,9 | 1 739 292 | 2 134 054 | + 22,7 |
| Community | 6 492 383 | 7 507 747 | + 15,6 | 31 283 616 | 39 701 143 | + 26,9 | 37 775 999 | 47 208 890 | + 25 |

Compared with total levy payments collected in 1972, the proportion of sums unpaid is very small (0.13 %). Leaving aside the case of the enterprise engaged in a dispute, mentioned above, this percentage is even lower at 0.017 %.

Whilst administrative flexibility of this kind is commonly accepted both beforehand (non-insistence on prompt application of arrears increases) and later (usual reduction of penalties when the principal is paid off), one cannot but deplore the inadequacy of the executory procedures provided for in the Treaty. The entering of increases for arrears in the books has no executory force and it is necessary to wait for the notice decided on by the Commission (letter under article 36 of the Treaty), which means a rather lengthy legal procedure. Because of the limited importance of the interests involved and procedural complications, cases where notice is served have been relatively rare, and the last two were served in 1970.

Sums demanded as increases on arrears are recorded by the Institution separately from the accounts and then entered among revenues as and when received. No collections were made in 1972.

79 - All figures relating to the levy were compiled by the levy department two months after the end of the financial year, i.e. on 28 February 1973. This date was chosen because it enables account to be taken of amounts recoverable on production for the last month of the year (December 1972), since it usually takes two months to collect them.

80 - We also sought the maximum of reassurance as to how exactly the total product of the levy was collected.

We noted that the systematic census of enterprises subject to the levy is indeed kept up to date by the levy office, which is in possession of information sent to it regularly by the technical directorates for Steel, Coal and Inspection on newly created enterprises.

We also acquainted ourselves with the inspection reports compiled most often at the instigation of the levy office or under other initiatives by officials of the Inspectorate. In 1972 the levy office gave special attention to steel production by the relatively new method of continuous casting, in order to be sure that the chargeable basis was ascertained in a consistent manner. Twenty six inspection reports proper and one examination report (for information) were thus compiled in 1972. Nineteen of them were acted upon after joint consideration by the levy office, the technical adviser and the author of the report. Twelve dossiers were completed without comment, and corrections necessitating supplementary returns were made to five of them, whilst two enterprises will be charged automatically. A total of seven dossiers are thus still under examination. In addition, five inspections carried out in 1971 prompted four supplementary returns and one refund. Four inspections in 1970 were followed in 1972 by two supplementary returns and two instances where no further action was taken.

Together with the responsible officials of the levy office we compared the tonnages declared and paid on under the levy in 1971 with the production figures collected for the same year by the Statistical Office of the European Communities. This comparison - which clearly can only be made after an interval of one year - also covered four categories of chargeable products which lent themselves to comparison using the necessary correctives. For these four categories (coal, pig iron, steel in ingots and finished products) and taking into

account in-plant consumption, enterprises enjoying indefinite deferment of payments, production by small enterprises not covered by the census and non-chargeable finished products, we arrived at production tonnages declared and paid on for 1971 which were in general higher than those named in the official statistics.

A summary of these findings is given in table 18.

Table 18 : - OVERALL COMPARISON OF FOUR CATEGORIES OF PRODUCTION DECLARED AND PAID ON UNDER THE LEVY
WITH THE FIGURES OF THE STATISTICAL OFFICE OF THE EUROPEAN COMMUNITIES FOR 1971 (TONNAGES)

| Category of chargeable products | Production according to SOEC statistics (in thousand metric tons) | Production declared and paid on under the ECSC levy (in thousand metric tons) | Remarks |
|---------------------------------|--|---|---|
| Coal | 155 802 - 18 696 (10 % for in-plant consumption) <hr/> 137 106 | 135 860 + 11 507 (for stocks of hard coal granted "temporary deferment of payment") <hr/> 147 367 | Our figure 10 261 000 metric tons <u>higher</u> for production declared for the levy, <u>not counting</u> non-chargeable declarations for : - production by enterprises falling below the monthly declarable minimum of 100 UA (indefinite deferments") - 18 % flat-rate reductions on production by enterprises which do not have a washing plant of their own |
| (Foundry) Pig iron | 561 3 022 <hr/> 804 4 387 | <hr/> 4 442 | Our figure 55 000 metric tons <u>higher</u> for production declared under the levy |
| Steel in ingots | 103 376 - 1 524 (liquid steels for casting) <hr/> 101 852 | 102 249 comprising Basic Bessemer steels (18 523) Other steels (83 726) | Our figure is 397 000 metric tons <u>higher</u> and could be explained in part by the failure of small enterprises to provide their statistics for censuses |
| Finished products | 75 542 | 75 426 | Our figure 116 000 metric tons <u>lower</u> due to the following, non-chargeable tonnages : - 106 000 metric tons for cold-rolled sheets over 3 mm - 10 000 metric tons for billets for continuous cast tubes |

EXPENDITURE FOR READAPTATION

81 - Extent of our audit

In this sector our audit was concerned with checking:

- the correctness of all payments made during 1972, ensuring that the vouchers existed and that entries were made correctly in the accounts and in accordance with the official decisions taken
- new decisions for assistance earmarked in 1972 and the entering of their total value in the provision for readaptation.

We checked operations for 1972 principally with the departments of the Directorate-General for Financial Control. These departments hold computer listings of accounting records for credits approved, disbursements and repayments, for each category of assistance. The vouchers (decisions and various documents) are also held by this directorate-general.

In the Directorate-General for Budgets, which holds the same computer listings, we gathered details primarily of the specific problems connected with disputes, the operating budget and the supervision of credits given for readaptation.

We also exchanged views with the departments of the Directorate-General for Social Affairs, which authorizes this expenditure, that the mechanisms governing the ECSC's financial assistance to readaptation had been efficiently checked, especially the adjustments prompted by checks made by the Directorate-General for Social Affairs.

82 - Remarks

The volume of commitments subscribed for readaptation during 1972 declined slightly. Sums put to provision covered total new commitments of some 15.4 million UA compared with over 16 million in 1971. This slight decrease affected mainly credits opened for coal workers in France. However, assistance granted in all the six countries was again primarily to the coal sector.

New commitments subscribed in 1972 were principally towards France

(almost 12 million UA), Germany (about 3.1 million) and Italy (0.36 million UA).

It should also be recalled that the provision for readaptation shown on the balance sheet at 31 December 1972 (67 718 338 UA) represents the net amount of commitments specifically approved by the Commission in favour of enterprises, after deduction of assistance already disbursed, any repayments made and commitments cancelled for any reason. Assistance disbursed during the year was 14 518 629 UA whilst cancellations of earlier commitments totalled 203 161 UA.

Tables 7 and 8 in this report (notes to the balance sheet liabilities) show details, by type, country and sector, both of new assistance granted during the year and of sums still held in the provision at 31 December 1972.

Assistance covered in these remarks and the tables does not include loans or advances given to rehouse redundant workers or for the deferred financing of hard coal stocks under the same provisions which apply to the readaptation machinery (paragraph 23 of the Convention on the transitional provisions and articles 56 and 95 of the ECSC Treaty).

Our examinations at the Directorate-General for Financial Control give rise to no comments in particular. All expenditure for the year which was submitted for our inspection was incurred exclusively under article 56 of the ECSC Treaty. We did not find any anomalies either in respect of payments (14 755 434 UA) or of repayments (236 805 UA) which were made in Germany (234 619 UA), Belgium (1 196 UA) and France (990 UA). In 1972 the Institution cancelled a credit of 203 161 UA for assistance based on paragraph 23 of the Convention on the transitional provisions. This type of assistance has now been discontinued.

Our audit also enabled us to establish that the dossiers were properly kept and that the accounting documents and vouchers were correctly filed.

In order to accelerate disbursements the ECSC continued in 1972, as in the past, to pay out sizeable instalments of sums already disbursed to beneficiaries before the final statement has been sent and checked. In this way, France received two instalments of 3 960 974 UA and 4 321 062 UA. The first of these two sums, which was due at the end of the previous year, could not be paid out until 1972 because it would have been impossible to realize the necessary Community investment, to which the restrictive measures regarding control of the financial market applied, without incurring currency exchange losses.

Contacts we had with the Directorate-General for Social Affairs revealed that measures were taken in 1972 to simplify checking procedures for the various allowances and wages paid to readapted workers in Germany. As a result, applications to the ECSC for reimbursement are no longer centralized and are lodged directly with regional offices which arrange and disburse the assistance. On-the-spot checks by the Institution take the form primarily of random checks of the wages paid to workers by the regional offices and are conducted four or five times a year, often in the presence of a representative of the Audit Office.

For Belgium and the Netherlands, where payments and data are largely recorded by computer, officials of the Directorate-General for Social Affairs compare the computer listings they receive periodically with the basic data which are held by the national centres. Payments and allowances not processed by computer are still checked from individual records and we noted that the national computer centres had rectified errors previously ascertained.

In France the recent introduction of computerization in recording payments and accounting operations for certain types of assistance means that the first on-the-spot checks will not be possible until 1973.

It has been agreed that the Directorate-General for Social Affairs will in future keep us informed of their programme of on-the-spot checks so that we could, if appropriate, take part in these checks. Generally speaking, the assurance provided in a number of cases by the audits conducted by government auditors on behalf of the member countries concerned constitute a valuable addition to the detailed internal auditing operations carried out by the Institution.

EXPENDITURE FOR TECHNICAL AND SOCIAL RESEARCH

83 - Extent of our audit

In the sector of technical research (steel, coal, iron ore) and social research (industrial health, safety and medicine) financed by the ECSC, we checked:

- that the amounts of all disbursements during the year were correct, that they were correctly recorded in the accounts and that they were in accordance with the agreements governing them
- the existence and validity of research agreements, and that the amounts legally pledged under them tallied with the sums held in the corresponding balance sheet provisions
- the inspection reports compiled by the budget officials either during the project (interim reports) or on completion of them (final reports)
- that current research projects were progressing smoothly and satisfactorily, by means of contacts with the competent officials in the technical directorates (coal, steel, industrial health, safety and medicine, social housing construction) attached to three directorates-general (Energy, Industrial Affairs and Social Affairs).

We conducted this part of our audit primarily at the Directorate-General for Budgets, which is responsible for preparing estimates of research expenditure, keeping the books for commitments and payments under each project and for holding financial inspections of beneficiaries of subsidies together with officials of the authorising technical departments.

84 - Remarks

Assistance to research decided on by the ECSC from inception up to the end of the year under review totalled over 131 million UA, including more than 374 000 UA allocated to the dissemination of the findings of research projects. In decreasing order of size, the ECSC gave assistance to the steel sector (53 604 874 UA), the coal sector (41 761 921 UA) and the social sector

(27 370 922 UA) plus subsidies for two experimental social housing programmes (1 969 389 UA) and the iron ore sector (5 985 665 UA).

Of all the funds thus earmarked for research, approximately 80% had been disbursed (more than 105 million UA).

Table 19 shows the amount of subsidies granted and paid up to 31 December 1972 for research projects as a whole and for each project individually.

The sums still covered in the provision at 31 December 1972 are thus shown in this table by project and by sector and correspond to those shown in the balance sheet. They represent the value of research agreements duly signed, less costs and any credits cancelled or repaid. By sector of research, entries in the provision at 31 December 1972 break down as follows:

| | | |
|------------|---------------|---|
| - steel | 15 133 811 UA | |
| - coal | 5 408 695 UA | |
| - iron ore | 887 980 UA | |
| - social | 4 766 528 UA, | which comprises 4 697 153 UA for industrial safety, health and medicine and |
| | | 69 375 UA for the second experimental social housing programme |

Compared with the previous year, new commitments undertaken in 1972 (15 184 791 UA, including credits for related costs of 60 571 UA), were up by 16% whilst disbursements (11 638 790 UA) remained more or less the same (+ 3.6%).

85 - In the coal sector, our audit revealed that fourteen new contracts were signed in 1972 to a total value of 3 792 146 UA (not counting credits for related costs). These new contracts come under the revised medium-term coal-mining research programme for the years 1970 to 1974 (1). A credit of 37 950 UA was added to finance the related costs (publication and dissemination of reports and experts' travel expenses).

Of total expenditure for the year (4 649 957 UA), 47 575 UA were for related costs.

Nine projects were completed in 1972 after the final report was lodged by the Institution's inspectors. We examined these reports, which prompted no remarks.

The unused portion of assistance to four projects which had been completed, and a final report submitted, had not been cancelled by 31 December 1972. The amount is a small one (978 UA) which was still improperly entered in the provision for research at the date of the balance sheet. We observed that unused balances totalling 195 572 UA, which we pointed out in last year's report and which related to thirteen completed projects to a total value of 337 842 UA, were

(1) cf. *Official Journal of the European Communities* no. C 74 dated 10 July 1972

Table 19 : - TECHNICAL, ECONOMIC AND SOCIAL RESEARCH

- BREAKDOWN - BY SECTOR AND PROJECT - OF FINANCIAL ASSISTANCE GRANTED, DISBURSED BEFORE AND DURING THE YEAR AND REMAINING IN THE PROVISION AT 31.12.1972

| Description of research | Sums allocated | Disbursements in previous years | Disbursements during 1972 | Total disbursements at 31.12.1972 | Sums still covered in the provisions at 31.12.1972 |
|---|----------------|---------------------------------|---------------------------|-----------------------------------|--|
| STEEL | | | | | |
| 1) Projects completed at 31.12.1972 | 12 428 729 | 12 428 729 | - | 12 428 729 | - |
| 2) Projects current at 31.12.1972 | | | | | |
| - Flame radiation IV & V | 1 003 150 | 558 840 | 89 502 | 648 342 | 354 808 |
| - Technical literature from eastern Europe | 200 000 | 67 906 | 38 532 | 106 438 | 93 562 |
| - Metallography atlas | 204 133 | 189 496 | - | 189 496 | 14 637 |
| - Low shaft blast furnace VI | 1 296 000 | 1 033 800 | - | 1 033 800 | 262 200 |
| - Automation of reversing mills | 2 052 175 | 1 622 800 | - | 1 622 800 | 429 375 |
| - Automation of blooming and slabbing mills | 323 400 | 290 000 | - | 290 000 | 33 400 |
| - Gas analysis in steel and pig iron | 568 555 | 393 007 | 31 492 | 424 499 | 144 056 |
| - Pulverized coal in the BF. Slurry I | 338 000 | 165 200 | - | 165 200 | 172 800 |
| - Hardness reference plates | 40 618 | 28 214 | 5 874 | 34 088 | 6 530 |
| - Steel ingot structure | 64 607 | 57 965 | - | 57 965 | 6 642 |
| - Collective programme on steel measurements | 2 248 197 | 2 011 856 | 100 739 | 2 112 595 | 135 602 |
| - Continuous pig refining | 3 040 748 | 2 622 191 | 244 652 | 2 866 843 | 173 905 |
| - Acceleration of refining in the electric furnace | 275 800 | 248 000 | - | 248 000 | 27 800 |
| - Collective programme on steel properties and uses | 1 737 559 | 1 481 083 | 24 037 | 1 505 120 | 232 439 |
| - Collective programme on metal physics | 133 608 | 119 444 | 4 396 | 123 840 | 9 768 |
| - Purofer direct reduction | 4 700 820 | 2 412 568 | 237 231 | 2 649 799 | 2 051 021 |
| - Reversing mill for medium and heavy plate | 790 812 | 686 987 | - | 686 987 | 103 825 |
| - Fire behaviour of metal structures | 684 940 | 547 420 | 71 614 | 619 034 | 65 906 |
| - Collective programme on BF automation | 944 640 | 789 449 | 31 910 | 821 359 | 123 281 |
| - Ausforming | 503 184 | 452 076 | - | 452 076 | 51 108 |
| - Cold forming | 172 085 | 130 741 | - | 130 741 | 41 344 |
| - Structure of agglomerates | 180 000 | 111 000 | 17 120 | 128 120 | 51 880 |
| - Green pellets | 131 500 | 118 000 | - | 118 000 | 13 500 |
| - Cast iron | 46 850 | 42 137 | - | 42 137 | 4 713 |
| - Gamma-ray inspection | 121 125 | 99 289 | 8 282 | 107 571 | 13 554 |
| - Rotover | 250 000 | 224 000 | - | 224 000 | 26 000 |
| - Thermomechanical treatment | 145 000 | 89 600 | 40 000 | 129 600 | 15 400 |
| - High energy forming | 90 000 | 54 540 | 16 260 | 70 800 | 19 200 |
| - Weldability | 523 009 | 421 143 | 44 795 | 465 938 | 57 071 |
| - Corrosion | 424 960 | 330 215 | 36 359 | 366 574 | 58 386 |
| - Drawability | 149 434 | 127 421 | 5 200 | 132 621 | 16 813 |
| - Machinability | 59 449 | 45 848 | - | 45 848 | 13 601 |
| - Fatigue and standard construction | 265 054 | 166 262 | 46 580 | 212 842 | 52 212 |
| - Brittle fracture | 183 010 | 144 686 | 3 524 | 148 210 | 34 800 |
| - Steel for high-temperature uses | 149 080 | 124 687 | 8 741 | 133 428 | 15 652 |
| - Steel for heat treatment | 135 753 | 98 106 | 15 121 | 113 227 | 22 526 |
| - Metal physics | 192 000 | 97 700 | 9 500 | 107 200 | 84 800 |
| - Casting and solidifying of steel | 671 988 | 345 100 | 211 122 | 556 222 | 115 766 |
| - Slab turning | 112 000 | 27 322 | - | 27 322 | 84 678 |
| - Measurement techniques II | 1 022 250 | 264 953 | 244 390 | 509 343 | 512 907 |
| - Wide strip hot rolling mill | 1 721 204 | 926 188 | 126 031 | 1 052 219 | 668 985 |
| - Cooling of wire rod | 163 934 | 40 984 | 29 235 | 70 219 | 93 715 |
| - S.E.P. III - drawability | 108 000 | 56 543 | 36 958 | 93 501 | 14 499 |
| - S.E.P. III - weldability | 108 000 | 57 510 | 3 740 | 61 250 | 46 750 |
| - S.E.P. III - corrosion | 55 800 | 13 661 | 14 801 | 28 462 | 27 338 |
| - S.E.P. III - electrical sheet | 28 800 | 21 680 | 4 240 | 25 920 | 2 880 |
| - S.E.P. III - fracture mechanics | 504 000 | 185 116 | 172 943 | 358 059 | 145 941 |
| - S.E.P. III - creep | 183 600 | 87 086 | 28 689 | 115 775 | 67 825 |
| - S.E.P. III - fatigue and standard construction | 88 819 | 29 300 | 29 302 | 58 602 | 30 217 |
| - Continuous electric steelmaking plant | 921 395 | 449 487 | 129 962 | 579 449 | 341 946 |
| - Hot compacting of iron ore | 390 000 | - | - | - | 390 000 |
| - Automation of oxygen steelmaking plant | 169 920 | 80 000 | 31 560 | 111 560 | 58 360 |
| - Documentation for architects | 61 475 | - | 21 858 | 21 858 | 39 617 |
| - Measurement techniques III | 958 725 | - | 359 069 | 359 069 | 599 656 |
| - Metal physics - thermomechanical treatment | 54 000 | - | 48 612 | 48 612 | 5 388 |
| - Metal physics - quantitative metallography | 231 000 | - | 130 226 | 130 226 | 100 774 |
| - Metal physics - metallography atlas | 81 000 | - | 39 595 | 39 595 | 41 405 |
| - Metal physics - structural mechanisms | 126 000 | - | 78 874 | 78 874 | 47 126 |
| - Dispersoids | 384 000 | - | 182 135 | 182 135 | 201 865 |
| - BF automation | 559 672 | - | 202 896 | 202 896 | 356 776 |
| - Surface defects, semis | 618 000 | - | 409 836 | 409 836 | 208 164 |
| - Automation of cold tandem rolling mill | 655 902 | - | 279 235 | 279 235 | 376 667 |
| - BF gas injection | 966 720 | - | 870 000 | 870 000 | 96 720 |
| - Water-cooled steel supports | 95 082 | - | 29 235 | 29 235 | 65 847 |
| - Industrialisation of building construction | 786 000 | - | 248 612 | 248 612 | 537 388 |
| - Measurement of heat transfer | 27 000 | - | 10 000 | 10 000 | 17 000 |
| - Physical metallurgy - quantitative analysis | 43 751 | - | 18 544 | 18 544 | 25 207 |
| - Physical metallurgy - order - disorder | 57 000 | - | 27 322 | 27 322 | 29 678 |
| - Physical metallurgy - grain boundaries | 141 120 | - | 64 000 | 64 000 | 77 120 |

Table 19 (contd.1)

| Description of research | Sums allocated | Disbursements in previous years | Disbursements during 1972 | Total disbursements at 31.12.1972 | Sums still covered in the provisions at 31.12.1972 |
|---|----------------|---------------------------------|---------------------------|-----------------------------------|--|
| STEEL (contd.) | | | | | |
| - Physical metallurgy - vacancies, iron | 55 680 | - | 27 200 | 27 200 | 28 480 |
| - Physical metallurgy - Auger spectrometry | 72 000 | - | 25 060 | 25 060 | 46 940 |
| - Physical metallurgy - precipitation phenomena | 120 000 | - | 39 126 | 39 126 | 80 874 |
| - Counterdeflection of the rolls | 105 866 | - | - | - | 105 866 |
| - Element transfer | 58 334 | - | - | - | 58 334 |
| - Radiant arch-roof furnace | 64 816 | - | - | - | 64 816 |
| - Management of enterprises | 600 000 | - | - | - | 600 000 |
| - Ladle steels | 642 000 | - | - | - | 642 000 |
| - MF prereduction, fluidization | 102 148 | - | - | - | 102 148 |
| - Drawability | 450 000 | - | - | - | 450 000 |
| - Sampling mechanisms | 58 200 | - | - | - | 58 200 |
| - Management of pits - slabbing mills | 269 558 | - | - | - | 269 558 |
| - Cold forming | 360 000 | - | - | - | 360 000 |
| - Calculator process control | 587 542 | - | - | - | 587 542 |
| - Thermomechanical treatment | 447 960 | - | - | - | 447 960 |
| - BF tuyeres | 31 148 | - | - | - | 31 148 |
| - Structural mechanisms | 156 000 | - | - | - | 156 000 |
| - Creep in welded joints | 420 000 | - | - | - | 420 000 |
| - Cast iron | 109 481 | - | - | - | 109 481 |
| Total steel | 53 604 874 | 33 217 336 | 5 305 869 | 38 523 205 | 15 081 669 |
| COAL | | | | | |
| 1) Projects completed at 31.12.1972 | 24 505 101 | 24 385 047 | 120 054 | 24 505 101 | |
| 2) Projects current at 31.12.1972 | | | | | |
| - Firedamp and dust | 330 000 | 249 157 | 47 843 | 297 000 | 33 000 |
| - Outbursts of firedamp | 324 080 | 90 022 | 84 981 | 175 003 | 149 077 |
| - Control of firedamp outbursts | 559 082 | - | 178 361 | 178 361 | 380 721 |
| - Coking blend | 212 845 | 185 641 | 6 826 | 192 467 | 20 378 |
| - Technical literature from eastern Europe II | 100 000 | - | 30 277 | 30 277 | 69 723 |
| - Presence and outbursts of methane | 286 721 | 257 213 | 29 367 | 286 580 | 141 |
| - Firedamp Saarland | 474 055 | 423 104 | - | 423 104 | 50 951 |
| - Physics and chemistry of hard coal II | 397 827 | 360 495 | - | 360 495 | 37 332 |
| - Physics and chemistry of hard coal III | 159 116 | 108 808 | 39 227 | 148 035 | 11 081 |
| - Cold shuffiring | 96 690 | 50 276 | - | 50 276 | 46 414 |
| - Hydromechanical winning | 316 257 | 210 058 | 73 412 | 283 470 | 32 787 |
| - Remote control II | 78 800 | 70 920 | - | 70 920 | 7 880 |
| - Automated plough | 96 981 | 85 495 | 1 677 | 87 172 | 9 809 |
| - Mechanised sinking and driving operations | 80 000 | 20 000 | 4 420 | 24 420 | 55 580 |
| - Ventilation improvements | 240 656 | - | 123 497 | 123 497 | 117 159 |
| - Special cokes | 462 352 | 312 690 | 103 463 | 416 153 | 46 199 |
| - Remote control and monitoring | 428 505 | 177 524 | 189 316 | 366 840 | 61 665 |
| - Rock mechanics | 1 597 084 | 1 375 484 | 49 560 | 1 425 044 | 172 040 |
| - Roadway drivage | 1 618 510 | 603 077 | 723 310 | 1 326 387 | 292 123 |
| - Hydraulics | 243 335 | 206 146 | 36 366 | 242 512 | 823 |
| - Thick seams | 655 738 | 452 186 | 8 743 | 460 929 | 194 809 |
| - Winning operations | 854 938 | 280 648 | 228 273 | 508 921 | 346 017 |
| - Telecommunications, automation | 301 000 | 124 920 | 88 400 | 213 320 | 87 680 |
| - Coking of coal | 882 787 | 534 426 | 168 291 | 702 717 | 180 070 |
| - Coke oven yields | 715 574 | - | 245 902 | 245 902 | 469 672 |
| - Valorization of coal | 1 613 938 | 703 158 | 444 861 | 1 148 019 | 465 919 |
| - Pan trains | 983 465 | 117 029 | 580 521 | 697 550 | 285 915 |
| - High-output face | 499 218 | 135 034 | 247 228 | 382 262 | 116 956 |
| - Formed coke | 321 379 | 162 040 | 56 534 | 218 574 | 102 805 |
| - Coal-getting equipment | 214 754 | 95 628 | 6 831 | 102 459 | 112 295 |
| - Deformation of mine workings | 1 200 010 | - | 438 939 | 438 939 | 761 071 |
| - Sintering and coking of coal | 684 426 | - | 245 902 | 245 902 | 438 524 |
| - Rope and cable reliability | 226 697 | - | - | - | 226 697 |
| Total coal | 41 761 921 | 31 776 226 | 4 602 382 | 36 378 608 | 5 383 313 |
| IRON ORE | | | | | |
| 1) Projects completed at 31.12.1972 | 4 801 366 | 4 801 366 | - | 4 801 366 | - |
| 2) Projects current at 31.12.1972 | | | | | |
| - Iron mining technique | 575 787 | 296 319 | - | 296 319 | 279 468 |
| - Iron ore mining, Bassin Est; France | 144 035 | - | - | - | 144 035 |
| - Iron ore winning; semi-hard | 136 612 | - | - | - | 136 612 |
| - Difficult mining | 327 865 | - | - | - | 327 865 |
| Total iron ore | 5 985 665 | 5 097 685 | - | 5 097 685 | 887 980 |

Table 19 (contd. 2)

| Description of research | Sums allocated | Disbursements in previous years | Disbursements during 1972 | Total disbursements at 31.12.1972 | Sums still covered in the provisions at 31.12.1972 |
|---|----------------|---------------------------------|---------------------------|-----------------------------------|--|
| <u>INDUSTRIAL SAFETY, HEALTH AND MEDICINE</u> | | | | | |
| - Atmospheric pollution control, brown fumes I | 1 000 000 | 1 000 000 | - | 1 000 000 | - |
| - Atmospheric pollution control, brown fumes II | 1 024 874 | 1 024 874 | - | 1 024 874 | - |
| - Elimination of fluoride in gases | 65 152 | 65 152 | - | 65 152 | - |
| - Ventilation in underground workings | 116 022 | 116 022 | - | 116 022 | - |
| - Rescue by means of boreholes | 68 593 | 50 840 | 7 472 | 58 312 | 10 281 |
| - Stone-dust barriers | 242 756 | 162 540 | 55 814 | 218 354 | 24 402 |
| - Fires and combustion in mines | 487 635 | 79 235 | 140 975 | 220 210 | 267 425 |
| - Work safety and medicine | 2 940 639 | 2 924 827 | 2 052 | 2 926 879 | 13 760 |
| - Physiopathology and clinical studies I | 2 954 243 | 2 502 915 | 151 885 | 2 654 800 | 299 443 |
| - Traumatology | 1 218 578 | 874 176 | 150 315 | 1 024 491 | 194 087 |
| - Human factors - ergonomics | 2 908 036 | 1 716 954 | 338 543 | 2 055 497 | 852 539 |
| - Burns therapy and rehabilitation | 554 262 | 372 883 | 43 806 | 416 689 | 137 573 |
| - Physiopathology and clinical studies II | 1 784 083 | 56 660 | 502 220 | 558 880 | 1 225 203 |
| - Dust in mines | 5 234 802 | 4 464 600 | 250 640 | 4 715 240 | 519 562 |
| - Steelworks dust | 2 720 634 | 1 543 469 | 24 818 | 1 568 287 | 1 152 347 |
| - Industrial health and medicine I | 1 194 884 | 1 194 884 | - | 1 194 884 | - |
| - Industrial health and medicine II | 2 855 729 | 2 855 198 | - | 2 855 198 | 531 |
| Total industrial safety, health and medicine | 27 370 922 | 21 005 229 | 1 668 540 | 22 673 769 | 4 697 153 |
| <u>SOCIAL HOUSING</u> | | | | | |
| - First experimental programme | 995 838 | 995 838 | - | 995 838 | - |
| - Second experimental programme | 973 551 | 904 176 | - | 904 176 | 69 375 |
| Total social housing | 1 969 389 | 1 900 014 | - | 1 900 014 | 69 375 |
| <u>MAKING AVAILABLE OF RESEARCH FINDINGS</u> | | | | | |
| - Steel | 167 070 | 100 608 | 14 320 | 114 928 | 52 142 |
| - Coal | 207 006 | 134 049 | 47 575 | 181 624 | 25 382 |
| - Rescue by means of drilling | 129 | 129 | - | 129 | - |
| - Fires and combustion in mines | 104 | - | 104 | 104 | - |
| Total, making available of research findings | 374 309 | 234 786 | 61 999 | 296 785 | 77 524 |
| SUM TOTAL | 131 067 080 | 93 231 276 | 11 638 790 | 104 870 066 | 26 197 014 |

cancelled by the Institution in 1972 (1).

Under a decision of 9 May 1963, several times confirmed, the ECSC's share of the residual value of material purchased during the research project subsidised must be refunded on completion of the project.

In the final report on one project we found that two pieces of equipment listed as having been bought for this project had been considered as having no resale value. The report also states that the second sampling apparatus (cost 65 240 FFfr) had in effect been declared obsolete and replaced by a third (cost 182 344 FFfr). This purchase was not provided for in the agreement and the ECSC refused to approve it as material expenditure necessary to the project. We find it hard to see how the residual value of the one sampling device ordered, intended and approved for the project can be nil, even if it proved impossible to use it for the purposes intended and it had to be replaced by an improved sampling apparatus paid for by the beneficiary. Without being able to make a technical judgment on this matter, it is nevertheless our duty to draw attention to the financial consequences of choosing certain materials and of the rapidity of technical progress.

86 - In the steel sector we found that fifty-six new contracts were signed in 1972 to a total of 7 613 880 UA (not counting credits for related costs). A further credit of 22 518 UA was given to finance the dissemination of the findings and the related costs. It is noteworthy, however, that for several of these contracts the document was not sent to the beneficiary for signature until February 1973.

Of total expenditure for the year (5 320 190 UA), 14 321 UA were for related costs.

Six projects were completed during the year after the final report was lodged by the Institution's inspectors. We found that the unused balance for these six completed projects (43 438 UA) had not been cancelled by 31 December 1972 and is still improperly entered in the provision for research on the balance sheet. This unallocated amount ought to be added to the "unallocated balance" heading for the year.

Examination of the six final inspection reports and of one supplementary report prompted no special comments on our part. We noted that assessment of the residual value of material purchased for the project is always a delicate matter especially when it is reused in other phases or other areas of research.

We also noted from our examination of the research dossiers and payments that in 1972 the internal financial control department blocked a total of about 500 000 UA which was due to be paid out to a number of steel research projects. These "credit blockings" froze either advances due under the terms of the agreements concluded or the balance due after submission of the final report. The reason for withholding these funds was usually disagreement as to assessment of the residual value of the material purchased for the project.

In this sector, which absorbs the largest single amount of funds, it

(1) cf. 1971 Auditor's report, no. 91

must be said that there have so far been very few criteria for selection of research projects and that there was no provision at all for centralized dissemination of the findings. As regards the latter point, however, the Institution and not the national centres has taken over responsibility from 1972 for publishing the results of projects it has helped to finance. A periodic publication is sent to more than a thousand recipients spread among trade union organisations and user groupings taking account of their specialisation. In addition, an annual report listing current contracts and their progress is sent to all bodies linked to the ECSC under research agreements. A questionnaire compiled by each project leader not only enables information to be gathered on the progress achieved in the work but also provides details of any publications or symposia it has prompted and any patents filed.

It is regrettable, however, that at the time of compiling this report, the Directorate-General for the Dissemination of Information has been in possession of the elements of the 1971 report for over six months.

Similarly, the departments of the Directorate-General for Steel, which is faced with problems in managing research programmes, still does not have staff qualified to check the work which is obviously specialised. Such is the case for an automation project totalling 12 million UA.

87 - In the iron ore sector, three new research contracts previously approved by the Institution were sent to the beneficiary for signature at the end of 1972. The total value of these was 608 512 UA which was entered in the provision although the agreements had not been concluded by the end of the year. No projects were completed in the course of the year and no disbursements were made in respect of current projects.

88 - In the sector of industrial safety, health and medicine, provisions for 1972 totalled 3 044 720 UA (1), comprising credits pledged under contracts signed under the following general programmes:

| | |
|------------------------------------|------------------------------|
| - industrial health and medicine | (2nd programme 2 800 000 UA) |
| - fires and underground combustion | (487 635 UA) |
| - work safety | (3 000 000 UA) |
| - physiopathology | (1st programme 3 000 000 UA) |
| - physiopathology | (2nd programme 2 500 000 UA) |
| - traumatology | (1 800 000 UA) |
| - human factors - ergonomics | (3 200 000 UA) |
| - burns | (1 500 000 UA) |
| - dust in mines | (6 000 000 UA) |
| - dust in the steel industry | (4 000 000 UA) |
| - health in mines | (3rd programme 4 500 000 UA) |

No contract had yet been signed at 31 December 1972 as regards this

(1) Net of cancellations of credits for projects completed (38 506 UA).

latter programme (4 500 000 UA), which was approved on 28 July 1971. It is intended in particular to study new problems of dust and other environmental factors caused by technical progress in production methods and by the gradual concentration of working areas in collieries.

Our examination both of new commitments and the expenses and inspection reports of the Institution's officials prompted a number of general remarks. These remarks are the result of inspecting some 80 research project dossiers during the year, held by the Directorate-General for Budgets.

We noted delays, both in completion of the projects (compared with the deadline set in the contracts and without any extension of these) and in the date of the financial report drawn up by the officials of the Inspectorate during their final on-the-spot inspection of the project.

Delays of this kind are inevitable, however, in view of the widely scattered nature of these projects, their number and unit value. These factors make the final inspections difficult to organise, especially when understaffed. The very nature of research projects and the way in which they are managed (change in responsibilities of university staff) also mean that it is hard to respect deadlines fixed in contracts to the exact day.

It is essential, however, to the success of the project and the effectiveness with which its findings are employed that the work should be completed by the date required and in as short a time as possible. Also in the interests of efficiency, it seems to us that the work should be followed by the officials responsible for checking research projects as well as by the beneficiaries of the Community assistance. It is regrettable that those in charge cannot even assign a competent official full-time to each programme, to deal with this essential task.

Certain difficulties seem to be encountered frequently by scientific project leaders in substantiating their research expenditure. The absence of any administrative infrastructure, particularly in centres managed exclusively by scientists, underlines the need to provide them with a body of regulations which are sufficiently precise but adapted to the special features of the beneficiary organisations or enterprises.

Unlike technical research on coal and steel where the final balance is held over until final inspection that the project is completed, the Community assistance is paid in full without waiting for the final inspection because of the special features of social research projects previously indicated: their number, scattered nature and relative importance.

As in the case of steel research projects, we noted that the Institution had already entered in the provision the amount of new contracts it had approved before 31 December 1972, although the beneficiary's signature had not yet been obtained by that date. The amount of these contracts at the end of the year was 288 525 UA.

Occasionally the Institution departs from the set rules and refunds costs related to social research projects on the strength of a simple declaration. This particularly applies to air fares for experts called to meeting, which are paid without production of the ticket. In this field too, we found a number of accounting errors which have been rectified or are still to be rectified.

89 - In the sector of social research on social housing construction, no contracts for an experimental programme to be financed out of credits for technical research were concluded in 1972.

We would repeat the observation made in our earlier reports (1) regarding a sum of 69 375 UA which goes back to 1958 and a second programme of experimental social housing construction which has long since been completed. According to the departments responsible, this sum concerns a dispute with a construction company which should shortly be settled.

We cannot but regret that this sum is still held in the provision although the programme it refers to is completed, so that it should no longer, in our opinion, be considered as "bindingly pledged in law" out of ECSC funds.

As regards the accounting of data for the various research projects, we have two remarks to make.

90 - The first is a simple repetition of that given in no. 96 of our previous report. It suggests improving certain figures regarding the recording in the accounts, for each project, of credits pledged (amounts under contracts) and the payments effected. These accounts are kept by the Directorate-General for Budgets.

For ease of comparison we should like to see certain details incorporated into the computer listings from the subsidiary books which enable us to follow, every month, the operations effected, viz.:

- new commitments for the year
- the figures' equivalent values in the currencies in which the payments were made
- the duration of each research project as laid down in the contract and the percentage it represents of the total cost of the project financed.

91 - The second comment concerns centralisation, for accounting purposes, of all information regarding projects which are passed to the budget departments by the originators.

The central accounting department only registers disbursements when the funds are actually withdrawn from the liquid assets. This department is notified of the amount of contracts signed and put to provision by the budget departments which are responsible for recording, on computer listings, commitments and payments as and when the contracts are signed and the payment order given by the authorising departments (Social Affairs, Industrial Affairs, Energy).

This procedure causes discrepancies when drawing up the interim balance sheets (particularly the report as per 31 June) between expenditure shown by the two departments (time lag which may sometimes be two months between the originator's payment order and the actual release of the funds by the treasury in Luxembourg) and the amounts to be put to provision, which are only determined in the light of the half-yearly balance sheets.

(1) 1971 Auditor's report, no. 95

This means considerably delays in drawing up the final balance sheet.

It seems to us indispensable that the central accounting department should record commitments and payments regularly, so that the position of all the provisions can be known at any given moment.

92 - Our last observation arising out of our audit of research expenditure is once again a repetition of the wish we have voiced for some years now (1). Although we satisfy ourselves, by means of detailed checks with the financial control and budget departments and the authorising departments that funds made available for research are judiciously employed, we nevertheless remain aware that our examinations are limited particularly in these areas where vouchers and the exact use of funds for the purposes laid down in the contracts can only be properly checked by consulting the beneficiaries of subsidies. For this reason, external auditing operations can only be truly effective if the Auditor has the opportunity to check these items on the spot. We should be glad of such an opportunity in the near future.

(1) cf. 1971 Auditor's report, no. 49

EXPENDITURE INCURRED BY THE GRANTING OF REDUCED-INTEREST

LOANS FOR REDEVELOPMENT AND RECONVERSION (art. 56) AND

INDUSTRIAL INVESTMENTS (art. 54)

93 - Extent of our audit

In respect of interest reductions on loans granted to redevelopment and re-conversion (article 56) and more recently for the promotion of industrial investment in the coal and steel sectors (article 54), our audit was required to check:

- the existence of official decisions relating to the granting of the loan, the procedure governing its payment and the amount of the interest reduction granted
- the calculation of the reduction as up-dated during its five-year period and the fact that it is covered adequately in the provision out of own funds
- the correctness of transfers out of the provision as and when interest on the loans granted falls due. These transfers are compensatory measures intended to maintain a balance between interest on loans granted and interest on the borrowings out of which these loans are financed.

These checks were carried out with the Directorate-General for "Credit and Investments".

94 - Remarks

Since 1971 the Institution set aside for interest-reduction assistance the amount of reductions granted on loans given under articles 54 and 56 of the Treaty or on loans from other sources as soon as the beneficiaries are notified of the decision to give assistance and thus before actual signature of the loan agreement whereby the two parties are contractually committed. This practice differs from that followed in constituting other budgetary provisions (research and readaptation) where signature of the contract or a commitment by the two parties determines any allocation.

- 95 - The provision for interest reductions on loans to industrial redevelopment and reconversion (article 56) totalled 10 502 914 UA at 31 December 1972. New commitments approved during the year totalled 2 982 287 UA, of which 2 594 287 UA were for twelve loans granted by the Institution and 388 000 UA were, for the first time, for a loan raised elsewhere by a Community steel enterprise. This latter assistance was calculated as a reduction of 2 3/4% per annum on three instalments of the loan spread over the first five years. We checked the disbursement of these assistance payments during the year (2 462 909 UA) and had no comments to make.
- 96 - The provision for interest reductions on loans for the financing of industrial investments in the coal and steel sectors (Commission decision of 18 June 1970 under article 54) totalled 6 196 707 UA at 31 December 1972. New commitments approved in the course of the year were 4 020 354 UA. We checked the disbursement of these assistance payments during the year (850 337 UA) and had no observations to make.

FINANCIAL ASSISTANCE TO COKING COAL AND COKE

97 - Extent of our audit

Our audit of operation concerned with the machinery of the ECSC's financial assistance to coking coal and blast furnace coke in the member countries under decision no. 1/70 covered:

- the accounting entries and correctness of Community assistance payments with regard to the financial provisions of decision no. 1/70
- checking that the elements used to determine the financial assistance given by the ECSC were correctly recorded, viz.:
 - . quarterly information from companies on their purchases of coking coal or coke from non-Community countries for delivery to blast furnaces in the steel industry
 - . quarterly and annual statements from member countries of assistance to sales (by enterprise, coalfield and country of destination), which indicate, inter alia, the elements used to determine the basis of assessment for sales assistance
- comparison of declarations furnished by coke suppliers with those of the users.

We carried out our checks mainly by examining the documents provided by the Directorate-General for "Budgets", following contacts with the Directorate-General for "Energy" which administers the assistance machinery on behalf of the Institution.

98 - Remarks

It will be recalled that the machinery provided for under decision no. 1/70 was for three years (1970 to 1972) and thus ended at 31 December 1972. However, statements and payments under this machinery do not always relate strictly to a financial year. Thus, disbursements in 1972 relate to periods falling within the financial years 1970 and 1972. The figures at 31 December 1972 are still provisional and only those for 1970 are complete and final.

It should also be recalled that for 1971 and 1972 the contributions of member countries and the ECSC to Community financing were determined by a procedure designed to accelerate this financing. The exact amounts of these contributions will not be known until the checks currently being carried out by the competent national authorities and the Institution are completed.

The final statement for 1970 totals 17 921 925 tonnes, broken down as follows:

| | |
|-----------|-------------------|
| - Germany | 17 813 561 tonnes |
| - Belgium | 108 364 tonnes |

Under article 8, paragraph 2 of decision no. 1/70, whereby repayments are duly reduced if the tonnages exceed the annual maximum of 17 million tonnes, the tonnage in the 1970 statement was reduced to 17 million tonnes (16 897 210 tonnes for Germany and 102 790 tonnes for Belgium) by application of a corrective coefficient of 0.9485588 (1), i.e. a total Community contribution of 3 400 000 UA broken down as follows:

| | |
|-----------|--------------|
| - Germany | 3 379 442 UA |
| - Belgium | 20 558 UA |

Total disbursements by the Institution at 31 December 1972 were 6 974 800 UA. To make up the total amount of Community assistance (7 650 000 UA), 675 200 UA thus remain to be paid. Now that the contributions for 1970 have been finally paid and the account closed, disbursements for 1971 and 1972 break down as follows: 52 500 UA to pay on 1971 and 622 700 UA to pay on 1972.

At the end of 1972, the balance sheet contained no provision for assistance to coking coal. As for 1972, in which payments (1 700 800 UA) were greater than the provision made at the beginning of the year (676 000 UA), the Institution will thus have to draw from its own resources, in 1973, the sums it needs to pay off the balances due on 1971 and 1972.

Our checking operations did not give rise to any particular comments. Because of the time lag between the date on which the machinery comes to an end (31 December 1972) and the compilation of the final statements for Community contributions, we shall not be able to complete our checks for 1972 and all operations relating to the assistance machinery until our report for 1973.

(1) arrived at from the following ratio: $\frac{17\ 000\ 000}{17\ 921\ 925}$

ADMINISTRATIVE EXPENDITURE

99 - Extent of our audit

Administrative expenditure is a fixed sum of 18 million units of account, the ECSC's annual contribution to the administrative operating costs of the Commission of the European Communities under article 20, paragraph 2 of the treaty of merger of the Executives. As an integral part of the budget of the single Executive, external auditing responsibility for this expenditure belongs exclusively to the Audit Board of the Commission of the European Communities.

Our own task is simply to check that the amount of this annual contribution paid to the administrative budget is correct and disbursed in the required manner.

Remarks

- 100 - The Commission of the European Communities requires that the flat-rate contribution of 18 million UA be paid to it in Belgian francs at the rate of 75 million BFRs per month.

As the Treaty requires the ECSC to cover its administrative expenditure out of income from the levy, the Institution draws not only on its available Belgian franc assets, but also, since these are insufficient, on deposits of levy income in other currencies which it then converts into Belgian francs. The general insufficiency of available Belgian franc funds becomes evident if we compare total revenues in Belgian francs for 1972 (levy and income on investments), i.e. 7.8 million UA, with total expenditures in Belgian francs for the same year, which amounted to 22 million UA. Our audit also revealed that in 1972, for the monthly instalments of the flat-rate contribution alone, the Institution conducted Belgian franc exchange operations to a total of 10 009 000 UA, entailing a total loss of 65 000 UA.

This shows that provisions of this sort governing transfer operations considerably restrict the ways in which BFR assets can be employed. They entail sizeable exchange costs which are charged, wrongly, to the ECSC and thus indirectly increase its annual contribution to the administrative expenses of the Communities. The excess over 18 million UA should be charged to the single ad-

ministrative budget. Furthermore, it would be more logical and above all more economic to pay the flat-rate contribution of 18 million UA in proportion to the amounts collected from the levy in the various national currencies, in accordance with the breakdown by country shown in tables 11 and 17.

Given the present-day currency fluctuations and the increasingly high costs of exchange as a result, we would ask the Institution to return, as soon as possible, to a situation which is strictly in accordance with the treaty of merger.

101 - We would also repeat the comment we made in last year's report (1) regarding the criteria for the charging of administrative costs likely to be covered by the fixed sum of 18 million UA to the financial accounts relating to the specific activities of the ECSC.

The agreement of May 1964 between the parties to the treaty of merger to take as reference the expenditure estimate for 1964-1965 means that these costs cannot be charged to the ECSC even if they are incurred as a result of a specific financial operation.

As in 1971, we included under the ECSC's financial costs the entertainment costs incurred during the negotiation of certain borrowings, although these expenditures have no contractual connection with these borrowings.

(1) Auditor's report for 1971, no. 107

BORROWING, LENDING AND GUARANTEE OPERATIONS

Extent of our audit

- 102 - With regard to borrowings, our audit covered the whole process entailed by the floating of ECSC loans, in particular:
- analysis and examination of private and public loan agreements
 - surveillance of the operations following each issue: transfer of funds, analysis of the issuing costs, payment of coupons, redemptions, calculation of interest paid and due
 - checking that operations relating to the loan were correctly entered in the accounts
 - checking that loan operations were carried out in accordance with the terms of the agreements governing them.
- 103 - With regard to loans granted out of borrowed or own funds, our audit covered the ECSC's entire credit operations, more particularly:
- analysis and examination of the loan agreements
 - surveillance of the related operations: transfer of funds loaned, calculation of interest paid and due, checking that due dates and repayment schedules were respected, fees to national agents
 - analysis and checking of guarantees obtained
 - checking that loans were allocated in accordance with the terms of the Treaty (depending on the origin of the funds and proposed use of the loans)
 - checking that loan operations were carried out in accordance with the terms of the agreements governing them
 - checking that operations relating to the loan were correctly entered in the accounts
 - any disputes.
- 104 - With regard to the servicing of all borrowings and the corresponding loans,

our audit concentrated on the operating account for borrowings contracted and loans granted out of these borrowings.

- 105 - With regard to guarantee operations, we checked that fees received by the ECSC for its guarantee activities were correct, as well as the expenditure incurred by remuneration of agent banks in the various countries for their assistance and operations connected with supervision of dossiers. We also examined commitments still due from companies for which the ECSC had previously stood security and ensured, more especially, that amounts still guaranteed under the repayments schedule for loans contracted by enterprises were correct.

Remarks

- 106 - At 31 December 1972 the position with regard to borrowings contracted and loans granted out of own funds and borrowed funds was as follows:

| | | |
|---|-------------|-----------------------|
| <u>Borrowings contracted:</u> | | <u>918 597 846 UA</u> |
| in US dollars | | 196 599 460 |
| in DM | | 245 181 003 |
| in Italian lire | | 174 400 000 |
| in Dutch florins | | 29 344 751 |
| in French francs | | 74 268 255 |
| in Belgian francs | | 50 068 400 |
| in Luxembourg francs | | 41 777 854 |
| in Swiss francs | | 38 258 123 |
| in units of account | | 18 700 000 |
| in units of the EMA | | 50 000 000 |
| | | |
| <u>Loans granted:</u> | | <u>958 433 510 UA</u> |
| out of <u>borrowed funds</u> | | 869 282 347 |
| - for industrial investments | 642 801 286 | |
| - for industrial redevelopment and reconversion | 199 572 248 | |
| - for social housing | 26 908 813 | |
| out of <u>own funds</u> | | 80 386 872 |
| - for readaptation | 394 762 | |
| - for research | 2 308 796 | |
| - for social housing | 74 283 693 | |
| out of the <u>former ECSC pension fund</u> | | 8 764 291 |

It is clear from these figures that over 49 million UA of borrowed funds had not yet been loaned at the end of the year. In effect, the greater part of this amount (42.6 million UA) was accounted for by the product of two borrowings

contracted and collected at the end of the year and which clearly could not have been fully reallocated as loans at 31 December 1972. A further 4.3 million represent the balance of a loan collected in July 1972. The remainder, 2.1 million UA, was the product of issues, some of which date from August 1971, or from anticipated repayments.

Analysed in this way, the figures show that the Institution endeavoured beyond any doubt to synchronise the receipt of borrowed funds and their reallocation as loans. As for the reduced balance of 2.4 million UA, we found that delays incurred were the result not only of actually compiling the dossiers but primarily of difficulties encountered with regard to priority borrowers.

Borrowings

- 107 - Table 20 shows the main characteristics of each loan contracted by the ECSC from its inception up to 31 December 1972, with the initial amounts borrowed and the balance outstanding at the end of the 1972 financial year.

As this table reveals, the ECSC has contracted 72 loans on the international market and various national markets since its inception, to an equivalent value of 1 213.78 million UA. At 31 December 1972 this total had been reduced to 918.6 million UA.

With the eight borrowings to an equivalent value of 185.55 million UA which were contracted and collected during 1972, the Institution had available to it borrowed funds totalling 230.9 million UA. These comprised the proceeds of new loans floated during the year (185.55 million UA) and loans floated before 1972 but not yet reloaned at the beginning of the year (45.4 million UA).

The characteristics of the eight new loans were given in part one of this report.

- 108 - Three other borrowings were made under firm contracts during December 1972 and are held on the balance sheet in the suspense account as the securities were only issued and the proceeds collected at the beginning of 1973.

Briefly, the main features of these three operations are as follows:

- 30 million US dollars (27 631 688.02 UA): 15-year private loan floated at 99.50% on the international market, 7% interest per annum
- 60 million FFr (10 802 655.29 UA): 15-year private loan floated at par on the international market, 7 1/2 % interest per annum
- 300 million LFr (6 000 000 UA): 15-year private loan contracted from a Luxembourg bank, 6 3/4 % interest per annum.

At the end of the year the Institution had thus handled a total of some 230 million UA, a record for any one year since its inception.

The downward trend in interest rates which had emerged in 1971 and more or less halted in 1972 enabled the Institution to take maximum advantage of the situation by drawing simultaneously on the resources of national markets (Italy, Luxembourg, Germany, Switzerland) and the international market. Compared with

Table 20 : - ECSC BORROWINGS
 - CHARACTERISTICS, INITIAL AMOUNTS AND BALANCES
OUTSTANDING FOR EACH BORROWING AT 31.12.1972

| Floated, maturing in | Initial amount | Description of loan | Balances outstanding at 31/12/1972 |
|--|-------------------|------------------------------------|--|
| in § | | | |
| 1954/1979 (1) | 92 105 626 | 3.875 % private loan | 38 039 624 |
| 1957/1975 (1) | 23 026 407 | 5.5 % debenture loan | 5 526 338 |
| 1957/1962 (1) | 9 210 563 | 5 % bearer bonds and private loan | - |
| 1958/1978 (1) | 32 236 969 | 5 % debenture loan | 13 171 105 |
| 1958/1963 (1) | 13 815 844 | 4.5 % bearer bonds | - |
| 1960/1980 (1) | 23 026 407 | 5.375 % debenture loan | 12 388 207 |
| 1960/1965 (1) | 9 210 563 | 4.75 % to 5 % bearer bonds | - |
| 1962/1982 | 23 026 407 | 5.25 % debenture loan | 15 427 692 |
| 1964/1984 | 27 631 688 | 5.25 % debenture loan | 22 105 350 |
| 1966/1986 | 13 815 844 | 6.5 % debenture loan | 12 894 788 |
| 1966/1986 | 18 421 125 | 6.5 % debenture loan | 17 177 699 |
| 1967/1987 | 23 026 407 | 6.5 % debenture loan | 23 026 407 |
| 1967/1987 | 18 421 125 | 6.625 % debenture loan | 18 421 125 |
| 1971/1986 | 18 421 125 | 7.75 % debenture loan | 18 421 125 |
| | 345 396 100 | | 196 599 460 |
| in DM | | | |
| 1956/1981 (1) | 13 661 202 | 3.75 % private loan | 5 435 738 |
| 1957/1977 (1) | 813 511 | 4.25 % private loan | 264 391 |
| 1964/1976 | 27 322 404 | 5.75 % private loan | 12 295 082 |
| 1964/1979 | 27 322 404 | 5.5 % debenture loan | 15 983 607 |
| 1964/1976 | 8 196 721 | 5.75 % private loan | 3 278 688 |
| 1965/1983 | 40 983 607 | 5.5 % debenture loan | 34 699 454 |
| 1965/1970 | 6 284 153 | 5.5 % private loan | - |
| 1967/1972 | 8 196 722 | 6.75 % private loan | - |
| 1968/1978 | 32 786 885 | 6.5, 6.75 and 6.875 % private loan | 24 590 164 |
| 1968/1981 | 16 393 443 | 6.25 % private loan | 14 754 098 |
| 1969/1984 | 10 928 962 | 6.25 % private loan | 10 928 962 |
| 1969/1982 | 13 661 202 | 6.5 % private loan | 13 661 202 |
| 1969/1984 | 13 661 202 | 6.75 % private loan | 13 661 202 |
| 1971/1986 | 27 322 404 | 7.5 % debenture loan | 27 322 404 |
| 1972/1987 | 27 322 404 | 6.5 % debenture loan | 27 322 404 |
| 1972/1988 | 40 983 607 | 7 % debenture loan | 40 983 607 |
| | 315 840 833 | | 245 181 003 |
| Carry forward | 661 236 933 | | 441 780 463 |
| (1) These loans were concluded under the 1954 Act of Pledge between the ECSC and the Bank for International Settlements. | | | |

Table 20 (contd. 1)

| Floated, maturing in | Initial amount | Description of loan | Balances outstanding at 31.12.1972 |
|---|-------------------|-----------------------|--|
| carried forward | 661 236 933 | | 441 780 463 |
| in Lit. | | | |
| 1963/1983 | 24 000 000 | 5.5 % debenture loan | 17 600 000 |
| 1966/1986 | 24 000 000 | 6 % debenture loan | 22 400 000 |
| 1966/1986 | 24 000 000 | 6 % private loan | 22 400 000 |
| 1968/1988 | 24 000 000 | 6 % debenture loan | 24 000 000 |
| 1968/1988 | 24 000 000 | 6 % debenture loan | 24 000 000 |
| 1972/1987 | 32 000 000 | 7 % debenture loan | 32 000 000 |
| 1972/1987 | 32 000 000 | 7 % private loan | 32 000 000 |
| | 184 000 000 | | 174 400 000 |
| in Fl. | | | |
| 1961/1981 (1) | 13 812 155 | 4.5 % debenture loan | 8 259 669 |
| 1961/1966 | 2 762 431 | 4.5 % private loan | - |
| 1962/1987 | 1 657 459 | 4.5 % private loan | 994 475 |
| 1962/1982 | 6 906 077 | 4.75 % debenture loan | 4 627 072 |
| 1962/1967 | 5 524 862 | 4.5 % private loan | - |
| 1963/1968 | 2 762 431 | 4.5 % private loan | - |
| 1963/1993 | 483 425 | 4.625 % private loan | 339 226 |
| 1964/1984 | 6 906 077 | 5.75 % debenture loan | 5 538 674 |
| 1965/1985 | 11 049 724 | 5.75 % debenture loan | 9 585 635 |
| 1967/1972 | 5 524 862 | 6.375 % private loan | - |
| | 57 389 503 | | 29 344 751 |
| in FFr | | | |
| 1964/1984 | 27 006 638 | 5 % debenture loan | 20 254 978 |
| 1971/1989 | 27 006 638 | 8.5 % debenture loan | 27 006 638 |
| 1972/1987 | 27 006 639 | 7.25 % debenture loan | 27 006 639 |
| | 81 019 915 | | 74 268 255 |
| in SFr | | | |
| 1956/1974 (1) | 12 242 600 | 4.25% debenture loan | 2 142 455 |
| 1961/1966 | 2 203 668 | 5.25% private loan | - |
| 1961/1966 | 560 711 | 4.5% private loan | - |
| 1962/1980 | 14 691 119 | 4.5% debenture loan | 9 181 950 |
| 1969/1987 | 14 691 119 | 5.5% debenture loan | 14 691 119 |
| 1972/1984 | 12 242 599 | 6.25% bank loan | 12 242 599 |
| | 56 631 816 | | 38 258 123 |
| Carry forward | 1 040 278 167 | | 758 051 592 |
| (1) These loans were concluded under the 1954 Act of Pledge between the ECSC and the Bank for International Settlements | | | |

Table 20 (contd. 2)

| Floated, maturing in | Initial amount | Description of loan | Balances outstanding at 31.12.1972 |
|--|-------------------|----------------------|--|
| Carried forward | 1 040 278 167 | | 758 051 592 |
| In LFr | | | |
| 1957/1982 (1) | 100 000 | 3.5% private loan | - |
| 1957/1982 (1) | 2 000 000 | 5.375% private loan | 1 222 245 |
| 1961/1986 (1) | 2 000 000 | 5.25% private loan | 1 553 340 |
| 1961/1986 | 2 000 000 | 5% private loan | 1 544 112 |
| 1962/1977 | 6 000 000 | 4.75% debenture loan | 3 000 000 |
| 1962/1987 | 5 000 000 | 5.125% private loan | 4 058 157 |
| 1964/1984 | 3 000 000 | 5.375% private loan | 2 400 000 |
| 1971/1979 | 3 000 000 | 6.5% debenture loan | 3 000 000 |
| 1971/1986 | 5 000 000 | 7% debenture loan | 5 000 000 |
| 1971/1983 | 6 000 000 | 7.75% private loan | 6 000 000 |
| 1972/1984 | 6 000 000 | 6.75% private loan | 6 000 000 |
| 1972/1987 | 8 000 000 | 6.75% debenture loan | 8 000 000 |
| | 48 100 000 | | 41 777 854 |
| in UA | | | |
| 1966/1986 | 20 000 000 | 5.75% debenture loan | 18 700 000 |
| in BFr | | | |
| 1957/1982 (1) | 4 000 000 | 3.5% private loan | 2 044 000 |
| 1957/1982 (1) | 400 000 | 3.5% private loan | 204 400 |
| 1962/1982 | 6 000 000 | 5.25% private loan | 4 200 000 |
| 1963/1983 | 6 000 000 | 5.5% private loan | 4 620 000 |
| 1968/1983 | 15 000 000 | 6.75% debenture loan | 15 000 000 |
| 1970/1990 | 10 000 000 | 8.75% private loan | 10 000 000 |
| 1971/1986 | 14 000 000 | 7.75% debenture loan | 14 000 000 |
| | 55 400 000 | | 50 068 400 |
| in £ | | | |
| 1970/1990 | 50 000 000 | 8% debenture loan | 50 000 000 |
| SUMS TOTALS | 1.213.778.167 | | 918 597 846 |
| (1) These loans were concluded under the 1954 Act of Pledge between the ECSC and the Bank for International Settlements. | | | |

the previous year, the ECSC's borrowing activities almost doubled in 1972.

109 - Of the loans floated in 1972, two are rather special:

- the private loan of 50 million SFr (12 242 599 UA) is more a temporary advance from a bank, although for a term of twelve years. The agreement governing this provides for later consolidation by the floating, in Switzerland, of a long-term public loan with the option of anticipated repayment of all or part of the initial advance. However, the Institution may, if it so wishes, only conclude this operation if the nominal interest on the loan floated at par does not exceed 6 3/4 % per annum.
- the Italian public loan of 20 000 million Lit. (32 000 000 UA) shown in table 6 was floated at 7% interest per annum, a lower rate than those currently prevailing on the market. As it carried a particularly high issue discount (5.5%), this sizeable corrective factor must be taken into account when assessing the return to the bondholder.

110 - The first instalment of the 20 million dollar loan floated in 1971 at 7 3/4 % annual interest and with a clause of reference to the LFr was paid by the ECSC on 1 September 1972. This loan was commented on in last year's report (1). This first instalment was paid by making available to creditors the amount of the interest due to them, calculated as a function of specific contractual provisions. It was expressed first in \$ US (\$ 20 million at 7 3/4 % = \$ 1 550 000) and then, for calculation purposes, converted into LFr at the rate of US \$ 1 : 50 LFr (\$ 1 550 000 = 77 500 000 LFr) and reconverted into \$ US at the rate of US \$ 1 : 43.54 LFr set by the Luxembourg Banking Commissioner (77 500 000 LFr = US \$ 1 780 000). This double conversion means that ECSC creditors collected an additional US \$ 230 000 (1 780 000 instead of 1 550 000).

At the same time, the loans granted by the ECSC using these borrowed funds carried a standard rate of 8 1/4 % interest which theoretically - if the loans had all been granted simultaneously with the same payment date as that of the borrowing - would give a slight profit due to the higher interest return on the loans. This is only possible, however, if the extra cost of the borrowing in question is borne in the last analysis both by the companies receiving loans and by the Community when it grants reductions in the rate of interest charged on these loans. The terms of loan agreements in effect require beneficiaries to meet their interest payments on a calculation basis similar to that on which the interest payments on ECSC borrowings are made. The amount is determined first in US \$ (US \$ 20 000 000 at 8 1/4 % = \$ 1 650 000), converted into LFr at the usual rate of US \$ 1 : 48.50 LFr (US \$ 1 650 000 = 80 025 000 LFr) and reconverted into US \$ at the fixed rate of US \$ 1 : 43.54 LFr set by the Banking Commissioner (80 025 000 LFr = US \$ 1 838 000). The US \$ amount collected as interest on loans, viz. US \$ 1 838 000 must be compared with that collected as interest on ECSC borrowings, viz. US \$ 1 780 000.

As regards repayment both of the borrowing and the loans, the exchange guarantee described above also applies to capital transactions and initially entails a 3% loss for the ECSC, as we pointed out last year. This loss is growing in proportion to the depreciation of the dollar against the Luxembourg franc on

(1) ECSC Auditor's report for 1971, no. 114

money markets. We are, thus, faced with an exception to the principle of parallelism in both the sum loaned and the currency between the borrowings and the corresponding loans, whereas the purpose of this principle is precisely to safeguard the Community against exchange risks caused by currency manipulation.

However, in order to appreciate fully the mathematical incidences given above, account must be taken of the market conditions prevailing at the time. When the borrowing was being planned, the US \$ was still at its fixed parity. Interest rates had been rising considerably, and the Institution's intention was precisely to take advantage of easier conditions. For the fund-borrowing companies, concentrated essentially in three Community countries where currency rates were on an upward trend, the burden represented by currency stipulations contained in loan agreements was offset by their ability to make a profit on dollar exchanges against their own national currency.

- 111 - In 1972, loan-issuing costs written off totalled 3 051 329 UA, or 13% of all recoverable issuing costs compared with a total estimated in 1971 at 10%.

Whilst the new method of writing off 10% of recoverable issuing costs, adopted by the Institution in 1971, seemed to us adequate - although arbitrary - we are surprised to see it departing from this practice only one year after selecting it. We still think that the Institution should maintain consistent criteria in accordance with the principles underlying the reinstatement of these costs which were formerly charged directly to expenditure.

- 112 - Like last year, we feel obliged to voice new reservations as regards the charging of administrative expenditure to the financial costs of borrowings. We do not claim that these expenditures are unjustified, any more than we did in our last report (1), but we feel it our duty to state these costs should be charged to the administrative budget of the Commission of the European Communities in accordance with the provisions agreed on at the time of the merger of the Executives.

Loans

- 113 - A. Loans out of borrowed funds

From its inception to 31 December 1972 the Institution had granted loans out of borrowed funds to a total of 1 192 982 240 UA, including loans granted a second time out of funds loaned but repaid in advance of the due date. These totalled 869 282 347 UA at 31 December 1972 and are shown on the balance sheet under assets. Since total borrowings shown under liabilities were 918 597 846 UA the difference of 49 315 499 UA which was still available at the date of the balance sheet is earmarked exclusively under the terms of the Treaty for the granting of new loans which had not yet been contracted at this date, as stated at the beginning of this chapter.

Compared with the previous year, loans granted out of borrowed funds in 1972 (195 000 000 UA) were up by almost 75%.

(1) ECSC Auditor's report for 1971, no. 116

114 - As regards the uses made of loans out of borrowed funds, it is apparent from table 1 that of the 151 412 900 UA disbursed in 1972, the greater part was accounted for by loans to finance industrial investments under article 54 of the ECSC Treaty (79% of the total), followed by loans to industrial redevelopment and reconversion (20%) and worker housing (1%). These latter loans were granted almost entirely out of own funds (special reserve).

115 - Industrial loans under article 54 of the Treaty were made to coal and steel investments within the general objectives of the Community. As stated in the notes to the statement of revenues (no. 62) interest rates varied in 1972 from 8 1/4 to 7 1/2 % per annum. The gradual reduction of the interest rates on loans granted during the year is in accordance with the ECSC's financial mission, which is to raise long term funds on the markets offering the most attractive conditions and to re-loan them at their average cost, thus enabling the companies benefitting from the loans to obtain long-term resources at a cost which is generally lower than that prevailing both in member countries and on the international market.

Under the Institution's decision of 18 June 1970, all or part of certain industrial loans have been charged a reduced rate of interest for the first five years. This reduced rate has been established at three per cent below the normal rate. Loans of this kind were granted to coking plants designed to offset expected closures and to promote projects of a multinational nature likely to foster the integration at Community level of ECSC companies.

On 22 December 1972 the Institution took its first decision in respect of investments for environmental protection, though the reduced-interest loan has not yet been disbursed.

116 - Since 1967 the ECSC has granted loans for industrial redevelopment and reconversion under article 56 of the Treaty which are also eligible for a reduced rate of interest. In 1972, for the first time, the Institution granted an interest reduction on a long-term investment loan given by a non-community organisation to a steel company. At 2.75% per annum (on a loan carrying 6.75% interest) this totals 388 000 UA over a period of 5 years.

117 - During this period of changing interest rates, we consider that the Institution should take care to apply strict criteria in respect of the date of reference and procedure for allocating loans (decision to grant loan, date of signing agreement, date of first disbursement) when deciding to amend the rate actually payable by the borrowers. Care of this kind would enable the negotiating parties to be fully clear as to their mutual obligations and, on the other hand, would ensure that the recipient of loans receive strictly equal treatment.

As regards loans for the construction of social housing, only one loan was made out of borrowed funds in 1972 under the seventh programme. It totalled 924 000 UA and was granted in Belgium.

118 - As security on loans granted out of borrowed funds, the ECSC demands a variety of guarantees, which break down by country as shown in table 21. It will be seen that first mortgages, followed by the guarantee of member countries, financial establishments and industrial groupings provide the security for the greater part of loans granted (77%).

Table 21 : - LOANS GRANTED OUT OF BORROWED FUNDS
 - BREAKDOWN BY COUNTRY AND TYPE OF SECURITY OBTAINED
 - BALANCES OUTSTANDING AT 31.12.1972

| Type of security | Germany | Belgium | France | Italy | Luxembourg | Netherlands | Total |
|--|-------------|------------|-------------|-------------|------------|-------------|-------------|
| 1. Government guarantees and negative clauses | | 2 281 823 | 9 125 825 | | | | 11 407 648 |
| 2. Guarantees of member countries | 17 697 748 | 62 529 319 | 60 365 765 | 28 765 134 | 1 180 932 | | 170 538 898 |
| 3. Indemnity bonds of financial establishments | 51 833 490 | 24 846 673 | 44 865 864 | 42 977 065 | | 5 104 532 | 169 627 624 |
| 4. Indemnity bonds of financial establishments and mortgages | 29 604 891 | | | | | 3 091 938 | 32 696 829 |
| 5. First mortgages | 212 303 414 | 12 264 | 506 868 | 3 537 924 | | 11 762 188 | 228 122 658 |
| 6. Second mortgages | 21 439 501 | | | | | 12 125 141 | 33 564 642 |
| 7. Indemnity bonds of industrial groups and negative clause | | 3 803 962 | 10 819 418 | 570 594 | | | 15 193 974 |
| 8. Indemnity bonds of industrial groups | 7 380 000 | | 21 718 758 | 73 454 856 | | 1 287 845 | 103 841 459 |
| 9. Negative clauses and misc. | 11 654 462 | 1 423 202 | 19 585 252 | 190 101 | 2.000.000 | 9 400 068 | 44 253 085 |
| 10. Registered mortgage bond | 5 435 738 | | | | | 459 116 | 5 894 854 |
| 11. Bank guarantee | 9 639 134 | | 33 087 692 | | | 11 413 850 | 54 140 676 |
| Total per country and for the Community | 366 988 378 | 94 897 243 | 200 075 442 | 149 495 674 | 3 180 932 | 54 644 678 | 869 282 347 |

In certain cases of mergers between companies, we noted the concern shown by the Institution to obtain security from the parent company on loans granted to subsidiaries.

119 - As far as disputes are concerned, there has been nothing new since 1968. It may be recalled that under the regulation concerning the rationalisation plan agreed on in 1968 between the ECSC and a company receiving an industrial loan the Institution took over a sum of 75 348 UA in 1972, representing the repayment instalment and interest due in 1972, thus bringing the total loss under this debt at 31 December 1972 to 1 015 185 UA. Two other debtors who defaulted in 1968 also still appear under sundry debtors for a total amount of 580 295 UA. Recovery of one of these loans (30 661 UA) appears unlikely. The Institution still hopes to be able to collect the other (549 634 UA), which was secured by a mortgage. Loans still outstanding from defaulting debtors represented only 0.3% of all loans granted out of borrowed funds at 31 December 1972.

120 - B. Loans granted out of non-borrowed funds

At 31 December 1972 these loans totalled 89 151 163 UA. It will be seen from the notes to the assets side of the balance sheet (no.13) that the sum of 74 283 693 UA, or 83% of the total, was given to finance social housing construction programmes. Loans granted out of the special reserve were 6 923 072 UA in 1972, a better figure than that for the previous year (518 348 UA).

Because the methods used to finance this form of activity are so varied, a special section is devoted to them in order to give a better overall picture.

Since 1966-1967 loans to industrial redevelopment and reconversion have generally been given with interest reductions out of borrowed funds whilst since 1959 and 1966 respectively social readaptation of workers and research have been financed exclusively by outright grants.

Loans granted out of the former ECSC pension fund (8 764 291 UA) were smaller (about 10% of the total), and reflect the volume of assistance given to the housing of staff of the Community institutions.

As regards guarantees, table 22 shows the various types of security required by the Institution for loans granted out of the special reserve (social housing and former industrial redevelopment and reconversion activities). These loans totalled 77 683 314 UA at 31 December 1972.

121 - Guarantee operations

Under article 51 paragraph 2 and article 54 of the Treaty, the ECSC may extend its guarantee to loans contracted by coal and steel companies with non-community bodies. Of the three operations guaranteed before 1966, two are still current, representing a total net commitment guaranteed at 31 December 1972 of 24 137 368 UA.

We have no comment to make on our examination of these guarantees extended by the ECSC for commitments entered upon by companies receiving outside loans. Since 1966 no application for the ECSC's guarantee has been received.

Table 22 : - LOANS GRANTED OUT OF THE SPECIAL RESERVE
 - BREAKDOWN BY COUNTRY AND TYPE OF SECURITY OBTAINED
 - BALANCES OUTSTANDING AT 31 DECEMBER 1972

| Country | Government guarantee | Registered mortgage bond | Mortgage | Indemnity bonds and other guarantees | No guarantee | Total |
|-------------|----------------------|--------------------------|-----------|--------------------------------------|--------------|------------|
| Germany | 1 734 713 | 25 810 194 | - - | 13 649 289 | 1 900 820 | 43 095 016 |
| Belgium | 2 640 656 | - | - | - | - | 2 640 656 |
| France | 1 192 163 | - | 1 005 889 | 14 190 156 | 1 874 207 | 18 262 415 |
| Italy | - | - | - | 6 236 065 | - | 6 236 065 |
| Luxembourg | 1 527 245 | - | - | - | - | 1 527 245 |
| Netherlands | - | 1 562 132 | 310 654 | 4 049 131 | - | 5 921 917 |
| Total | 7 094 777 | 27 372 326 | 1 316 543 | 38 124 641 | 3 775 027 | 77 683 314 |

MANAGEMENT AND INVESTMENT OF FUNDS

122 - Extent of our audit

In this field, where operations are numerous and speedy, the objective of our auditing activities is continually to ensure that the requirements of good investment management, i.e. yield, security and liquidity, are respected. To this end we systematically examined the ECSC's investments, principally with regard to the dates of fixed deposits and the various operations (e.g. arbitrage) connected with portfolio assets.

We examined systematically all revenues other than levy income in greater detail: interest, income on bank accounts and investments and related costs, interest on loans granted out of own funds, fines and interest on arrears and miscellaneous revenue. For each account we checked that the revenue amounts were correct, that their dates were duly respected and that they were correctly charged. We also ensured that the conditions governing loans granted out of own funds were properly observed.

Our audit was based on examination of the accounting vouchers, contracts and bank agreements on which the Institution's entitlement to its various revenues is founded.

Remarks

- 123 - Table 32 in appendix III shows the average annual return on liquid assets for the last four financial years. This grew from 5.3% in 1969 to 5.4% in 1972. This rate is applied to a liquid assets position calculated from the average figure of capital held at the end of the previous year and that held at the end of the year under review. It will be seen that average liquid assets for 1969 were 233 million UA and 216.5 million UA for 1972.
- 124 - At 31 December 1972 the ECSC held liquid assets of 276 915 492 UA which are shown on the balance sheet assets under the headings "available and realisable" (195 261 249 UA), "short and medium-term investments" (27 149 489 UA) and "portfolio" (54 504 754 UA).

The greater part of these funds (222 410 738 UA) is held at banks in current

accounts at sight and at notice, in fixed deposits with a term of less than one year or in the form of other short and medium-term investments. There are a number of longer-term investments to cover certain commitments undertaken earlier. The rest (54 504 754 UA) is held in portfolio in the form of first rate bonds issued by national and government authorities and official and semi-official bodies. At 31 December 1972 the securities portfolio comprised bonds in varying currencies held at banks in five different countries.

Liquid assets held by the Institution were 3 million UA higher than at 31 December 1971. Whilst these funds have not differed much between the two years, there was a slight change in the internal composition of the liquid assets due to the fact that the Institution withdrew from sums previously included in its portfolio the amount of ECSC bonds which were redeemed by the Institution because they would shortly have matured.

It should also be recalled that the Institution includes the borrowings it contracts among its liquid assets up to the time it loans these funds. At 31 December 1972 they totalled 49 315 499 UA. This more flexible, less compartmentalized treatment of the liquid assets meant that borrowed funds awaiting allocation could be more profitably invested, whilst these investments can be rapidly realised for disbursement as loans required out of available liquid assets.

Following the redemption of its own ECSC bonds and their withdrawal from the securities portfolio, the portfolio accounted for only 19.7% of all liquid assets as opposed to 23.7% in 1971.

125 - By way of illustration, table 23 shows a breakdown by country and currency of all liquid assets at the date of the balance sheet. This breakdown is clearly subject to frequent changes particularly when interest rates are fluctuating as at present.

Table 24 gives a breakdown of available funds by currency and interest rate for investments at sight and at notice (except for short and medium-term investments and the portfolio). This two-fold breakdown is clearly shown as a percentage of these liquid assets available at sight and at notice as a whole.

It will be seen from these tables that the biggest share of liquid assets (43%) is accounted for by DM invested with German financial establishments. In decreasing order of size, follow investments in Lire (17.1%), FFr (13.6%), US \$ (12.5%), Fl (4.4%), BFr (4%), SFr (2.4%), and LFr (2%). More than one third of the capital was invested at sight and at short term, bearing 5 to 6% interest per annum (compared with 6 to 7% per annum at 31 December 1971).

It is interesting to compare the changes between 1971 and 1972 in both the size of investments and their interest rates, for each currency.

Table 23 : - BREAKDOWN BY COUNTRY AND CURRENCY OF FUNDS HELD BY THE ECSC
AT 31.12.1972 (in million units of account)

| Country | C u r r e n c y | | | | | | | | | | Total per country | % |
|-----------------------|-----------------|--------|--------|--------|-------|--------|------|-------|--------|-------|-------------------------|-------|
| | DM | BFr | FFr | LIT | LFr | F1 | £ | SFr | ₹ | UA | | |
| Germany | 120 334 | | 360 | 1 600 | | 27 | | 1 347 | 17 590 | | 141 258 | 51,01 |
| Belgium | | 6 014 | 990 | 11 530 | 3 | 420 | | | 1 301 | | 20 258 | 7,32 |
| France | | | 29 561 | | | | | 894 | 1 517 | | 31 972 | 11,55 |
| Italy | | | | 24 569 | | | | 1 469 | | | 26 038 | 9,40 |
| Luxembourg | | 5 003 | 3 981 | 6 552 | 5 279 | | 145 | 2 908 | 3 449 | 1 299 | 28 616 | 10,33 |
| Netherlands | | | | | | 11 883 | | | 2 156 | | 14 039 | 5,07 |
| Great Britain | | | 1 800 | 3 200 | | | 5 | | 485 | | 5 490 | 1,98 |
| Switzerland | | | 900 | | | | | 151 | | | 1 051 | 0,38 |
| U.S.A. | | | | | | | | | 8 193 | | 8 193 | 2,96 |
| TOTAL PER CURRENCY | 120 334 | 11 017 | 37 592 | 47 451 | 5 282 | 12 330 | 150 | 6 769 | 34 691 | 1 299 | 276 915 | 100 |
| % | 43,46 | 3,98 | 13,58 | 17,13 | 1,91 | 4,45 | 0,05 | 2,44 | 12,53 | 0,47 | 100 | |

Table 24 :- BREAKDOWN OF INVESTMENTS HELD WITH BANKS IN CURRENT ACCOUNTS AND FIXED DEPOSITS AT 31.12.1972, BY CURRENCY AND RATE OF INTEREST (in thousand units of account)

| Rate of interest % | C u r r e n c y | | | | | | | | | Total | % |
|-------------------------------|-----------------|--------------|---------------|---------------|--------------|--------------|-------------|--------------|---------------|----------------|--------------|
| | DM | BFr | FFr | LIT | LFr | F1 | £ | SFr | ₯ | | |
| <u>Current accounts</u> | | | | | | | | | | | |
| 0 - 0,5 | 784 | 14 | 380 | 8 | 35 | 83 | 5 | 136 | 2 075 | 3 520 | 1,80 |
| 0,5 - 1,5 | 422 | 1 001 | | 403 | | 917 | | | | 2 743 | 1,40 |
| 1,5 - 3 | 4 650 | 125 | 1 | 5 683 | 245 | 202 | | | | 10 906 | 5,59 |
| 3 - 4 | | | 205 | | 2 | | | | | 207 | 0,11 |
| 4 - 6 | | | 20 | 1 840 | | | | | | 1 860 | 0,95 |
| 6 - 7,5 | | | 1 129 | | | | | | | 1 129 | 0,58 |
| Total current accounts | 5 856 | 1 140 | 1 735 | 7 934 | 282 | 1 202 | 5 | 136 | 2 075 | 20 365 | 10,43 |
| <u>Fixed deposits</u> | | | | | | | | | | | |
| 1 - 2 | | | | | | 552 | | 1 623 | | 2 175 | 1,11 |
| 2 - 4 | | 1 300 | 3 745 | | | 7 003 | | 3 488 | | 15 536 | 7,96 |
| 4 - 5 | | 700 | 2 089 | 2 480 | 4 680 | 829 | | 340 | 92 | 11 210 | 5,74 |
| 5 - 6 | 46 981 | 3 035 | 11 415 | 8 200 | 320 | | 145 | 1 166 | 20 520 | 91 782 | 47,-- |
| 6 - 7 | 13 798 | | 10 353 | 160 | | | | | 322 | 24 633 | 12,62 |
| 7 - 8 | 5 464 | | 669 | 2 800 | | | | | | 8 933 | 4,57 |
| 8 - 9 | 546 | | | 1 352 | | | | | | 1 898 | 0,97 |
| 9 - 10 | | | | 3 200 | | | | | | 3 200 | 1,64 |
| 11 - 12 | | | | 3 200 | | | | | | 3 200 | 1,64 |
| 12 - 14 | | | | 12 329 | | | | | | 12 329 | 6,32 |
| Total fixed deposits | 66 789 | 5 035 | 28 271 | 33 721 | 5 000 | 8 384 | 145 | 6 617 | 20 934 | 174 896 | 89,57 |
| SUM total | 72 645 | 6 175 | 30 006 | 41 655 | 5 282 | 9 586 | 150 | 6 753 | 23 009 | 195 261 | 100 |
| % of SUM total | 37,20 | 3,16 | 15,37 | 21,33 | 2,71 | 4,91 | 0,08 | 3,46 | 11,78 | 100 | |

| Currency | <u>Investments as % of whole</u> | | | <u>% interest yield</u> | | |
|------------|--------------------------------------|------|------------|-------------------------|-----------------|------------|
| | 1971 | 1972 | Difference | 1971 between | 1972 between | Difference |
| DM | 32 | 43 | + 11 | 7 & 8 | 5 & 6 | - 2 |
| Lit. | 13.4 | 17.1 | + 3.7 | 5 & 6 | 12 & 14 | + 7 |
| FFr | 25.5 | 13.6 | - 11.9 | 6 & 7 | 5 & 6 | - 1 |
| ₯ | 8.3 | 12.5 | + 4.2 | 8 & 9 | 5 & 6 | - 3 |
| F1 | 5.2 | 4.4 | - 0.8 | 5 & 6 | 2 & 4 | - 2 |
| BFr | 9.5 | 4 | - 5.5 | 6 & 7 | 5 & 6 | - 1 |
| SFr | 2.8 | 2.4 | - 0.4 | 2 & 4 | 2 & 4 | idem |
| LFr | 2.8 | 2 | - 0.8 | 6 & 7 | 4 & 5 | - 2 |
| £ sterling | | | | 6 & 7 | 5 & 6 | - 1 |

Investments in DM, thus, increased most, whilst those in FFr fell off the most sharply. At the same time interest rates on investments in the various currencies all dropped in 1972 except for the Lira which rose by 7%. Rates which fell most markedly were on investments in dollars, florins and DM.

126 - In the notes to the statement of revenues and expenditures table 13 gives details, by category and currency, of income from the Institution's investments.

As we pointed out in no. 68, income on the ECSC's investments as a whole were 11.2% down on the previous year. This is primarily due to the general fall in interest rates on short and medium-term investments.

127 - We endeavoured, as in previous years, to follow and check the operation connected with the investment and transfer of liquid assets with as short a delay as possible. We regularly received monthly computer print-out statements for the ECSC's entire liquid assets (with dates and movements for all accounts, by currency and country) and for the securities portfolio (market prices, nominal values and interest due dates are also indicated for this). In order to examine all vouchers relating to movements on the accounts and to interest credited to these accounts at the prescribed due dates, we requested information and greater detail from the appropriate departments of the Institution.

128 - Our year-end audit revealed a distinct improvement in the position mentioned in our last report (no. 130) where a large number of coupons due on securities held for the ECSC by financial organisations had not been paid at 31 December 1971. At 31 December 1972 we found only 198.02 UA still due from three years ago, whilst the other amounts still unpaid concerned a number of due dates in 1972.

129 - During the year we noted transfer operations of liquid assets held at banks from one currency to another, entailing both exchange losses and gains. In effect, these operations, required by short-term monetary conditions or the need to cover an exchange risk for a certain term, need to be assessed in the light of their final outcome which is not always known until the following year when the operation can be analysed as a whole.

- 130 - We were also prompted to ask for more details on a certain disparity in the interest paid on identical sums invested with different banks in the same country in the same currency and for the same term. The discrepancy between these rates, which vary from 0.25% to 1.625%, is due, in times of wide variation, to the often very variable liquidity position of the banks which the Institution uses for the full range of its operations (borrowing and lending). These discrepancies in large-scale bank holdings lead us to recommend that the Institution should bear in mind more attractive investment opportunities when making its at sight and short-term deposits (or prolonging them).
- 131 - In most Community countries the foreign exchange market is subject to measures which limit speculation and impose restrictions on transfers of capital. Depending on whether the initiator of the operation is resident or not, he may use either the financial or the official market for his transactions. Although the member countries try, in general, not to interfere with operations by international financial organisations, the ECSC nevertheless encounters certain difficulties in two of the Community countries.
- 132 - In the first instance a degree of confusion exists as to when the ECSC is and is not resident. Thus, for example, funds raised from the levy and collected in a country are treated as resident assets and may be used in transactions at the official market rate, whilst fixed deposits held in the same country are seen as non-resident assets and are treated on the basis of restrictive measures applying to the return on investments in the financial market. If applied to the ECSC this treatment contravenes the rules which on the one hand ensure, by means of stringent restrictions, that funds are used only for strictly official, non-profit-making purposes and, on the other hand, organise transfers of Community funds "in accordance with the procedure for commercial settlements" (art. 52).
- 133 - In the second instance the Institution was obliged to bow to the demands of the financial authorities in the various countries as regarded short-term economic measures to control the flow of funds. Thus, the investment of the product of a borrowing was converted temporarily into another currency until it was allocated as a loan in its original currency. This requirement entailed costs and considerable exchange differences for the Institution and contravenes the Treaty and article 5 of the Protocol on the Privileges and Immunities of the European Communities.
- 134 - It will be recalled that the Institution's liquid assets are grouped under the heading "Cash and banks" in three categories: current accounts, fixed deposits and other short and medium-term investments. In this latter category, totalling 27 149 489 UA, the Institution includes securities assigned to the ECSC and guaranteed by the banks which keep them safe, short and medium-term notes issued by financial establishments of less than 5 years' term and ECSC bonds redeemed by the Institution shortly before their maturity. All these items have in common a relatively short period of negotiability. In the same category, however, we found long-term bonds (5 993 238 UA) which, in our view, are portfolio securities and as such should appear under "Portfolio" for the sake of clarity in the balance sheet.
- 135 - Also in the interest of clarity, it would be preferable if the accounts kept income on the liquid assets strictly separate from that on the portfolio. So far, the Institution has shown figures for income on current accounts and fixed deposits of liquid funds on the one hand and, on the other hand, other income, whereby income on the portfolio (interest, coupons, profits from the sale and purchase of securities) is lumped together with that on certain securities included in the liquid assets (short and medium-term securities).

136 - In no. 133 of last year's report we commented on the investment which took the form of the purchase of a property in Washington. We note that in 1972 a further instalment (120 000 UA) of the purchase price was repaid, and we cannot but reiterate our earlier reservations. At the same time we noted that the rent for 1972 was not paid to the ECSC out of the operating budget of the Commission of the European Communities, since it appears as one of the ECSC's sundry debtors in the amount of the annual rent. We think it would be expedient, from the point of view of good financial management, for the Commission of the European Communities to draw up and respect a payment schedule, so that a steady flow is maintained into the ECSC's liquid assets.

Finally, a loss resulting from the changed parity of the dollar - the currency in which the acquisition value of the property was processed in the accounts - was charged to financial costs (20 012 UA). This seems to us unjustified, as the property was not realised. In effect, this procedure amounts to incorrect and direct writing off of an assets item without good reason.

FINANCING OF SOCIAL HOUSING CONSTRUCTION

137 - Extent of our audit

Depending on whether the financial assistance granted takes the form of subsidies for technical research or loans granted out of own and borrowed funds, our audit follows the pattern we have described for research expenditure and loans respectively.

In the case of loans, we make our usual examination at the Directorate-General for Credit and Investments and in addition we check with the authorising departments (attached to the Directorate-General for Social Affairs):

- that commitments undertaken by borrowers or beneficiaries of subsidies under construction programmes are respected
- that the work on which disbursement of credits or assistance is conditional is progressing satisfactorily
- that the conditions whereby repayment of credits granted may be demanded in fact exist

Remarks

- 138 - From its inception up to 31 December 1971, the ECSC has helped finance the implementation of seven standard programmes for the construction of social housing and three experimental programmes in the six countries of the Community.

The normal programmes are financed from loans granted out of the special reserve (67%) and borrowed funds (33%). The first of the three experimental programmes was financed entirely by subsidies for technical research; the second by both subsidies and loans and the third exclusively by loans.

Under the seven first standard programmes and three experimental programmes currently being financed, 112 455 dwellings had been completed by 31 December 1972 out of the 122 584 financed. The total cost of this housing is 1 264 billion UA financed both by the ECSC and other sources of funds raised by the ECSC. Of this amount, the ECSC paid 98.69 million out of own funds and 46.89 million out of borrowed funds.

Table 25 shows the amounts of assistance granted to the seven programmes financed, grouped according to the nature and origin of the funds disbursed.

During 1972 loans were disbursed partly under the sixth and seventh standard programmes and the third experimental programme. These were credits in Germany (2 261 475 UA), Belgium (276 000 UA), France (2 660 154 UA), Italy (1 440 000 UA) and the Netherlands (285 083 UA).

139 - The seventh standard programme and the third experimental programme now under way were approved before the end of 1969 and were to run until 1974. A first instalment of 10 million UA (8.4 million UA for the standard programme and 1.6 million for the experimental programme) was provisionally earmarked for them out of the special reserve in 1971 and 1972. In addition, new allocations of 2 million UA in 1971 and 1 million UA in 1972 were made for the study and financing, under the experimental programme, of accommodation for migrant workers and steelworkers in coastal areas. A total of 13 million UA is thus earmarked in the special reserve at 31 December 1972 to cover the seventh programme and third experimental social housing programme.

140 - A few remarks suggest themselves in connection with this practice of covering this expenditure exclusively out of the special reserve, which totalled 87 000 000 UA at 31 December 1972.

| | |
|--|----------------------|
| - total industrial redevelopment and reconversion operations (now discontinued) were | 3 399 621 UA |
| - total loans granted for social housing under the seven programmes were | 74 283 693 UA |
| or total operations concluded and binding in law of | <u>77 683 314 UA</u> |

In making its allocations, however, the Institution has always taken account not only the above totals but also the instalments it had decided to allocate for implementation of its programmes. At the end of 1972, those instalments not yet re-allocated under loan agreements were as follows:

| | |
|----------------------------|---------------------|
| for the fifth programme: | 553 000 UA |
| for the sixth programme: | 1 837 317 UA |
| for the seventh programme: | 7 356 830 UA |
| total | <u>9 747 147 UA</u> |

If we add together the total of operations contracted and the balance of the instalments pledged, the result is financial cover of 87 430 461 UA for all current commitments, whereas the special reserve is only 87 000 000 000 UA at the same date.

We can, thus, establish that the Institution has not, as in the past, fully covered the additional sum of 1 000 000 UA which it decided to earmark to the ECSC's 1972 operating budget for financial assistance to social housing construction under the seventh programme.

We regret this abandoning of earlier procedures, which means that figures

Table 25 : - ECSC ASSISTANCE TO SOCIAL HOUSING CONSTRUCTION
 - BREAKDOWN BY PROGRAMME AND TYPE OF ASSISTANCE
 Position at 31 December 1972

| | Outright subsidies | Amounts disbursed (including repayments effected) | | | |
|---|--------------------|---|--------------------------------------|--|--|
| | | Loans drawn from borrowed funds | Loans drawn from the special reserve | Loans drawn from levy income, granted as technical and economic research | Loans drawn from levy income, granted as readaptation assistance |
| - <u>Social housing construction</u> | | | | | |
| - 1st programme | | 18 974 713 | | | |
| - 2nd programme | | 2 921 056 | 14 269 166 | | |
| - 3rd programme | | 3 657 459 | 11 455 399 | | |
| - 4th programme | | 13 120 000 | 18 899 636 | | |
| - 5th programme (normal and special) | | 6 863 425 | 26 577 813 | | |
| - 6th programme | | 431 000 | 18 483 999 | | |
| - 7th programme (normal and experimental) | | 924 000 | 5 643 072 | | |
| - <u>Housing for workers readapted</u> | | | | | 529 816 |
| - <u>Experimental social housing construction</u> | | | | | |
| - 1st programme | 995 838 | | | | |
| - 2nd programme | 904 176 | | 365 205 | 3 000 886 | |
| T o t a l s | 1 900 014 | 46 891 653 | 95 694 290 | 3 000 886 | 529 816 |

Table 26 : - PROGRESS ACHIEVED IN SOCIAL HOUSING
CONSTRUCTION PROJECTS AT 31 DECEMBER 1972
- BREAKDOWN BY COUNTRY
(normal and experimental programmes)

| Country | Number of dwellings financed | comprising dwellings | | |
|-----------------------------|------------------------------|----------------------|--------------------|-----------|
| | | in preparation | under construction | completed |
| Germany | 81 595 | 2 877 | 2 642 | 76 076 |
| Belgium | 7 029 | - | 326 | 6 703 |
| France | 22 855 | 896 | 1 798 | 20 161 |
| Italy | 6 164 | 344 | 754 | 5 066 |
| Luxembourg | 836 | 8 | 8 | 820 |
| Netherlands | 4 105 | 369 | 107 | 3 629 |
| Total for the six countries | 122 584 | 4 494 | 5 635 | 112 455 |

are no longer truly comparable, and we find it unfortunate that the Institution does not show faithfully in its balance sheet the allocations planned and approved for its operating budget.

- 141 - Furthermore, the above figures reveal, for the fifth and sixth programmes, frozen amounts which have not yet been firmly allocated. We consider that every effort should be made to find a solution to two long-standing cases which are mentioned in previous reports.

These two cases refer to loans granted under the sixth programme and deserve special comment.

In September 1969, a total loan of 646 500 UA was granted to a national housing construction company to build 120 social dwellings, whereby half the cost was to be met by the company. By 23 October 1971, 50 dwellings to the value of 271 520 UA had been completed. Since, under the terms of the contract, failure to complete the project by 1 July 1972 meant that premature repayment of the loan could be demanded, we are surprised that the Institution did not make use of this right. It is in fact hard to understand why a company is allowed to draw income from the investment of funds which it has received from the Community for social purposes at a moderate rate of 1% annual interest and not used.

The second of these two cases is that of a 2 297 814 UA loan made in May 1967 to a bank which was to provide a further amount of 6 256 831 UA to finance building work under the sixth steel programme. In order to fulfil its commitments the beneficiary bank collected the funds through a network of ten regional banks to which it redistributed the funds provided by the ECSC. One of these banks, which was to provide 817 213 UA of the total (243 443 UA of ECSC funds and 573 770 UA of private bank funds), has so far only loaned 806 557 UA, thus leaving the sum of 10 656 UA in suspense. As in the previous case, the ECSC has not so far demanded repayment of the loan, and it should be pointed out that there is no clause in the agreement specifying a final completion date, which is a considerable loop-hole.

- 142 - To assess the total aid given by the ECSC to social housing construction at 31 December 1972, we must take into consideration:

| | |
|------------------------------------|---------------|
| - subsidies (research expenditure) | 1 900 014 UA |
| - loans paid to borrowers: | |
| - out of own funds | 99 224 992 UA |
| - out of borrowed funds | 46 891 653 UA |

which together amount to the considerable figure of 148 016 659 UA

Table 26 shows details of progress achieved in the seven construction programmes financed by the ECSC at 31 December 1972, as revealed in the dossiers kept by the authorising departments.

GENERAL CONCLUSIONS

We should like to preface our conclusions by a résumé of the main features of the ECSC's financial activities in 1972.

- 143 - One of the most striking features was the increased number of borrowing operations and the marked rise in the total loans granted both from our own and from borrowed funds. ECSC loans floated on the money markets in 1972 in fact totalled over 185.5 million UA, bringing the overall figure to more than 1.2 billion UA since the ECSC was established. Lending operations were roughly the same as those of the borrowings out of which the loans are granted, and over 151 million UA were loaned for the purposes laid down in the Treaty, mainly for industrial investments and redevelopment and reconversion. The standard interest rate was twice lowered during the year from 8.25% to 7.75% and then to 7.5% per annum, and in a number of cases companies were granted a three per cent reduction in the interest rate for five years under articles 54 and 56 of the Treaty. Loans granted out of our own funds reached a record figure of over 6.9 million UA. These are granted at a very moderate rate of interest (1%) for exclusively social purposes (social housing construction).
- 144 - At the same time the improved market position in the steel sector and the adjustment of the average values on which the levy is assessed meant that income from the levy was more than 47 million UA, 25% up on the figure for 1971.
- Revenue from the investment of funds; on the other hand, fell by 11% as a result of generally lower interest rates.
- 145 - As regards the outflow of funds, expenditure was at about the same level as the previous year despite a loss caused by the change in the parity of the dollar which occurred during the year. The rate of payment slowed somewhat for assistance to coking coal, readaptation expenditure and assistance under article 56, whilst it increased considerably for assistance under article 54 and for research expenditure.
- 146 - Elsewhere the ECSC continued, as in previous years, to follow its usual procedure of setting aside those amounts for which contracts had been signed (for research), agreement reached between the parties concerned (readaptation) or offers made by the Institution in connection with loans contracted or approved (interest reductions). In 1972 the provisions for readaptation, research and assistance under article 54 were higher than in 1971. Allocations to the provision for assistance under article 56, however, were smaller and no provision was made for the balance still to be paid as assistance to coking coal (675 200 UA). Because the interest on the former ECSC pension fund was insufficient, it was decided to finance this assistance out of liquid assets. Other large amounts re-

mained in reserves or were used for new allocations. Some of these reserves are used to cover a variety of financial and monetary risks (portfolio depreciation, compensation for any exchange loss on the accession contribution paid by the new members, compensation for monetary risks, doubtful debtors under the levy), whilst others serve to guarantee the borrowings, loans and guarantees service (compensation of borrowing costs, doubtful debtors under borrowings) or to cover social undertakings in the form of moderate-interest loans (special reserve).

All in all it will thus be seen that total net new allocations in 1972, i.e. net of expenditure and any relevant cancellations, were 10 618 304 UA for all provisions and reserves shown on the balance sheet.

- 147 - The unallocated balance given on the balance sheet was 195 786 UA. As we have pointed out in previous reports, the true significance of this balance depends on the more or less binding nature of the sums allocated to sums set aside and reserves. In effect, these reflect not only commitments which take a number of years to fulfil and finance; they are also built up with an eye to the likelihood or simply the possibility of losses or depreciations occurring. Given, in addition, that the ECSC is assured of resources by the financial powers conferred on it by the Treaty, assessment of the funds available to the Institution in 1972 must take into account all these factors.

Evaluation of the Community's financial management, the results of which we have described in this report, leads us to analyse the overall operations both of the Institution itself and its departments.

Since the Executives were merged, these departments are no longer grouped in accordance with the sectors for which they are responsible. For the most part they are attached to directorates-general with "horizontal" jurisdiction for industrial, energy, social, administrative, budgetary policy ... Thus, our audit covers departments which come under seven directorates-general, only one of which is concerned exclusively with ECSC business.

In the face of this organisational diversity, made all the greater by a geographical scattering, the Institution needs to devote its attention to close and regular coordination and to greater uniformity in its impetus if this important financial activity of the Community - comparable to that of the E.A.G.G.F. and the E.D.F. - is to be pursued to maximum advantage.

We should particularly like to draw the attention of the Institution to this point, in the light of the gaps and difficulties we encountered.

- 148 - For example, accounting operations should be centralised so that the overall financial position can be ascertained at any given time. If the Institution does not act as arbiter, the annual interdepartmental discussions on evaluation of commitments delay the compilation and production of the balance sheet and related documents, which we received on 27 March 1973, although steps had been agreed to ensure that we were sent them at the beginning of March.
- 149 - There should be adequate directives to ensure that activities financed are always of common interest - a notably absent feature as far as research projects in steel are concerned, and qualified staff should be made available to administer current programmes: The Work Safety and Medicine Directorate is unable to assign an official, full-time, to deal with each of its programmes which cover a large number of items, and in the steel sector a number of specialist research projects such as automation are seriously understaffed; in the Directorate-General for

Credit and Investments, improvement in returns on ECSC investments will also depend on whether sufficient qualified staff can be found to follow the necessary dates and market conditions regularly.

- 150 - Lastly, a choice needs to be made between concerns reflecting opposing interests. In servicing borrowings and loans, for example, it is necessary to reconcile the need for adequate cover and attractive returns in order to establish the Institution's credit with those lending it funds with the need to provide the companies receiving loans with the best possible conditions for expansion, without which the Community's activities would be ineffectual. We have stressed the peculiarities of borrowing operations and their effect on the cost of loans in such a way as to explain the balance which was maintained in the particularly changeable market conditions prevailing in 1972. As regards cover vis-à-vis bodies lending funds to the ECSC, it will be noted that for total loans of 958.4 million UA the ECSC has not only a guarantee fund of 100 million UA, a reserve fund of 87 million UA and the former pension fund of 25.9 million UA, but also money set aside and a balance which had not been finally allocated to the value of 17.8 million UA.

In addition there is the ECSC's capacity for raising funds, which means that at current rates it can liquidate some 47 million UA and, if necessary, raise the rate of the levy (current rate 0.29%, maximum permissible rate 1%, i.e. three times as much).

- 151 - Addressing ourselves most particularly to the Council, we should like to ask it to make an immediate recommendation to member countries to give ECSC funds the normal treatment they give to official, non-speculative transactions. In two countries, as we have pointed out, the ECSC has been subjected to the restrictions governing the financial market, although it is itself not able to speculate. The losses resulting from obstacles of this kind must not be borne by the Institution which is entitled to invoke the provisions of the Treaty and of the Protocol on the Privileges and Immunities vis-à-vis the governments of member countries.
- 152 - The provisions intended to guard against future risks include one of 2 473 358 UA which appears for the first time and is designed to offset any foreign exchange loss on the accession contributions paid by the new member countries. Two comments suggest themselves here. The first is prompted by the fact that notice to rescind the European Monetary Agreement was given as of 1 January 1973 and that the Institution has not as yet deemed fit to give an opinion as to the value of the unit of account and rules for conversion against the various national currencies. The provision implies, however, that a decision was reached purely and simply to renew the agreement which had been rescinded. Our second comment is that the policy of setting large sums aside or putting them into reserve to cover possible losses or depreciation in subsequent years is an accepted practice in all forms of commercial management and banking. We have, however, already outlined in our foreword to this report the various individual aspects of the management at Community level of ECSC funds drawn both from taxation and levies and from the market and intended for use in the public interest and in accordance with the principles of public interest. It is, thus, to be wondered whether the principle of drawing up the management accounts every year as laid down in the Treaty, the better to assess all the factors, does not require that these reserves be reduced to the absolute minimum, particularly in view of the guarantees on which the Institution is able to draw.

Generally speaking, the departments managing ECSC funds have carried out their duties satisfactorily. For points of detail, we refer the reader to the

specific recommendations stated at the end of the foregoing chapters.

- 153 - As regards our audit proper, we gave special attention to the calculation, collection and receipt of the levy. Overall comparison with levy statistics other than those relating to the actual amounts involved provided us with further assurance over and above the accurate and detailed work done by the levy office which also tried, as we suggested, to reduce the number of debtors in arrears with their payments, though this number was in any case not very high. If the proportion of arrears were to increase any further, we realise that the Institution would have to be given simple and swift powers to recover these arrears, on the pattern of those exercised by government tax departments. This would bring greater respect of payment dates and improved efficiency in recovering arrears.
- 154 - In conclusion, we should like to mention that we were pleased to note on two occasions, in records relating to readaptation operations financed jointly by member countries and the ECSC, auditors' reports from accounting bodies in the various countries (Audit Office and government auditors). We consider this a desirable form of additional supervision which should be studied and used to a greater extent when carrying out joint financing operations.

x
x x

- 155 - As a result of our investigations and auditing activities conducted during and at the end of the 1972 financial year in the sectors covered in this report, we are able to confirm that the ECSC's balance sheet and management account (statement of revenues and expenditures) dated 31 December 1972 tally in every respect with the accounting documents and vouchers submitted to us. We, therefore, certify that all the assets and liabilities shown in the balance sheet at 31 December 1972 are correct, and that all accounting operations relating to the year in question are correctly and properly shown.

In addition to certifying that accounting operations were correctly and properly carried out we are also able, in accordance with the terms of our mandate under the Treaty, to certify that the financial management conducted by the Commission solely within the context of the measures laid down in the Treaty of Paris is also correct and proper.

We can state in conclusion that the ECSC's management of funds respects the requirements of prudence and orthodoxy generally observed in these activities, but that account should be taken in future of the remarks and suggestions set out in this report.

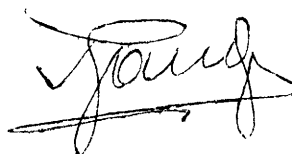
This report was compiled and the final version presented in French. The Publications Office and translation services of the European Communities in Luxembourg were responsible for translating it into the five other Community languages and for disseminating the various versions. Thanks to this cooperation - and we wish to thank those responsible for the exceptional effort they have put into the project - we shall be able to publish this report in all the official languages within the deadline laid down by the Treaty, which means that full use can be made of it by the Authorities for which it is intended, particularly the

European Parliament when debating the ECSC's operating budget and the Commission's report.

Our task was made considerably easier by the attention and courtesy with which our investigations were received by the departments we inspected.

We are happy to stress that this document is the fruit of teamwork on the part of a small unit of four people, led by Mr. J. Planchard, who provided us with continuous and valued cooperation.

Luxembourg, 30 June 1973

A handwritten signature in cursive script, appearing to read 'Gaudy', with a long horizontal flourish extending to the left.

Paul GAUDY
Auditor

ANNEXES

ANNEX ISYNOPSIS OF THE ECSC'S FINANCIAL AND
BUDGETARY OPERATIONSINTRODUCTION

156 - The European Coal and Steel Community, established by the Paris treaty of 18 April 1951 and subsequently ratified by the six member countries, took effect on 23 July 1952 for a period of 50 years. Under the terms of the treaty the object of the ECSC is to work for economic expansion, maximum employment and higher living standards in the member countries, in harmony with the general economy of those countries and through the establishment of a common market for coal and steel.

It is based on the principles of free movement of coal and steel products and the creation of free but strictly-defined competition among manufacturers. To this end the institutions set up by the treaty are also vested with powers to act in matters of prices, production and even capital expenditure enterprises are required to declare their proposed investment projects).

It also has funds of its own in the form of levies on coal and steel production which enable it to give financial assistance to technical, economic and social research and to the readaptation and retraining of workers. Two types of resources also enable it, within certain limits, to operate in the social field (worker housing construction) and the field of investments or industrial redevelopment and reconversion. These are funds which the ECSC may borrow solely for re-allocation as loans, and income such as interest on invested funds, fines and interest on levy arrears. The treaty does not require this income to be used for any specific purpose. One of the duties assigned to the High Authority of the ECSC in connection with industrial investments is that of facilitating their realization by acting as surety for loans obtained for the same purpose from third parties.

The financing role played by the ECSC, with its own resources and its ability to borrow and its "institutional" activities, gave this first European Community a character of originality which is reflected in the organisation of its finances. Furthermore, experience had led to the development of specific mechanisms best able to finance the tasks imparted to the Community. Although the ECSC was empowered to levy a tax on coal and steel production it initially had no capital at all and thus tried in the first instance to build up a fund to serve as joint security to future creditors, using part of its first receipts from the levy. The temporary availability of part of its funds induced the institution first of all to build up a fund of liquid assets by means of a careful, non-speculative investment policy and then to constitute reserves which in turn enabled it to increase its activities in the social field. As a result, in fact, of its borrowing and lending policy the ECSC has to some extent become an industrial development financing institution, specialising in credits to coal and steel investments. More recently still, as a result of the economic climate in the coal and steel sectors, the ECSC has begun to finance new activities such as industrial redevelopment and reconversion, wherever such measures are likely to ensure re-employment of the labour made redundant in those two sectors.

It will be noted that the Paris treaty did not endow the ECSC with a traditional budgetary structure except in respect of its administrative budget which, since the merger of the Executives, forms part of the single, budget of the Commission of the European Communities. The ECSC has its own funds and the right to borrow funds, and is obliged to use its various revenues for purposes explicitly laid down in the treaty.

Although not demanded, an informal "budget" comprising two items - variable resources and the allocation of these to specific expenditure estimates - has been prepared every year since the High Authority of the ECSC was established. This "operating" budget, drafted by the budget departments, has always been discussed with the European Parliament before approval. Compilation of this estimate of income and requirements in fact enables the rate of the levy to be fixed in advance.

This budget has never been restrictive or imperative in character, particularly during the first ten years of the ECSC, when estimated overall requirements were amply covered by resources. Borrowing and lending operations and policy for the management of funds (a source of own funds) were never the subject of any budget estimate whatsoever, because they were considered strictly as financial, even banking operations. This peculiarity of the ECSC's financial activities is reflected in the balance sheet and statement of revenues and expenditures which, because it is permitted to borrow funds, the Institution is required to publish for the benefit of its creditors and banking supervisory authorities. Despite the dual nature of its activities the Institution has always presented a single set of financial statements showing the results both of its management of own funds and of its operational management.

This was in no way altered by the merger of the Executives in 1967. The ECSC's administrative expenditure is in fact charged as a fixed contribution of 18 million UA and shown under overall administrative expenditure. As regards the ECSC's assets and own resources, the Commission established in succession to the High Authority continues to manage these funds completely separately from the rest of the single budget.

Consequently the ECSC, albeit within a new institutional framework, retains its original and specific features, i.e. its financial autonomy, the special mechanisms operating it, its ability to borrow and lend and to undertake

the tasks prescribed in the Paris treaty in connection with the financing of research, readaptation and industrial redevelopment and reconversion.

In the sections which follow we shall now describe, one by one, the financial and budgetary mechanisms which currently form part of the specific activities of the European Coal and Steel Community and which come within the scope of our audit.

T H E L E V Y157 - General

Article 49 of the Treaty establishing the European Coal and Steel Community provides for the Community's requirements to be met exclusively out of its own resources, and the Institution is thus empowered to raise the funds for the performance of its work by imposing a levy on coal and steel production.

Under Article 50, this levy income must be used exclusively for administrative expenditure and outright grants (technical, economic and social research, readaptation research). Only when the reserve is inadequate can income raised directly by the levy be used to cover any part of interest payable on borrowed funds which cannot be met out of interest receivable on funds loaned, and the levy income may also be used if the ECSC extends its guarantee. In no event may it be loaned to finance investments.

The terms of assessment and collection of the levy were defined in the first instance on 23 December 1952 by the Institution and took effect from 1 January 1953. They were subsequently amended by later decisions (1).

Before the beginning of each financial year the Institution, acting on its own initiative, fixes the rate of the levy on production for the following year. Although it has no formal obligation to do so, it first consults the European Parliament.

Since 1 January 1953, the rate of the levy on coal and steel production has been both raised and reduced. These changes are essentially dictated by the volume of requirements and by the prevailing industrial climate. However, the much higher rates applying between 1 January 1953 and 1 January 1956 (0.50 %, 0.70 % and 0.90 %) were due to the new Community's need to constitute a guarantee fund to compensate for its lack of own resources. This fund rose steadily to 100 million units of account by 30 June 1956 and has remained unchanged ever since. If for any reason it became necessary to fix or increase the rate of the levy above the maximum figure of 1 %, this measure would first have to be approved by the Council by a two-thirds majority.

(1) See *Official Journal of the European Coal and Steel Community* No. 1, dated 30.12.1952 (decisions nos. 2/52 and 3/52 of 23.12.1952)
O.J. No. 10 of 18.2.1959 amending decisions 2/52 and 3/52
O.J. of 22.6.1959 (decision 34/59 of 10.6.1959)
O.J. of 22.6.1961 (decision 8/61 of 14.6.1961).

158 - Assessment

The ECSC fixes, in EMA units of account, the average per ton value of the six categories of products subject to the levy :

- 1) brown coal briquettes and semi-coke derived from brown coal, excluding crude brown coal which is not chargeable. No deduction may be made for "seconds" which are sold cheaper. However, a flat-rate reduction of 3 % is granted on these products when consumed at the plant.
- 2) Coal of all categories. A flat-rate reduction of 12 % is granted on net production after screening and washing, for in-plant consumption. Enterprises which have no washing and screening plants are permitted to reduce their gross production by 18 % before claiming any flat-rate reduction.
- 3) Pig iron other than that for making ingots.
- 4) Basic Bessemer steels in ingots.
- 5) Steels in ingots other than basic Bessemer steel and in particular duplex steels, pure oxygen steels and special steels.
- 6) Finished and end products set out in Annex I to the Treaty under nos. 4400 and 4500 (OEEC code). This category should include all products which, from the point of view of the steel industry, are considered as finished products, with the exception of tyres, one-piece wheels and hoops.

Article 2 of Decision 2/52 defines the average value on which assessment of the levy is based.

The average per ton value of each of the products subject to the levy is that calculated on the basis of net receipts on leaving the plant. This value is applied to the whole of production whether sold or stocked.

The average values of the various products are calculated for each Member Country by the respective producer associations every year. The part played by the ECSC in this consists, on the one hand, in checking the information thus provided and, on the other hand, in determining the average Community values by an adequate weighting which results from applying the single rate to the values charged. Thus, the final net scale takes into account a weighting of the various current prices and the relative importance of products of one and the same category, both at national and at Community level.

In addition, a system of value-added tax was adopted in order to comply with the Treaty's stipulation that cumulative taxation should be avoided as far as possible. Under this system, only that which has not been charged at earlier stages is charged, and the chargeable value is determined by deducting from the average value of each product category the average value of the products already liable which have played a part in their manufacture.

159 - Statements of output

The services of the Levy Office maintain a list of addresses of Community enterprises which are liable to the levy. This list is constantly changing to reflect changes which may occur in enterprises liable to the levy : winding up of a company, creation of new industries, mergers, absorption and other changes.

A regular coding system is maintained in the form of a computer listing (and addressograph) which enables the competent departments to record for every enterprise (which has an individual registration number) monthly data regarding dispatch and submission of statements together with payments or any necessary reminders.

All enterprises subject to the levy make their own declaration, on two forms sent to them by the Institution, of their production figures on which the amount charged will be based.

On the first form, they calculate the sums payable by multiplying the tonnages produced by the scale fixed for the six product categories in their national currency and per ton.

The second form requires statistical details of the tonnages declared for each of the products making up the six categories. In addition to its statistical usefulness, this detail is a valuable auditing aid, both for the Levy Office and for the internal inspectorate.

It frequently happens that, as a result of errors of calculation or interpretation, enterprises are obliged to amend their statements of output or their payments.

These adding or cancelling operations require the despatch of an additional or corrective return.

All enterprises coming within the terms of the Treaty must complete their monthly statement, including those which enjoy the exemption (indefinite deferment) granted when the levy total effectively due for the month is lower than 100 units of account.

As from 1 January 1959 the ECSC has authorized a number of coal mining enterprises to defer payment of sums due under the levy without arrears interest or penalty, as a result of marketing difficulties which in several Community coal fields have led to exceptionally large stockpiling of hard coal, coke derived from hard coal and patent fuels. This measure applies to chargeable output stocked after 31 December 1957 for which the levy amount is not payable until the 25th of the month following that in which a decrease in stock occurred. To this end, a third form is sent each month to the enterprises concerned in order to ascertain their month-to-month changes in stocks and the levy amount corresponding to the periods of deferment or the levy payments due when these deferment periods end.

The statement forms are sent by the Levy Office by the 5th of the month following that of the production in question. Enterprises must complete and return them by the 20th of the following month and for each of the establishments connected with them.

In the event of default or deliberate falsification of statements, fines and penalty payments may be imposed by the Institution under Article 47, paragraph 3 of the Treaty. The former are calculated as a flat percentage of the total annual turnover (1 %), the latter on a maximum of 5 % of the average daily turnover per day of arrears.

160 - Payment procedure and disputes

Payment of the levy on output for the month past becomes due on the 25th of the month during which the statement form is sent to the enterprise. This makes its payments in the currency of the country where it has its registered headquarters and into various accounts maintained by the ECSC in banking establishments in the six countries of the Community.

On the basis of daily records, the Levy Office draws up two copies of a list of statements from these banks. One copy is sent with all the relevant vouchers to the accounting department and the other is sent to the computer centre after transfer to the registers kept by the Levy Office for future checking operations.

Under Article 50, paragraph 3, levies not paid are charged 1 % interest per month from the 5th of the month following that in which payment was due. This arrears interest, calculated each time on the principal, may be reduced or waived if the Institution deems fit in the amount of the portion corresponding to the normal interest.

In the event of non-payment the Institution must give notice under the terms of the Treaty (letter based on Article 36) and issue an enforceable decision imposing financial sanctions (Article 92).

The notification procedure under Article 36 of the Treaty may be applied to all cases of dispute (fines or penalty payments) and is only embarked upon after two or three reminders (sent by the Levy Office) which may be spread over three months.

The form in which notice is served is set out in Article 92 of the Treaty : enforcement within the territory of Member States is carried out by means of the legal procedures in force in each state, after the enforcement order in the form in use in the state on whose territory the decision is to be enforced has been appended to the decision.

To date, enterprises which have occasionally defaulted and have rectified the situation have never had financial sanctions imposed upon them.

Levy collection procedure

As from 1st July 1967, when the Treaty of Merger establishing a single Council and a single Commission of the European Communities came into effect, the powers and competences devolving upon the High Authority under the Paris Treaty were transferred to the Commission. Consequently, income from the levy continues to provide the own resources of the ECSC and the earlier procedures for collection and supervision are still applied following the same principles and within the same, reorganized administrative structures.

161 - Since the Executives were merged, the Levy Office has been attached to the Directorate-General for Credit and Investments, which administers the funds and financial operations entailed by the ECSC's policy of borrowing and lending. This department operates like a tax collection office. It has particular responsibility for :

- keeping up to date the list of addresses of enterprises registered (c. 500) and liable to the levy
- preparing and sending out the monthly statements of output (including preparation of the tax section, i.e. the scale of levy charges)
- making entries in the register per month and per enterprise and checking payment liabilities discharged
- overall accounting per country and group of products (coal, steel) of data or statements of output received during the month
- monthly checking by comparing the table of balances per enterprise with the figures of the overall accounting on the basis, on the one hand, of the department's documents and, on the other hand, of the computer listings
- keeping records of disputes and the relevant correspondence (reminders, litigation)
- processing the inspection reports compiled by the levy inspectors
- comparing the levy totals declared per enterprise with the overall figures per product category and country compiled by the statistical departments.

162 - The inspectorate is responsible, acting on details provided by the Levy Office, for checking on the spot at debtor enterprises that provisions in force are observed and that the production declared is correct. On the basis of observations gathered from information declared by the enterprises, the Levy Office gives the inspectorate broad guidelines as to the sectorial examinations to be conducted.

 Under Article 86 of the Treaty the officials who carry out these checks enjoy the same rights and powers as are granted by the laws of Member States to officials of their own tax services. It is stipulated, however, that their only power is that of inspection and that in consequence they have no authority to cooperate with the enterprise in determining its output (even where doubts have arisen as to the correctness of the output statement submitted). Nor have they any authority to provide defaulting enterprises with a programme for discharge of their debts. Their inspection reports are intended for analysis by the Levy Office.

163 - Technical advisers attached to the coal and steel Directorates systematically process these inspection reports and prepare proposals, together with the Levy Office, for any decisions to be taken by the ECSC.

RE A D A P T A T I O N164 - Types of financial assistance for readaptation

Financial assistance by the ECSC for readaptation is usually in the form of outright grants (subsidies) and occasionally loans.

- 165 - Outright grants by the ECSC for readaptation are principally granted on the basis of article 56, section 2, paragraph b. They are given to workers made redundant or transferred from iron and steel enterprises (including iron mines and steelworks coking plants) and from coal mining enterprises (including colliery coking plants).

Assistance granted at present in the six countries is as follows :

- For workers re-employed at a lower wage :
 - . guarantee for a limited period of time of a fixed percentage of the wage received by the worker before this dismissal or transfer. Assistance is generally paid for a period of twelve months, but may be extended for certain categories of older or handicapped workers. The guaranteed wage is between 90 and 100 % of the previous net wage or 60 % of the difference between the old and new wage.
 - . guarantee for the same limited period of a fixed percentage (70 or 80 %) of the wage which the worker received before dismissal.
- For workers in the coal industry who are over 40 years of age or handicapped on dismissal :
 - . payment of a compensatory lump sum, of which the ECSC will pay up to 750 units of account
- For workers re-employed in or transferred to another region :
 - . payment of a lump sum resettlement grant and reimbursement of travel and removal costs for the worker and his family
 - . reimbursement, in certain cases, of additional daily travel expenses and payment of a separation grant when the worker is unable to bring his family with him to the new region

- For workers undergoing vocational training :

- . payment by the ECSC of 50 % of claimable costs of vocational re-training (wages of workers attending re-training courses and operating costs of state or private vocational training centres).

Other assistance in the form of subsidies and loans has also been granted either under paragraph 23 of the convention containing the transitional provisions or under special decisions taken as part of the procedure provided for in Article 95 of the Treaty to deal with specific cases not foreseen in the Treaty.

166 - Assistance of the first type ended after the transitional period and consisted mainly of outright grants given in accordance with the same criteria as those under Article 56 to workers made redundant in Belgian coal mines. Only one of the two loans granted for re-housing workers displaced in France is still being paid off.

167 - Special decisions taken under Article 95 of the Treaty after the unanimous approval of the Council and following consultation with the Consultative Committee concerned, on the one hand, outright grants to temporarily redundant workers in the Belgian coal mining industry and ended on 31 December 1961. They also concerned outright grants and five-year interest-free loans given to ease the situation created in the coal mining industry as a result of unusually high stock piling and to reduce the number of days not worked in certain coalmining enterprises of the Community. Assistance of this kind, both repayable and non-repayable, has virtually ceased since 1963-1964.

168 - Financial policy and procedure

In order to meet commitments subscribed by the ECSC for outright readaptation grants, the Institution allocates funds to a provision for readaptation expenditure which it shows on its balance sheet. Calculation of the sums entered in this provision has undergone several changes in the course of recent years.

Up to the financial year 1961/1962 the Institution allocated each year to this provision the approximate sum it expected to pay out, as distinct from the social assistance which the various governments proposed to provide.

From 1961-1962 onwards, the Institution was led to define a stricter policy aimed at financial equilibrium not just for one year but for a period of several years, by more rigorous limitation of the sums tied up under its commitments. This financial policy - reflected by the putting to provision of the sums mentioned above - is the result of the widening gap between the Community's revenues and requirements as determined by the state of the economy, and of the difficulties inherent in precise valuation of readaptation commitments.

Consequently from this date onwards, the provision for readaptation shown on the balance sheet under liabilities comprises :

- part of commitments already undertaken by Member Countries, which have formed the object of a ECSC decision and which are of the type eligible for Community financing
- a sum equal to the loans it grants for readaptation. After 1965-1966, however, this practice was discontinued, as the Institution deemed it unnecessary to

maintain sums corresponding to loans in the provision for readaptation. It considered that the granting of loans did not deplete its resources as such, so that no corresponding provision need be formed.

- a buffer reserve fixed in the first instance at 10 000 000 UA and designed to meet exceptional requirements which might be created by a period of economic depression, thus avoiding the need to increase the rate of the levy unduly. This reserve was completely exhausted by 31 December 1970 and has not been reconstituted.

In order to make the sum held in the provision as realistic as possible, and by agreement with the governments concerned, the Institution occasionally cancels commitments or parts of commitments undertaken towards workers affected by the closure of coal mines or iron and steelworks, where it appears certain that the assistance will not actually be used. Because of these cancellations, sums earmarked for the readaptation provision are periodically readjusted.

Procedure for the granting and supervision of readaptation assistance

- 169 - Procedure for the granting and payment of outright assistance is laid down in agreements concluded with the governments concerned.

For assistance under Article 56 of the Treaty, the Institution may only make outright grants for readaptation at the request of the government concerned and on condition that this government pays a special contribution at least equal to the aid granted by the ECSC. The ECSC may, however, waive this latter condition if so authorized by a two-thirds majority vote of the Council.

Grants and expenses are never paid directly to workers by the Institution but by the competent national government bodies or, if appropriate, by enterprises themselves.

The ECSC's contribution is only paid, in principle, on presentation of the government's own detailed statements and calculations. In respect both of interim allowances and resettlement and vocational retraining costs, these statements and calculations must include all elements evidencing payments effected by government bodies or enterprises so that the Institution can check that the amounts of contributions requested of it are in order.

However, in order to accelerate disbursements, it pays out to government bodies instalments of sums already paid out by these to those receiving assistance before the final statement has been sent and checked. In effect, the assurance that the respective states have already paid their contribution empowers the Institution to make available these instalments before the final statements are checked.

Procedures for ECSC readaptation assistance involve the departments of three Directorates-General : "Social Affairs", "Budgets" and "Financial Control".

- 170 - The Directorate-General for Social Affairs has special responsibility for drawing up agreement with governments on readaptation assistance and for technical inspection of the assistance granted.

The supporting documents themselves are held by the bodies which pay out the contributions. However, declarations, statements, and calculations submitted in connection with readaptation assistance are studied in depth by specialist departments of the Directorate-General for Social Affairs and are often amended and corrected as a result.

When assistance has been granted by the Institution, the statements submitted (and already checked) by the governmental bodies in the countries concerned are carefully vetted from computer listings. For those countries which do not as yet use computers to administer and check their readaptation assistance, the Directorate-General for Social Affairs carries out random checks on the spot. It has virtually discontinued manual checking from the individual records for beneficiaries.

Checking operations also examine the efficiency of the assistance machinery and are aimed above all at a minimum of delay between attribution of the assistance and actual receipt of it by the beneficiary. Other contacts with heads of beneficiary enterprises and trade unions, when these are possible, enable the Directorate-General to keep an eye on assistance methods and procedures as applied at national level.

- 171 - The Directorate-General for Budgets prepares budget estimates for re-adaptation and assists the drafting of decision by the Directorate-General for Social Affairs. It checks that requirements are fulfilled, looks into the availability of Institution funds, and may settle legal matters (debt collection, over-payments etc.) in cooperation with the Directorate-General for Social Affairs.
- 172 - A Financial Control department is responsible at an earlier stage for keeping the accounts, charging commitments, making payments and supervising re-adaptation expenditure.

TECHNICAL AND SOCIAL RESEARCH

173 - Legal basis

Under Article 55 of the Paris Treaty, the ECSC has to promote technical and economic research concerning the production and increased consumption of coal and steel, and the achievement of safe working conditions in these industries. To this end, it is required to organise all appropriate contacts among existing research bodies.

Under the terms of the Treaty the ECSC may finance research in three ways, after consulting the Consultative Committee. These are by organising joint financing by the enterprises concerned, by allotting for this purpose funds received as free gifts, or by allotting for that purpose funds the levy subject to the approval of the Council.

The Institution makes available to all interested parties in the Community the results of research financed by these two latter means and issues all notices which may help to spread knowledge of technical improvements (in particular exchanges of patents and the issuing of operating licences).

174 - Areas of research assisted

From 1955 onwards the ECSC began to finance research activities by allocation of part of its income from the levy, after consultation with the Consultative Committee comprising representatives of the producers, consumers and workers, and with the assent of the Council, representing the governments. Financial assistance of this kind was granted to research bodies and institutions and even to a number of enterprises. The applicant does not need to be directly concerned with the mining or steel industries, but it is essential that the proposed research should be potentially beneficial to a large number of enterprises in the Community or, in the case of measures connected with work safety, to a large number of workers in these enterprises.

Research programmes implemented since 1955 have covered the following sectors :

- coal, iron ore and steel from the most varied of aspects : from economic studies of research itself or the profitability of production techniques to the perfection in industry of processes developed from prototypes. Both for the coal and

the steel sectors the ECSC has tried in recent years to draw up a long-term research programme to be implemented and financed partially out of own funds.

- the social sector in which, under large-scale programmes extending over a number of years, the Institution encourages basic laboratory research and applied research in industrial health, medicine and safety and more recently in ergonomics (industrial physiology and psychology) aimed at improving the treatment and prevention of vocational diseases and industrial accidents and to provide workers with greater comfort and safety.

175 - Special features of ECSC research

The three cornerstones of research planned systematically since 1955 (granting of financial assistance, promotion of cooperation among research organizations in the Member countries and the making available of results by the taking out of patents) have enabled national research bodies and Institutions with which the ECSC cooperates in the preparation, carrying out and partial financing of research work and the dissemination of its results, to gain a deeper knowledge of each others' work and have prompted them to undertake projects jointly.

Compared with other types, ECSC research projects have the following features :

- they are not carried out in the European Institutions but in scientific institutes or industrial enterprises,
- they are financed in part by contract assistance granted for the implementation of a work programme,
- they are carried out in temporary cooperation under a deferred programme, which is limited in time but may be spread over a number of years,
- whether basic or applied, they pursue practical objectives.

176 - Procedure prior to research projects

For research on coal, steel and iron ore the Institution normally establishes a Committee of highly qualified specialists from the six Community countries (directors of research centres or institutes, senior figures in industry, experts and academics). This Committee draws up proposals and opinions on research projects under consideration for financial assistance. Once the Consultative Committee has given its opinion and the Council its assent, the decision to award financial assistance is taken and an executive committee set up which, for each project, includes representatives of the beneficiary institutes, organizations and enterprises. It is responsible for following the progress of the project, working together with the competent technical officials of the Institution.

In the case of social research, the Institution prepares general programmes after consultation with scientific and technical circles, professional circles (employers and workers) and the government departments responsible for the problems in question, and compares the requirements thus ascertained with Community objectives. Consequently it is not until these programmes have been painstakingly prepared and distributed that preliminary applications for research are received and granted and that contracts are signed.

177 - Financial procedures governing contracts

The agreement concluded with the beneficiary of the financial assistance fixes the maximum amount of the ECSC's contribution. Up to this maximum amount the Institution reimburses its share of expenditure claimed and duly substantiated. In most contracts, however, clauses specify that the Institution may pay up to 90 % of the proposed subsidy in instalments as the work progresses and the relevant payments are made. The balance may only be paid after the final report is submitted and after the final financial statements are drawn up and checked by the officials of the Institution's budget departments.

Financial assistance given by the ECSC is not always restricted to part of the expenditure incurred directly by the research project itself. This expenditure may be recurring costs (staff, consumable materials, etc.) or expenditure for equipment (installation and material) intended directly for use in the research project. On completion of projects in the coal and steel sectors, the ECSC, under a contractual clause, recovers its share of the residual value of the equipment, which is not the case in the social and medical sectors where the material acquired may be left at the disposal of universities or institutes active in ECSC research.

When existing equipment or equipment purchased with a view to later industrial use is made available for the research project, the assistance provided by the ECSC may be equal to the depreciation in value undergone by the equipment as a direct result of the project. In the event of total depreciation as a result of the project, the ECSC may even provide part of the purchase price.

178 - Availability of research findings and dissemination of information

As regards the dissemination of information and the use made of research findings, the ECSC contributes to these activities by providing the costs of publishing research findings or of filing and keeping any patents. It also imposes a number of obligations on beneficiaries to make available the findings of research financed by the ECSC to all interested parties in the Community. Furthermore, it is entitled to a share of any royalties the beneficiary may earn from the granting of licences in respect of industrial property or from the passing on of knowledge acquired from the research.

Since the merger of the executives, the technical officials with responsibility for ECSC research cooperate with the Directorate-General for the Dissemination of Information in order to facilitate the dissemination of research findings within the enlarged framework of the Commission of the European Communities.

This cooperation takes the form of information sessions, symposia, seminars and the printing of publications which are initiated by the Institution's technical departments (coal, steel, social sector) and organized by the Directorate-General for the Dissemination of Information.

Credits of up to 3 % of the total allocated to research are earmarked to finance dissemination and distribution operations. A variety of other, further costs such as those relating to the convening of experts, officials' travel expenses or the setting up of a documentation pool are charged directly to the administrative budget of the European Communities.

In the coal and steel sector a count was made of patents already taken out by Community industries on research financed in part by the ECSC. In most cases, however, the right to the patent is cancelled by wider publication of the research findings.

In the social sector, the dissemination of the findings is not restricted to specific and final measures for the two reasons that enterprises which use these play an active part and are prompted more and more frequently to conduct research under the general programme and that operations for the carrying out of research are organised jointly.

179 - Financial policy

A number of elements make budgeting for technical and economic research difficult. Financial assistance by the ECSC requires first of all an application by an enterprise or research establishment and, secondly, the completion of procedures laid down in the Treaty (consultation of the Consultative Committee, assent of the Council).

Experience has shown that intervals of considerably varying lengths occurred between the decision in principle which specified the total amount of assistance granted, signature of the research contracts with the beneficiaries and the actual financing of the first part of the work.

On its inception, the Institution allocated the following items to a provision for research on its balance sheet : the total amount of internal and unilateral commitments resulting from broad decisions taken by the Institution a sum equal to the value of loans granted for technical research (two loans granted under experimental social housing Programmes); and a buffer reserve of 6 000 000 u.a. which was exhausted by 31 December 1972 and has not been renewed since.

Gradually, however, the Institution amended the procedures governing constitution of the provision for financial assistance to research, by allocating to this provision only such amounts for which legal commitments had been undertaken and signed as of the date of the balance sheet (contracts with research institutes). These sums thus represent commitments which are legally more binding than those resulting from broad decisions taken by the Institution. The contra of loans granted to research was no longer included in the provisions since these loans, unlike outright grants, did not entail an irrecoverable depletion of the Community's assets.

The provision for research also includes accessory costs directly linked to research projects and evaluated as and when deemed necessary.

Generally speaking, under broad decisions, the Institution assesses these costs in a lump sum, ear-marking 3 % of the credit proposed for each contract. As we have seen earlier, these funds provide the Institution with the means to finance scientific findings, assist researchers to draw benefit from these in their work and to enable the competent bodies in the sectors concerned to promote and facilitate the practical application of these findings.

The Institution periodically cancels outstanding provision balances corresponding to credits given to projects which have been completed and will require no further payments.

180 - Supervisory procedure for research assistance

Departments involved in ECSC financial assistance to research projects include, on the one hand, the Directorates-General concerned with steel and iron ore (Industrial Affaires), coal (Energy) and industrial safety and medicine (Social Affairs) and, on the other hand, departments of the Directorate-General for Budgets and the Directorate-General for Financial Control.

The first are especially responsible for drawing up general and special research programmes, preparing negotiations on research contracts and for technical supervision of their progress. The Budget officials help to work out the financial details of contracts, check on the use made of subsidies and prepare the budget estimate for the sector in which the research is done. The procedures laid down for each project deal particularly with scientific and financial responsibility, certain guarantees concerning the use made of credits and the making available of the research findings. The Directorate-General for Financial Control gives prior approval to this expenditure.

The beneficiary is required to send in a technical and a financial progress report every six months, whereby the ECSC reserves the right to check on the spot and from any document that the expenditure claimed is justified.

Periodically, the appropriate officials of the Directorates-General of the Institution carry out joint on-the-spot inspections and draft an interim report on financial aspects of the research project at its current stage of progress.

BORROWING, LENDING AND GUARANTEE OPERATIONS

BORROWINGS

181 - Authority to borrow

Under Article 49 of the Treaty and on behalf of the ECSC - which, under Article 6 of the Treaty, has legal personality in its own right - the Institution may borrow funds in order to obtain the resources necessary to the performance of its work.

Since its inception, the ECSC has contracted a series of loans both on the international market and on a number of national markets, notably those of the member countries of the Community, the U.S.A. and Switzerland.

182 - Guarantee operations

The ECSC was not provided with any initial capital by the Member States. In addition, Member States are not obliged to extend their guarantee to loans floated by the ECSC whenever the latter judges it necessary to seek this guarantee after consulting the Council and the governments concerned, (Article 51, section 1, paragraph 3 of the Treaty). In reality, the ECSC has always issued its loans without making use of the guarantee of Member States. As a result, the fiscal powers granted to the Community under the Treaty were initially the only guarantee offered to those lending it funds.

For its first loans, contracted between 1954 and 1961, the ECSC was bound by an instrument of English and American law known as the "Act of Pledge". Under this the first creditors, mainly American, obtained a common possessory lien on claims held by the ECSC against enterprises receiving loans granted out of ECSC's borrowings. This lien took the form of the holding in pledge of these claims (and the sureties relating to them) by an "approved third party", the Bank for International Settlements (B.I.S.). This body was responsible, on behalf of the creditors, for the safe-keeping of the items secured and for ensuring that the Act of Pledge was respected. In effect it centralised all banking transactions connected with the payment of funds borrowed and the servicing of loans both contracted and granted by the ECSC. To this end the B.I.S. obtained the assistance

of financial institutions in each Member country to act as agents. When the loan was contracted and the promissory notes transferred, the proceeds were paid into a special account with the B.I.S., which only used it to pay out loans to beneficiary enterprises on receipt of the proofs of debt and related sureties. The same applied to the annual repayments on loans paid directly by debtor enterprises into the special account.

Since 1961, bond issues have not been governed by the Act of Pledge because of the new guarantees which the ECSC is able to offer on its assets.

In addition to subscribing to the Act of Pledge, the Institution gradually built up by 1956 a guarantee fund of 100 million units of account using its income from the levy, the rate of which had been set fairly high. This guarantee fund, however, may only be drawn on after all other reserves are exhausted.

Furthermore, creditors lending funds to the ECSC know that the ECSC is compelled to use the product of loans it contracts exclusively for re-lending, as it is required under the Treaty to meet its operating expenses out of receipts from the levy and income on its assets. In addition, the choice and quality of the beneficiaries receiving loans keeps failures to a minimum and the increase in redevelopment and reconversion loans diversifies the risks involved by making them less dependent on the economic climate in the coal and steel sector alone.

This gives an idea of the credit capacity offered by the ECSC and which enables it to draw on money markets. It is because it makes public issues on these markets that the Institution publishes and distributes its balance sheet at regular intervals.

183 - Methods and procedures

Under Article 51, section 1, paragraph 2 of the Treaty, the floating of ECSC loans on the markets of Member States is subject to the rules obtaining on these markets.

In general issues are made through banks or institutional investors and are quoted in the currency of the market on which they are floated. These loans are medium, but above all long-term loans and are floated under the conditions usual on the market.

Issue prospectuses contain the conditions governing the loan, viz. the amount borrowed, rate of interest, duration, payment and repayment terms and the applicable laws and place of jurisdiction. New bonds are held "pari passu" with all bonds issued and to be issued, with the exception of those covered by the Act of Pledge.

The ECSC also contracts private loans from banking establishments.

Given that borrowed funds must be allocated to loan operations, the accounting procedure for payment of interest on those funds and on the corresponding loans is kept separate, so that the operating balance between these parallel operations can be ascertained at any time.

Current costs connected with the service of loans contracted by the ECSC (interest and fees paid annually) are charged to this special loan operating account and offset by current receipts from the service of loans granted (inter-

est collected annually). The initial costs of loans contracted are not charged to this special operating account but are carried on the balance sheet as assets under a separate heading (recoverable issuing costs) and are gradually written off every year out of the special loan operating account. The end position of this special operating account may also be affected by other management factors (particularly by any losses due to default on the part of borrowers).

The balance of this account, which has so far always been in credit, is put to reserve on the liabilities side of the balance sheet (other provisions).

184 - Use

Under Article 51, section 1, paragraph 1, the product of ECSC borrowings may only be used to grant loans.

LOANS

Loans granted by the Institution are of two types. depending on the origin of the funds providing them. Some are granted out of borrowed funds, others either from the special reserve, directly from the levy, or from the former pension fund for officials of the ECSC.

Loans from borrowed funds

185 - Apart from the fact that the product of borrowings is generally speaking used to grant loans (Article 51, paragraph 1 of the Treaty) and that as a result there is an equilibrium between funds borrowed and funds loaned, Articles 54 and 56 give a more detailed definitions of the exact use to which borrowed funds may be put. Under Article 54, sections 1 and 2 and Article 56, sections 1 and 2, loans granted out of borrowed funds must be used to finance :

- a) the implementation of investment programmes by coal and steel enterprises
- b) with the unanimous agreement of the Council, works and installations which contribute directly and mainly to :
 - increased production
 - lower production costs
 - easier marketing of products subject to the jurisdiction of the ECSC
- c) In the industries subject to the ECSC's jurisdiction or, with the agreement of the Council, in any other industry, programmes to create new and economically sound activities capable of assuring productive reemployment to workers discharged following the introduction of new technical processes or equipment into enterprises
- d) In the industries subject to the ECSC's jurisdiction or, with the agreement of the Council, in any other industry, programmes for the creation of new and economically sound activities or the transformation of enterprises capable of assuring productive reemployment of workers discharged as a result of far-reaching changes in marketing conditions in the coal and steel industry.

186 - From the accounting point of view and to underline the fact that borrowed funds are used exclusively for allocation as loans as stipulated in Article

51 of the Treaty, the Institution, up to 1968, always shows separately in the balance sheet the arithmetical balance between the funds borrowed, under liabilities, and, under assets, the same funds whether already paid out to borrowers, still to be paid out to beneficiaries or still to be allocated under new loan agreements. This balance was in fact the result of the policy whereby funds borrowed were directly and individually allocated as loans for financing.

After 1968, the Institution no longer drew a distinction between categories of loans according to their origin or use. Nevertheless, the balance between borrowed and loans continues to be respected and can be checked in the overall accounts. This change was prompted by the desire to apply the principle of unity in managing both borrowed and own funds, as we shall explain in the section entitled "Management and investments of funds".

187 - In general, the terms of loans granted have been more or less identical with those of loans contracted (same currency, duration, principal, repayment terms). The rate of interest on the loans granted has often been slightly higher than that on the corresponding loan contracted, to offset its cost. As from 1969, however, the ECSC sets a standard rate for all loans granted out of borrowed funds. This single rate is subject to periodic alteration and is the result of evening out the cost of various loans contracted over a certain period.

Loans for industrial redevelopment and reconversion, (under Article 56 of the Treaty), the amount of which rises considerably, were initially granted at more or less the same rate of interest as that on the corresponding funds borrowed and then at a lower rate, thanks to the combination of funds from different origins (very low-interest own funds and higher-interest borrowed funds). Since 1967 loans for industrial redevelopment and reconversion granted under borrowed funds qualify for a reduced rate of interest for the first five years. These reduced rates were fixed successively at 4.5 % and 5.5 %. The resulting interest loss, shown in the loan operating account, is made good by an outright difference payment credited to the same account to restore the balance between the cost of borrowed funds and the cost of the corresponding loans.

Loans for the financing of industrial investment projects under Article 54 of the Treaty have always been granted under the Institution's normal conditions. As from June 1970, however, they also can obtain a reduced rate of interest, provided they fulfil certain requirements, similar to that on redevelopment and reconversion loans granted under Article 56 of the Treaty. The criteria taken into account in granting this reduction are concerned with the nature of the investments to be financed : investments resulting from safety and public health considerations (nuisance control), multinational investments promoting the integration within the Community of ECSC enterprises, investments designed to eliminate bottlenecks affecting an entire ECSC industry or investment for the establishment of research or vocational training centres within the scope of the ECSC's activities.

Under Article 54 of the Treaty, the ECSC has also financed housing construction programmes for workers in the coal and steel industries. These loans are mainly granted out of own funds at 1 %, but may also be granted out of borrowed funds at a normal rate of interest more or less equal to that on the funds borrowed.

188 - Guarantees required by the ECSC on the loans it grants are principally first mortgages, guarantees from Member Governments, industrial groups and banks.

189 - All loans provided out of borrowed funds are granted in the same currency as that of the borrowing, whatever the nationality of the beneficiary.

190 - As regard the Institution's policy towards potential borrowers, this is essentially to guide and direct investments in accordance with the general objectives periodically defined under Article 46 of the Treaty; these are furthermore published in the Official Journal of the European Communities and thus enable industrialists to know the areas in which they may expect Community financial assistance for their investments.

Article 54 also provides for the prior declaration of individual programmes. Within three months the Institution gives a reasoned opinion based on the general objectives whenever the investment plan is a basic investment. Approval in fact means that Community loans may theoretically be made, subject to fulfilment of certain financial conditions.

In addition to these contacts envisaged in the Treaty the Institution makes known its financial assistance terms either through official channels (Official Journal of the European Communities), or by letters to governments when, as in the case of redevelopment and reconversion, these are the intermediaries responsible for submitting loans applications, or by circulars sent to professional organisations or even to enterprises themselves.

191 - Loans granted out of non-borrowed funds

In addition to loans granted from borrowed funds, the ECSC also grants loans out of the special reserve (to finance social housing construction and industrial redevelopment and reconversion), from levy resources (for the social readaptation of steel workers and miners or for technical or social research) and from the former ECSC pension fund (for the construction of personal housing for officials of the Communities).

192 - In effect, loans for readaptation, technical and social research and industrial redevelopment and reconversion are few in number and date from the years 1958 - 59, 1955 - 66 and 1966 - 67 respectively. If operations in these areas have slowed down, this is mainly due to a change in the methods of financing projects in these three sectors : loans have in effect given way to subsidies.

193 - Loans granted out of ECSC own funds are principally used, then, to finance social housing. These loans are usually granted to financial establishments or banks. In view of the very moderate rate of interest they are given (1 %), these establishments usually undertake in turn to lend the sums received from the ECSC to industrial enterprises or specialist organisations, supplemented by amounts which they themselves raise on their home markets. The combined amount can thus be loaned at a single rate of interest, which, because the interest on the funds loaned by the ECSC is so low, is very competitive. The final rate is laid down in the agreement and must be respected by the companies which grant the loans to beneficiaries.

Programmes receiving assistance must be approved and checked by the ECSC which also requires security on the loans it grants. This security may be one of many types but is often either Government guarantees given by national construction companies specialising in moderate-rent housing or guarantees from industrial groups given to construction companies attached exclusively to those groups. When loans granted for worker housing construction programmes are provided

from borrowed funds, these are often combined with own funds so that the average interest rate can be a moderate one.

Loans of this type are always given in the currency of the country in which the borrower is established. This eliminates all exchange risks for the borrowers and makes the financing of building operations considerably easier.

- 194 - The third type of non-borrowed funds out of which loans are granted are those of the former ECSC pension fund. Since 1964 the Institution has used these funds to grant loans to its employees for the purchase or construction of personal housing. Up to 4 March 1968 the ECSC pension fund was constituted from ECSC and employees' contributions and managed by the Institution with the rest of its assets. Since the merger of the Executives when all the pensions of Community officials were placed on the administrative budget of the single Executive, this fund has been part of the overall financial assets of the ECSC. In 1970 a decision was passed whereby 40 % of the sum may be allocated to provide personal housing loans to all Community officials and 60 % of it for the purpose either of guaranteeing social readaptation commitments or granting reduced-interest loans within the context of the social and economic objectives of the ECSC Treaty.

Details of the loans granted out of this fund are set out in the annex to this report (pension fund, No. ...).

GUARANTEE OPERATIONS

- 195 - Under Article 51, paragraph 2 and Article 54, paragraph 1 of the Treaty, the ECSC may also extend its guarantee to loans contracted by coal and steel enterprises with other parties. Such guarantees must be extended in accordance with the terms of Article 54 of the Treaty, i.e. respecting the objectives envisaged (loans to assist the implementation of investment programmes or, with the agreement of the Council, works and installations which contribute to an increase in production, lower production costs or easier marketing of products.

In accordance with normal banking procedure, the ECSC receives remuneration for the guarantees it extends in the form of moderate guarantee fees which are added to its own funds.

MANAGEMENT AND INVESTMENT OF FUNDS

196 - 1. Origin and composition of the financial assets of the ECSC

There is no provision in the Treaty for the constitution of a body of initial capital and no rules governing the administration of funds temporarily accumulated by the Institution. Of the financial provisions of the Treaty, we may quote Article 49 which sets out the means by which the Institution may procure funds : the levy, borrowing and any gifts, and, on the other hand, Article 50 section 1, paragraph 3 and Article 51 section 3 which state that the Institution may constitute reserves. Section 4 of Article 51 also specifies that the Institution may not itself engage in banking operations relevant to its financial activities and Article 52 requires Member States to take all appropriate measures to ensure that funds are transferred as far as required (objective of the Treaty).

Within the spirit of these provisions then, and because of its public interest, the ECSC has always taken care to avoid speculative investment and has tried, as far as possible, to keep in accounts maintained on its behalf all receipts from the levy in their country of origin until such time as they are used.

Furthermore, since the ECSC had no financial resources at the beginning, it was obliged gradually to build up over the first years a kind of nominal capital with extras (guarantee fund, reserves and provisions), the contra of which in the assets is a body of liquid funds, held either at banks in current accounts at sight or at notice or in debenture bonds.

Using its own funds from the levy, the ECSC first built up a reserve of 100 million units of account known as the "guarantee fund". This amount was reached as from 30 June 1956, as a result of having fixed the levy at a relatively high rate during the first three years. The purpose of this fund was to assist the establishment of the new Coal and Steel Community and help it to obtain credit.

As regards its other resources, such as borrowed funds, the Institution must use them for loans to finance activities which are restricted under the Treaty. These funds may not be held as permanent liquid resources.

In view of the fact that the Institution must allocate its income from the levy to specific uses (administrative expenditure, research and readapta-

tion expenditure), it also quickly constituted provisions for these commitments was not paid to beneficiaries directly and entailed expenditure spread over a number of years, the liquid assets thus shown in these provisions were placed in deposits for varying periods, depending on when they would be required. Income on the investment of these funds was placed in a "special reserve". The Treaty had not made any provision for a reserve of this kind, or how it should be used.

Together, these allocations thus leave a considerable amount of liquid assets per contra which are invested as described below.

The ECSC has not to date received any gifts of the kind envisaged in Article 49 of the Treaty.

197 - 2. Forms of investment

The greater part of liquid assets is held at banks in current accounts at sight and at notice, in fixed deposits with a term of less than 1 year or in the form of other short and medium-term investments guaranteed by banks. A number of longer-term investments guaranteed by banks. A number of longer-term investments can be maintained, since the need to cover obligations contracted is spread over a period of time. The rest is held in portfolio in the form of first bonds issued by national and government authorities and official and semi-official bodies. The securities portfolio comprises bonds of varying currencies held at banks in ten or so different countries.

Up to 1965-66, the ECSC also concluded individual agreements with the banks at which the Institution's assets had been placed at medium-term. These required the banks in turn to grant medium-term, low-interest loans to coal and steel enterprises of the Community. This policy of investing part of the Institution's liquid assets made available to ECSC enterprises further sums over and above the funds borrowed to finance their investments.

Through the intermediary of the banks granting these loans, enterprises were able, on favourable terms, to obtain loans to a total higher than that which the ECSC could have furnished directly. As from 1966-67, however, the accelerated pace of the ECSC's disbursements under increasing commitments for readaptation, research and loans, obliged the Institution to discontinue this form of investment.

198 - 3. Principles governing the management of liquid assets

The investment policy pursued by the Institution since its inception has always concentrated, and successfully so, on obtaining the best possible return on its assets at the same time as meeting the security and liquidity requirements bound up with the performance of its tasks.

As far as returns are concerned, the various tables in this report reflect the satisfactory level and constant growth of the total interest yield on the ECSC's deposits and portfolio, and of the average yield on all its assets. This average was determined by comparison of the annual return on investments with the average annual total of liquid of assets invested.

As regards security, the ECSC has always avoided the hazards of speculation by following a cautious investment policy using large banks and a portfolio mainly comprising first bonds of national and government authorities and official or semi-official bodies. Apart from bank deposits, the Institution has particularly sought investment in securities carrying bank endorsements.

The third aspect of its management policy which has always been a matter of concern to the ECSC is the question of liquidity. Apart from the fact that income levels are themselves determined by features of the economic climate, commitments undertaken for social readaptation, research and industrial redevelopment and reconversion require sums to be paid out over a number of financial years by the Institution at different rates and intervals. The guarantee and pension funds and the provisions for risks various have a better chance of being used over a longer period of time and can thus be covered by assets which offer less immediate liquidity. This particular aspect of ECSC policy enables it, on the one hand, to put part of its liquid assets in short notice accounts to meet payments required out of provisions which can be realised more quickly, and, on the other hand, to collect a larger return on another part of its assets which are invested for a longer term but do not need to be realised and paid out so quickly.

ASSISTANCE TO COKING COAL AND COKE

199 - General

Supplies of coking coal are a serious problem to the Community iron and steel industry because coking coal produced in the Community (above all Germany and to a lesser extent Belgium and France) is dearer than imported coking coal, especially that exported from the U.S.A.

A first decision by the High Authority of the ECSC in 1967 had enabled all collieries and coking plants to grant a discount on coking coal and coke supplied to the steel industry. This decision (1/67) had established mechanisms which made it possible, without financial action by the Institution, for Member Countries to grant maximum subsidies per metric ton, thereby making up the price difference between Community and imported coking coals. In order, however, to make this financial assistance a true Community initiative, the ECSC distributed it under a system operated by the Member States, whereby the Institution's role consisted simply in centralizing accounting operations for production and delivery figures and in calculating and checking sums transferred from one state to another.

When this system came to an end, a new decision by the Commission of the European Communities dated 19 November 1969, taken with the assent of the Council, established a controlled system of assistance to coking coal and metallurgical coke intended for use in steelworks of Member Countries.

This decision (1/70), which took effect on 1 January 1970 for a period of three years, now pledges the financial liability of the Institution by contribution a Community subsidy to the system of assistance given by the Member States to coking coal and coke.

200 - Operation of the system

Assistance granted under decision 1/70 provides for two kinds of assistance granted over a three-year period.

One is a fixed rate of assistance per metric ton of coking coal, provided exclusively by the producer countries, whilst the other is degressive and is intended to subsidize deliveries to areas far away from the production site or made in the context of intracommunity trade. This latter type is financed both by the ECSC and Member Countries up to a maximum total for three years and

a decreasing rate per metric ton during this period. This then is the discount which producers are able to give and which is made up by the ECSC up to a maximum fixed in u.a. per metric ton.

As regards the machinery of the system itself, the new decision is very similar to the old one : only the rates of assistance have changed and two kinds of outlets are distinguished : marketing in an area far away from the producer coal field (financed exclusively by governments out of domestic funds) and marketing in other Community countries (financed both by the ECSC and by domestic subsidies).

Total assistance to marketing was calculated on the basis of a maximum of 17 million metric tons financed each year for intracommunity trade. Total assistance may not be more than 0.70 u.a. per metric ton for the first year, 0.55 u.a. for the second year and 0.40 u.a. for the third year, i.e. a total of 28.05 million u.a. of which 7.65 million u.a. are provided by the ECSC out of own funds and 20.4 million u.a. out of contributions by the consumer Member States. These apply the following breakdown among themselves : France 40 %, Belgium 20 %, Italy 16 %, Luxembourg 14 % and the Netherlands 10 %. This breakdown applies to all expenditure for subsidies granted to consumer industries in the Community by their respective governments, which provide a maximum of 0.50 u.a. per metric ton the first year, 0.40 u.a. the second year and 0.30 u.a. the third year (i.e. a maximum total of 20.4 million u.a.). In addition, the Community directly provides a maximum of 0.20 u.a. per metric ton the first year, 0.15 u.a. the second year and 0.10 u.a. the third year (i.e. a maximum total of 7.65 million u.a.).

The decision provides for this special fund, which is in reality nothing more than an accounting device to distribute the assistance, to be administered by the Commission of the European Communities. Supplier countries may apply to it for reimbursement of assistance actually granted, and the Institution is empowered to check applications and determine the sums reimbursed to the Member Countries concerned.

Although in effect the Directorate-General for Energy administers this financial procedure on behalf of the Commission, it does not control any funds as such : it draws up and keeps the account showing the general breakdown of financial assistance granted.

201 - Procedure

As regards procedure, four partners are involved in the operation of the system : steelworks (which use coking coal and coke), the coal mining industries (which supply coking coal or coke), the Member Countries (which pay part of this financial assistance and are required to submit statements of their assistance to production and marketing) and, finally, the Institution through the intermediary of the Directorate-General for Energy (which centralizes notifications of transactions, checks the details and settles final accounts between countries by payment of its own contribution).

Decision No. 1461/70 of the Commission laid down the conditions for application of decision 1/70, particularly in regard to the notification of transactions, calculations of the basis of assessment for assistance and the organization of administrative operations.

On the appropriate forms and within the prescribed time limit (15 days from conclusion of the contract in the case of deliveries, every quarter for purchases from non-Community countries) coal and steel enterprises send in notice of new transactions or changes in supply contracts and details of coking coal purchases. Complete professional secrecy is observed in the transmission of this information which is then vetted by the appropriate departments of the Directorate-General for Energy, particularly to check that supplies are made in accordance with the terms of the contracts.

Coal and steel enterprises which produce and consume coke and coking coal must also, on their own initiative, send their respective Member Countries the information needed by governments departments in order to calculate coefficients for determination of the assessment basis. These coefficients determine the ratio between the total quantity of coke consumed and that used to supply the steel industry.

For their part, Member Countries :

- give financial assistance to coking coal producers in their respective countries together with marketing assistance to deliveries to areas far away from the producer coal field or in the context of intracommunity trade
- in order to speed up Community financing operations, submit quarterly statements to the Institution of coking coal supplies which qualify for marketing assistance, and pay instalments which are adjusted annually.

Using the information supplied by enterprises, the Member Countries calculate coefficients for each coking plant. These are based on standard questionnaires drawn up by the Institution to ensure easy comparability and which ask for economic figures (origin of supplies and breakdown of production) and financial details (calculation of the coefficients). If the coking plant and/or blast furnace is situated in a country other than that in which the coal mining enterprise is located, it is the Institution which calculates the coefficient for that enterprise and informs the supplier country.

The member countries calculate for each quarter and then for each year the sums due to coal-producing enterprises. This information is submitted to the Institution not less than 6 weeks from the end of each quarter, in the summarized form devised by the Institution and with a full breakdown of figures.

The Commission for its part :

- a) authorizes the rate of assistance granted by Member Countries to production. These rates are submitted for approval three months prior to the year in question
- b) checks declarations from enterprises for correct application of the rules governing prices, calculation of the assessment basis and of the sum of assistance granted
- c) asks Member Countries, on the basis of declarations received and in order to speed up Community financing of marketing assistance, to pay it the corresponding sums to supplier countries using a provisional breakdown and then disburses its own contribution
- d) draws up final statements for each country at the beginning of each year for the year past.

FINANCING OF SOCIAL HOUSING CONSTRUCTION

202 - General

The large amounts of financial assistance given by the ECSC for the construction of housing for coal and steel workers take the form of loans or subsidies as part of the social and economic objectives defined in the Treaty.

The assistance may be financed in two ways : either from subsidies for technical and economic research, which have been restricted to the financing of the first two experimental construction programmes in 1965, or from loans granted out of borrowed funds or, most frequently, out of the own funds in the special reserve.

203 - General machinery

Since 1954 the ECSC has helped to finance seven housing programmes for coal and steel workers in the six Community countries, as well as three special experimental programmes.

In all normal programmes the ECSC does not act as the developer. The construction work is handled by building firms or associations, local authorities or industries, sometimes by the workers themselves. Such projects, which are social in nature, are implemented in the context of national legislation and receive various kinds of assistance from government authorities.

For reasons of a social nature and under a general policy covering precisely defined building programmes, the ECSC gives its assistance in the form of longterm loans (25 to 30 years) and at reduced interest (1 %). It provides between 15 and 25 % of the total cost required for loans granted out of own funds, and up to 50 % for loans granted out of a combination of own funds and borrowed funds.

204 - Implementation and supervisory procedures

Under its procedures for drafting, implementation and supervision of construction programmes to which the ECSC decides to give partial financing, the Institution first takes a decision in principle, for the entire Community, to draw up a programme of assistance to the construction of social housing. The ECSC's action is part of a general housing closely determined by the general

objectives of the Community. Normal and experimental construction programmes are selected and prepared after consultation with the appropriate industrial and trade union circles in accordance with the general social policy pursued by the European Communities.

The Institution then fixes the total value allocated to the programme out of the resources available, determines the period for its implementation and its special features (certain programmes submitted are drawn up with particular objectives in mind) and decides how to make the financing available and how to check the use made of funds granted to finance such programmes.

In the coalfields and steelworks, regional committees composed of representatives of the appropriate ministries and of both sides of industry are established. These are consulted with regard to the distribution of funds, choice of projects to be financed and the choice of developer.

Two Directorates-General of the Institution are involved in the financing of construction programmes : the Directorate-General for Social Affairs and the Directorate-General for Credit and Investments.

The Directorate-General for Social Affairs is responsible for drafting a general housing policy and for preparing construction programmes and overseeing their implementation. After compilation, dossiers are examined to ensure that they comply with the financial and technical provisions laid down in the programme.

Opinions and lists of projects are submitted to the Institution for approval. After an official decision in each individual case, appropriate contracts are drawn up with the national financial establishments responsible for granting and administering loans to final beneficiaries.

After informing beneficiaries of the agreement provisionally granted, the Directorate-General for Social Affairs sends them two postcards which must be returned showing the dates on which construction work began and was completed. It is worth mentioning at this point that the contracts stipulate that any change to a project or transfer of a loan to another builder requires the prior assent of the ECSC. This new information is recorded. In addition, if progress is found to be abnormally slow, on-the-spot inspections may be carried out by officials of the Directorate-General for Social Affairs.

The Directorate-General for Social Affairs also maintains up-to-date dossiers on each project and keeps records both of credits granted and payments made under each programme. The method of classification of projects enables statistical and financial information to be located at any time by country, sector, enterprise, programme and project. These financial records are made possible by cooperation with the Directorate-General for Credit and Investments.

This Directorate-General works out the financial procedures followed, prepares loan agreements together with the legal department and signs these contracts with the financial institutions which distribute the funds to beneficiaries. It also takes care of the administration proper of loans, i.e. it disburses them and checks repayments.

205 - Financing

As stressed in the foregoing paragraphs, housing construction programmes are financed above all from loans granted for the most part out of own funds drawn from the special reserve. Loans have also been granted using a combination of own funds from the special reserve and borrowed funds, particularly when the loan interest rate currently prevailing on money markets made this necessary.

These loans are most often granted - in accordance with the procedure described above - to financial establishments or banks. The interest rates charged on loans granted from the special reserve are always low (1 %). In the case of loans granted out of borrowed funds, these are combined with funds from the special reserve and can thus be loaned at a moderate rate of interest (3.5 to 4.5 %). In view of these moderate rates, these establishments usually undertake in turn to give loans to industrial enterprises or undertakings which specialize in social housing construction, supplementing the sums received from the ECSC by amounts they themselves raise on their home market. The combined amount can thus be loaned at a single rate of interest which, in view of the interest rates charged on the ECSC funds, can be very competitive and is no higher than the rates envisaged in the loan agreements between the ECSC and the establishment extending the loan. Clauses in these agreements require the establishments to grant the loans within 3 months of receiving the funds from the ECSC. It will be apparent that these procedures enable loans to social housing construction to play an added financing role under the Community's general social housing policy.

All loans under programmes for social housing construction are given in the currency of the country in which the final borrower is established. This eliminates all exchange risks for the borrower and makes the financing of building operations considerably easier.

The Institution has thus drawn mainly on the special reserve, constituted from the interest yield on own funds invested, in its efforts to promote the construction of social housing. In order to make quite clear that the special reserve is allocated exclusively to social purposes, the Institution has also, since 1970, withdrawn from this reserve all sums which were not specifically intended to finance these programmes.

THE PENSION FUND

206 - Constitution and Operation of the ECSC Pension Fund

The coming into force of the service regulations for staff of the European Coal and Steel Community (1 July 1956) was accompanied by the establishment of an independently financed pension fund applying to all officials of the Community. Into this fund - which took over the assets of the earlier, provisional Provident Fund - ECSC employees paid a personal contribution of 7.5 % of their basic salary, whilst the Institution paid a contribution of 15 % of the basic salary, thus guaranteeing officials a full pension (60 % of the latest basic salary) after 30 years of service. The fund thus established formed part of the financial assets of the ECSC which managed them together with its other assets and under the terms it had liberally set. This pension fund, like the Institution's liquid assets, was thus invested at medium and long-term in a number of forms : either fixed deposits of varying lengths, securities, or even as building loans to Community officials.

The pension fund has, however, remained on the balance sheet shown separately under liabilities among the ECSC's creditors, since the ECSC was responsible for managing it and crediting it with 3.5 % annual interest as required in the service regulations.

From 1 January 1962 the employee's contribution to the pension fund was reduced to 6 % of the basic salary (12 % for the Institution's share), and a full pension was granted after 33 years of service. Officials employed before 1 January 1962 were, however, given the option of continuing at the old rate or paying the new rate.

This fund thus increased each year by the amount of the contributions paid by the Institution and its employees, the statutory allocations paid by the institutions of the ECSC, and the interest yield on these (3.5 %), but decreased by the amount of retirement pensions paid out and severance grants provided for in the service regulations for certain categories of employees.

With the merger of the Executives and harmonization of the service regulations of the three European Communities, however, the pensions of all officials, including those of the ECSC, were transferred to the single administrative budget as from 5 March 1968. As a result the ECSC pension fund ceased to grow, because contributions paid by employees were thereafter added not to the pension fund but to the administrative receipts of the single Executive. The fund, which at that time totalled 25.5 million u.a., continued to be shown as a

liability in the ECSC balance sheet, whilst the annual interest credit of 3.5 % was paid into a provision described as "unspecified, awaiting allocation" (placement de fonds pour compte). This provision has since been used to finance ECSC initiatives (e.g. assistance to coking coal).

The pension fund itself still constitutes an asset of the European Coal and Steel Community, which may be invested and loaned, and is carried as a balance sheet liability under the heading "former ECSC Pension fund" ever since it ceased paying out pensions to former ECSC officials.

207 - Administration of the pension fund

As stated above, the pension fund is invested together with the rest of the ECSC's financial assets. No prior specification is made as to the form this investment should take, and the Institution is required simply to pay 3.5 % annual interest on it. In addition to investing it in fixed deposits and securities, managed as shown in this annex (under "management and investment of funds"), the Institution decided in 1964 to grant part of it as loans to its officials under certain conditions for the purchase or construction of personal housing. There was thus a social purpose in this normal diversification in the investment of the pension fund and at the same time enough liquidity was maintained to pay out pensions due or shortly to become due to beneficiaries .

This system of loans, which was open only to ECSC officials and the main features of which are described below, underwent a number of modifications and came to an end in 1968. It was replaced in 1971 by a new system of loans open to all officials of the European Communities on terms which will also be described below.

The conditions governing the first category of loans granted out of the ECSC pension fund were as follows :

- annual interest of 4.5 % in the first instance, subsequently reduced to 4 % and 3.75 %, including the cost of insuring the balance outstanding
- beneficiaries had to have paid contributions for at least 5 years
- maximum term of the loan was 20 years.
- the maximum amount of the loan, fixed in the first instance at 10.000 u.a. plus 500 u.a. per child or other dependant, was increased to 14.000 and 1.000 u.a. respectively, but could not exceed 18.000 u.a. or 40 % of the total cost of the project (including land)
- repayments were monthly, by deduction from the salary, with the option of anticipated repayment
- the security required by the Institution consisted in undertakings by the beneficiary either to forfeit any severance grant to which he might be entitled or to repay at once the amounts outstanding if he should cease working for the Community
- applications, supported by the appropriate documents, were examined by an ad hoc Committee and the loans were serviced by the Directorate-General for Credit and Investments.

As regards the second system of loans, which took effect on 18 June 1971, its main features are as follows :

- up to 40 % of the former ECSC pension fund may be used for loans, whereby repayments and interest on these loans are charged to this amount, thus providing a kind of revolving fund
- annual interest of 4,25 %, including the cost of insuring the balance outstanding. From 1971 the sum of this interest is added to the former pension fund, the total of which will thus vary once more
- beneficiaries must have had 5 years service and paid contributions under the pension scheme for the entire 5 year period
- maximum term of the loan is 25 years
- the maximum amount of the loan is 12,000 u.a. plus 1,000 u.a. per dependent child, but may not exceed 18,000 u.a. in all. These sums are set by reference to the consumer price index applied in Belgium
- the total amount of the loan may not exceed a percentage (between 20 and 80 %) of the total cost (including purchase of the land).

This percentage varies according to the rank of the employee.

The conditions governing repayment, lodging of applications, guarantees and cases in which the ECSC may demand repayment are essentially the same as those applying to loans granted between 1964 and 1968.

208 - Use of the former ECSC pension fund

Following the merger of the Executives, harmonization of the service regulations for staff of the three European Communities (ECSC, EEC and Euratom) deprived ECSC employees of the special system laid down in the old article 83 of its service regulations and replaced this system by the single budgetary system. As a result, the pension fund became inoperative and a qualified majority vote of the Council of the European Communities, acting on a Commission proposal and with the assent of the Service Regulations Committee, was authorized to determine how it should be used (1).

On 2 March 1970, the Council decided to retain the sums made available from the pension fund on the ECSC budget, thus confirming that it is still an asset of the European Coal and Steel Community. As a result, the management of this asset was left to the Commission with instructions that it be used as follows :

- up to a limit of 40 % for loans under a housing policy extended to all officials of the European Communities
- the other 60 % would remain at the disposal of the ECSC to guarantee commitments for readaptation (article 56 of the Treaty) and to grant reduced-interest loans intended to further the social and economic objectives of the Treaty within the scope of the financial operations provided for in it.

Meanwhile, the Commission had suspended from 1.10.1968 the High Authority's decision on the system of loans granted from the pension fund to finance the construction, purchase or conversion of housing by ECSC officials. By its decision of 18 June 1971, which took effect the following day, the Commission enacted the provisions for implementation of the new system of loans.

(1) Regulation (EEC, Euratom, ECSC) no. 259/68 of the Council dated 29/2/1968 (OJ no. L 56 dated 4/3/1968), article 2, number 11.

209 - Allocation of interest yielded on the pension fund

Throughout its statutory existence, the fund was credited with annual interest of 3.5 %.

From 1967, however, a provision entitled "unspecified, awaiting allocation" (placement de fonds pour compte) was constituted. Initially paid into this was the difference between the yield on the pension fund calculated at the average rate on all Community assets invested and the fixed yield of 3,5 % on the fund itself, as laid down in the service regulations.

As from 5 March 1968 the entire interest on the fund, the amount of which has remained constant, has been put to this provision.

The entire amount is used to meet expenditure incurred by the ECSC for assistance to coking coal (7.75 million u.a. between 1970 and 1972).

On 22 June 1970 the Council, giving its assent to the provisions proposed by the Commission for implementation of the system of loans to officials, included in its minutes a declaration, under the terms of which :

"It is understood that surplus amounts available to the Commission as a result of the staggering of loans shall produce interest for the benefit of the fund. The rate of interest applicable to these sums shall be the same as the average rate on ECSC assets invested, as apparent from the annual report of the auditor of this Community".

As a result, these contributions would increase the pension fund together with repayments and interest from the officials granted loans, thus providing a continuous financing of loans (revolving fund).

A N N E X I ITHE IRON AND STEEL SCRAP COMPENSATION SYSTEM210 - General

The settlement account of the single office which controls the machinery of compensation and was instituted under decision no. 19/65 has been in operation since 1 January 1966 and records the operations involved in implementation of the system.

These are :

- the pursuit of claims against defaulting debtor enterprises and scrap dealers for recovery of compensation amounts improperly collected
- the distribution of funds recovered to all enterprises subject to the system, in the form of refunds
- the adjustment of certain situations following possible changes in bases of assessment.

We refer you to the condensed management account dated 31 December 1965 (1) on the basis of which the final rates of contributions, principal and interest, were set by decision no 19/65 of the High Authority dated 15 December 1965.

211 - Extent of our audit

As regards settlement operations under the iron and steel scrap compensation system, our audit is confined to ensuring that the settlement account at 31 December 1972 is correct and balanced. To this end we conducted an examination at the Directorate-General for Industrial Affairs (Directorate for Steel) of the position of the settlement account closed at 31 December 1972 and, in the case of bank holdings, we checked that the balances shown in the ECSC's account tallied with the statements of account issued by the banks.

(1) ECSC Auditor's Report for the year 1965-1966, no. 99.

212 - Condensed account of settlements at 31 December 1972 and notes

The position of the settlement account, as closed at 31 December 1972, appears as follows :

| A S S E T S | | L I A B I L I T I E S | |
|-------------------------------|-----------|---|-----------|
| Enterprises' current accounts | 2 037 633 | Provision for future management costs and bad debts | 2 023 295 |
| Banks | 1 322 688 | Accounts payable | 36 175 |
| | | Temporary accounts | 3 200 |
| | | Unallocated balance | 1 297 651 |
| | 3 360 321 | | 3 360 321 |

213 - Assets :

Examination of this account reveals that the Office holds claims for contributions in arrear totalling 2 037 633 UA. The largest part of this is owed by Italian enterprises (2 004 082 UA).

Liabilities :

214 - The sum of 2 023 295 UA shown as "provision for future management costs and bad debts" covers :

- fees to the trustee for its subsequent services under the compensation system (21 837 UA)
- the sum owed by doubtful debtor enterprises (1 862 128 UA)
- the balance due from enterprises engaged in legal actions (139 330 UA).

215 - The liabilities item "accounts payable" is the same as at 31 December 1971 (36 175 UA). This sum represents a claim of the Commission against the Settlements Office, to which it has temporarily ceded the product of sanctions imposed under the compensation system on enterprises which still owe considerable arrears in contributions. It was agreed that the order in which payments would be charged against the total debt owed by these enterprises would be : interest in arrears, contribution principal and finally the penalty payments. The ECSC will thus collect the latter once the first two parts of the debt are discharged in full.

The assets side of the ECSC balance sheet includes (under sundry debtors) an item corresponding to the debt owed by the Settlements Office to the Community (36 175 UA).

216 - The "temporary accounts" cover fees and costs payable to the trustee for services rendered during the second half of 1972.

217 - The "unallocated balance" of 1 297 651 UA represents the sum available for distribution as settlement refunds as provided for in article 7 of decision no. 19/65.

Five refund distributions had been made up to 31 December 1972 to a total of 6 246 430 UA. The fifth refund, made in 1972, totalled 1 849 721 UA. According to our information, a sixth refund distribution was made during the first quarter of 1973.

218 - Management account

Operating expenditure, which totalled 17 244 UA in 1972, was mainly, apart from banking fees to the value of 31 UA, in payment of the services of a trust company provided in connection with the settlement of compensation activities. These payments were for services rendered in 1971 and 1972.

219 - Remarks prompted by our audit

We found that in the course of the year the Office was obliged to abandon a debt which became irrecoverable when the debtor enterprise went bankrupt. The ECSC was non-suited, furthermore, in all its efforts to enforce its claim (545 775 UA) in respect of the compensation contribution.

A N N E X I I IPATTERN OF DEVELOPMENT IN THE MAIN ELEMENTS OF THE ECSC'S FINANCES

220 - This annex contains a series of tables showing the principal elements of the ECSC's finances during the last four financial years.

 The first table, no. 27, juxtaposes the balance sheets for 1971 and 1972, giving changes for better or worse.

 Table 28 gives the pattern of revenues and expenditures and the amount of the excess of revenues over expenditure during the last four years.

 In table 29 we show how the surplus referred to in table 28 was allocated at the end of each year. It will be recalled that the excess of revenues over expenditures is allocated, at the end of each year, to provisions and reserves (guarantee fund, special reserve, readaptation, research, etc.).

 Table 30 shows the nominal and outstanding totals, at the end of each of the last four years, of ECSC borrowings and loans granted out of borrowed funds.

 Table 31 shows the nominal and outstanding totals of ECSC loans granted out of own funds.

 Table 32 gives the annual yield on the ECSC's liquid assets. It should be noted that this is calculated by comparing the revenues for the year with the average value of the ECSC's assets at the beginning and end of the year.

 All amounts in the tables which follow are expressed in thousand units of the European Monetary Agreement.

Table 27 : - CHANGES IN ITEMS OF THE ECSC'S BALANCE SHEETS BETWEEN 31.12.1971 AND 31.12.1972

| ASSETS | | | | (in thousand units of account) | | | | LIABILITIES | | | |
|--|-----------|-----------|-----------|--|---------|---------|-----------|---|-----------|-----------|-----------|
| | 1971 | 1972 | changes | | 1971 | 1972 | changes | | 1971 | 1972 | changes |
| I. DISBURSED LOANS | | | | I. BORROWINGS | 801 707 | 918 598 | + 116 891 | II. RESERVES | 187 000 | 187 000 | - |
| A. Loans granted out of borrowed funds | 755 685 | 869 283 | + 113 598 | III. PROVISIONS | | | | A. Financial assistance | 103 116 | 110 615 | + 7 499 |
| B. Other loans | 80 499 | 89 151 | + 8 652 | B. Other provisions | 14 564 | 18 008 | + 3 444 | Total item III | 117 680 | 128 623 | + 10 943 |
| Total item I | 836 184 | 958 434 | + 122 250 | IV. FORMER PENSION FUND | 25 651 | 25 860 | + 209 | V. MISCELLANEOUS | | | |
| II. CASH and BANKS | 209 040 | 195 261 | - 13 779 | A. Coupons and bonds payable | 16 947 | 23 615 | + 6 668 | B. Financial creditors | 58 | 923 | + 865 |
| III. SHORT AND MEDIUM-TERM INVESTMENTS | - | 27 150 | + 27 150 | Total item V | 17 005 | 24 538 | + 7 533 | VI. ACCRUED LIABILITIES | | | |
| IV. PORTFOLIO | 64 853 | 54 505 | - 10 348 | Interest and fees accrued but not yet due on borrowings and guarantees | 17 883 | 22 397 | + 4 514 | VII. UNALLOCATED BALANCE | 714 | 181 | - 533 |
| V. REAL ESTATE | 229 | 120 | - 109 | Total item VII | 20 302 | 28 486 | + 8 184 | | | | |
| VI. RECOVERABLE ISSUING COSTS | 14 844 | 17 580 | + 2 736 | VIII. ACCRUED INCOME | | | | A. Interest and fees accrued but not yet due on deposits, portfolio, loans and guarantees | 19 072 | 21 669 | + 2 597 |
| VII. MISCELLANEOUS | | | | B. Levy declared for December 1971 and 1972 production but payable after 31.12.1971 and 31.12.1972 | 3 116 | 3 992 | + 876 | Total item VIII | 22 188 | 25 661 | + 3 473 |
| A. Debtors under the levy | 1 910 | 3 885 | + 1 975 | | | | | TOTAL FOR BALANCE SHEETS | 1 167 640 | 1 307 197 | + 139 557 |
| B. Financial debtors | 1 445 | 986 | - 459 | | | | | | | | |
| C. Deposits for coupons and bonds due but not yet presented | 16 947 | 23 615 | + 6 668 | | | | | | | | |
| Total item VII | 20 302 | 28 486 | + 8 184 | | | | | | | | |
| VIII. ACCRUED INCOME | | | | | | | | | | | |
| A. Interest and fees accrued but not yet due on deposits, portfolio, loans and guarantees | 19 072 | 21 669 | + 2 597 | | | | | | | | |
| B. Levy declared for December 1971 and 1972 production but payable after 31.12.1971 and 31.12.1972 | 3 116 | 3 992 | + 876 | | | | | | | | |
| Total item VIII | 22 188 | 25 661 | + 3 473 | | | | | | | | |
| TOTAL FOR BALANCE SHEETS | 1 167 640 | 1 307 197 | + 139 557 | | | | | | | | |
| | | | | SUSPENSE ACCOUNT | | | | | | | |
| I. Due on bonds | - | 44 434 | + 44 434 | I. Bonds payable | - | 44 434 | + 44 434 | | | | |
| II. Enterprises' liabilities under guarantees | 25 340 | 24 137 | - 1 203 | II. ECSC's liabilities under guarantees | 25 340 | 24 137 | - 1 203 | | | | |

Table 28 : - PATTERN OF REVENUES AND EXPENDITURES AND THE EXCESS BALANCE
FOR THE YEARS 1969 to 1972

| | 1969 | 1970 | 1971 | 1972 |
|--|---------|---------|---------|---------|
| <u>Revenues</u> | | | | |
| Levy | 38 656 | 39 505 | 37 776 | 47 209 |
| Income from bank accounts and interest on loans granted out of own funds | 13 336 | 14 984 | 14 200 | 13 034 |
| Service of loans and guarantees | 43 384 | 45 261 | 50 135 | 58 666 |
| Administrative and miscellaneous | 11 426 | 251 | 526 | 291 |
| Former pension fund | - | - | - | - |
| Total | 106 802 | 100 001 | 102 637 | 119 200 |
| <u>Expenditures</u> | | | | |
| Administrative | 18 056 | 18 000 | 18 000 | 18 000 |
| Readaptation | 20 354 | 11 363 | 15 362 | 14 519 |
| Research | 6 750 | 12 459 | 11 230 | 11 639 |
| Service of borrowings and guaranties | 42 185 | 43 986 | 47 838 | 57 601 |
| Assistance (art. 56) | 495 | 1 090 | 2 099 | 2 463 |
| Assistance (art. 54) | - | - | 135 | 850 |
| Assistance to coke | - | 2 627 | 2 647 | 1 701 |
| Financial and sundry costs | 7 582 | 50 | 290 | 1 809 |
| Total | 95 422 | 89 575 | 97 601 | 108 582 |
| Excess of revenues over expenditures | 11 380 | 10 426 | 5 036 | 10 618 |

Table 29 : - NET APPROPRIATION TO RESERVES AND PROVISIONS OF THE EXCESS REVENUES
OVER EXPENDITURES FOR THE YEARS 1969 to 1972

| Reserves and provisions | 1969 | 1970 | 1971 | 1972 |
|-----------------------------------|---------|---------|---------|--------|
| - Guarantee fund | - | - | - | - |
| - Special reserve | 6 751 | - 7 518 | 2 000 | - |
| - Readaptation | 7 983 | 11 944 | - 1 867 | 666 |
| - Technical and economic research | 1 525 | - 3 285 | 1 707 | 3 143 |
| - Assistance (art. 56) | 1 349 | 798 | 5 009 | 519 |
| - Assistance (art. 54) | - | - | 3 027 | 3 170 |
| - Sundry provisions | 2 997 | 8 487 | - 5 579 | 3 444 |
| - Former pension fund | - | - | 142 | 209 |
| - Unallocated balance | - 9 225 | - | 597 | - 533 |
| Total net appropriations | 11 380 | 10 426 | 5 036 | 10 618 |

Table 30 : - BORROWINGS CONTRACTED AND LOANS GRANTED OUT OF BORROWED FUNDS FOR THE YEARS 1969 to 1972

| Position at | Borrowings | | Loans | |
|-------------|---------------|-------------------|---------------|-------------------|
| | Nominal value | Total outstanding | Nominal value | Total outstanding |
| 31.12.1969 | 892 567 | 718 574 | 869 432 | 695 439 |
| 31.12.1970 | 902 567 | 690 606 | 897 901 | 685 940 |
| 31.12.1971 | 1 057 827 | 801 707 | 1 011 805 | 755 685 |
| 31.12.1972 | 1 213 778 | 918 598 | 1 164 463(1) | 869 283 |

(1) Of the borrowed funds, 49 315 thousand UA had not yet been loaned at 31.12.1972.

Table 31 : - LOANS GRANTED OUT OF OWN FUNDS FOR THE
YEARS 1969 to 1972

| Position at | Loans drawn from the special reserve | | Loans granted out | | of levy income | |
|-------------|---|----------------------|-------------------|----------------------|------------------|----------------------|
| | Nominal value | Total outstanding | Research | | Readaptation | |
| | | | Nominal value | Total outstanding | Nominal value | Total outstanding |
| 31.12.1969 | 93 679 | 81 420 | 3 001 | 2 538 | 530 | 457 |
| 31.12.1970 | 95 271 | 80 110 | 3 001 | 2 463 | 530 | 437 |
| 31.12.1971 | 95 789 | 75 424 | 3 001 | 2 388 | 530 | 416 |
| 31.12.1972 | 102 712 | 77 683 | 3 001 | 2 309 | 530 | 395 |

Table 32 : - ANNUAL AVERAGE YIELD ON LIQUID ASSETS
FOR THE YEARS 1969 to 1972

| Year | Averag capital | Income from bank accounts | % |
|------|----------------|------------------------------|-----|
| 1969 | 233 000 | 12 279 | 5,3 |
| 1970 | 230 000 | 12 923 | 6,0 |
| 1971 | 227 000 | 13 156 | 5,8 |
| 1972 | 216 500 | 11 689 | 5,4 |

Table 33 : - FINANCIAL POSITION OF THE EUROPEAN COAL AND STEEL COMMUNITY AT 31 DECEMBER 1972

(Balance sheet)

ASSETS

LIABILITIES

| | UA | UA | | UA | UA |
|---|-------------|---------------|--|-------------|---------------|
| I - <u>DISBURSED LOANS</u> (1) | | | I - <u>BORROWINGS</u> (1) | | |
| A) Loans granted out of borrowed funds | | | in US dollars (US-\$ 213 450 000) | 196 599 460 | |
| - to finance industrial investments | 642 801 287 | | in German marks (DM 897 362 471) | 245 181 003 | |
| - for industrial redevelopment and reconversion | 199 572 248 | | in Italian lire (LIT 109 000 000 000) | 174 400 000 | |
| - to finance social housing construction | 26 908 812 | 869 282 347 | in Dutch florins (FL 106 228 000) | 29 344 752 | |
| B) Other loans | | | in French francs (FF 412 500 000) | 74 268 255 | |
| - out of the special reserve, to finance social housing construction | 74 283 693 | | in Belgian francs (FB 2 503 420 000) | 50 068 400 | |
| - out of the special reserve, for industrial redevelopment and reconversion | 3 399 621 | | in Luxembourg francs (FLUX 2 088 892 658) | 41 777 853 | |
| - for readaptation | 394 762 | | in Swiss francs (FS 156 250 000) | 38 258 123 | |
| - for research | 2 308 796 | | in £ | 50 000 000 | |
| - miscellaneous (out of the former pension fund) | 8 764 291 | 89 151 163 | in units of account | 18 700 000 | 918 597 846 |
| | | 958 433 510 | | | |
| II - <u>CASH AND BANKS</u> | | | II - <u>RESERVES</u> | | |
| A) Current accounts | 20 365 070 | | A) Guarantee fund | 100 000 000 | |
| B) Fixed deposits | 174 896 179 | 195 261 249 | B) Special reserve | 87 000 000 | 187 000 000 |
| III - <u>SHORT AND MEDIUM-TERM INVESTMENTS</u> | | 27 149 489 | III - <u>PROVISIONS</u> | | |
| IV - <u>PORTFOLIO</u> | | 54 504 754 | A) Financial assistance | | |
| V - <u>REAL ESTATE</u> | | 120 142 | - Readaptation | 67 718 338 | |
| VI - <u>RECOVERABLE ISSUING COSTS</u> | | 17 580 347 | - Research | 26 197 014 | |
| VII - <u>MISCELLANEOUS</u> | | | - Assistance under article 56 | 10 502 914 | |
| A) Debtors under the levy | 3 884 502 | | - Assistance under article 54 | 6 196 707 | |
| B) Financial debtors | 986 485 | | B) Other provisions | 110 614 973 | |
| C) Deposits for coupons and bonds due but not yet presented | 23 615 490 | 28 486 477 | | 18 008 491 | 128 623 464 |
| VIII - <u>ACCRUED INCOME</u> | | | IV - <u>FORMER PENSION FUND</u> | | 25 859 895 |
| A) Interest and fees accrued but not yet due on deposits, portfolio, loans and guarantees | 21 669 461 | | V - <u>MISCELLANEOUS</u> | | |
| B) Levy declared for December 1972 production but payable after 31.12.1972 | 3 991 698 | 25 661 159 | A) Coupons and bonds payable | 23 615 625 | |
| | | 1 307 197 127 | B) Sundry creditors | 922 869 | 24 538 494 |
| | | | VI - <u>ACCRUED LIABILITIES</u> (2) | | |
| | | | - Interest and fees accrued but not yet due on borrowings and guarantees | | 22 396 879 |
| | | | VII - <u>UNALLOCATED BALANCE</u> | | 180 549 |
| | | | | | 1 307 197 127 |

SUSPENSE ACCOUNT

I - Receivable on bonds 44 434 343
 II - Enterprises' liabilities under guarantees 24 137 368

I - Bonds due 44 434 343
 II - ECSC's liabilities under guarantees 24 137 368

(1) Up to July 1961, claims and related sureties under loans granted out of borrowed funds, together with other items of the assets, were pledged (under the Act of Pledge) to the Bank for International Settlements in Basle in favour of the holders of secured notes and coupons issued by the ECSC and indicated in note (1) to the balance sheet liabilities. The amounts pledged were :

Item I : 90 251 511 Item II : 133 211 Item VII : 1 683 063

(1) Borrowings secured by the Act of Pledge total 90 251 511 UA

(2) Of which secured notes total 1 609 957 UA

Table 34 : - MANAGEMENT ACCOUNT OF THE EUROPEAN COAL AND STEEL COMMUNITY FOR THE YEAR 1972

(STATEMENT OF REVENUES AND EXPENDITURES)

EXPENDITURESREVENUES

| | | UA | | | UA |
|-----|---|-------------|-----|--|-------------|
| I | - <u>SERVICE OF BORROWINGS AND GUARANTEES</u> | | I | - <u>SERVICE OF LOANS AND GUARANTEES</u> | |
| | A) <u>BORROWINGS</u> | | | A) <u>LOANS GRANTED OUT OF BORROWED FUNDS</u> | |
| | - Interest and borrowings | 53 177 637 | | - Interest on loans | 50 799 550 |
| | - Fees to custodian and agent banks | 938 868 | | - Interest on borrowed funds not disbursed | 3 081 381 |
| | - Miscellaneous expenditure | 421 559 | | - Miscellaneous revenue | 4 662 766 |
| | - Payment of recoverable issuing costs | 3 051 329 | | Total revenues from loans granted out of borrowed funds | 58 543 697 |
| | Total expenditure of borrowings | 57 589 393 | | B) <u>GUARANTEES</u> | |
| | B) <u>GUARANTEES</u> | | | - Fees credited | 121 949 |
| | - Fee to agent banks | 12 205 | | Total revenues from loans out of borrowed funds and guarantees | 58 665 646 |
| | Total expenditure for the service of borrowings and guarantees | 57 601 598 | II | - <u>LEVY</u> | |
| II | - <u>BUDGETARY EXPENDITURE</u> | | | - German enterprises | 21 044 950 |
| | - Administrative expenditure | 18 000 000 | | - Belgian enterprises | 5 453 528 |
| | - Readaptation expenditure | 14 518 629 | | - French enterprises | 9 501 002 |
| | - Research expenditure | 11 638 790 | | - Italian enterprises | 7 417 437 |
| | - Assistance - article 56 | 2 462 909 | | - Luxembourg enterprises | 1 657 919 |
| | - Assistance - article 54 | 850 337 | | - Dutch enterprises | 2 134 054 |
| | - Assistance to coke | 1 700 800 | | Total from levy | 47 208 890 |
| | Total budgetary expenditure | 49 171 465 | III | - <u>OTHER REVENUES</u> | |
| III | - <u>OTHER EXPENDITURE</u> | | | - Interest on bank deposits and portfolio | 11 688 885 |
| | - Financial costs | 278 725 | | - Interest on loans granted out of non-borrowed funds | 1 345 791 |
| | - Currency adjustments as a result of the changed parity of the US-\$ | 1 530 067 | | - Miscellaneous revenue | 290 947 |
| | Total other expenditure | 1 808 792 | | Total other revenues | 13 325 623 |
| IV | - <u>EXCESS OF REVENUES OVER EXPENDITURES</u> | 10 618 304 | | | |
| | SUM TOTAL | 119 200 159 | | xSUM TOTAL | 119 200 159 |

Table 35: - ALLOCATION OF ECSC ASSETS DURING 1972

| Allocation of ECSC assets (reserves and provisions) | Total assets at 31.12.1971 | Allocation of assets | Expenditure | Total assets 31.12.1972 |
|---|----------------------------------|-------------------------|---------------------------|-------------------------------|
| Guarantee fund | 100 000 000 | - | - | 100 000 000 |
| Special reserve | 87 000 000 | - | - | 87 000 000 |
| Readaptation | 67 052 478 | 15 184 489 | 14 518 629 | 67 718 338 |
| Technical and social research | 23 053 817 | 14 781 987 | 11 638 790 | 26 197 014 |
| Ass. to loans for industrial rede- velopment & reconversion (art. 56) | 9 983 536 | 2 982 287 | 2 462 909 | 10 502 914 |
| Assistance to investment loans (art. 54) | 3 026 690 | 4 020 354 | 850 337 | 6 196 707 |
| Other provisions: | | | | |
| 1 - Service, Borrowings | 6 135 546 | 57 526 250 | 57 526 250 | 6 135 546 |
| - Doubtful debtors, Borrowings | 1 996 107 | - | 75 348 | 1 920 759 |
| - Guarantee fee | 1 828 828 | - | - | 1 828 828 |
| 2 - Portfolio depreciation | 1 350 000 | - | - | 1 350 000 |
| 3 - Compensation of exchange losses on borrowings | - | 1 100 000 | - | 1 100 000 |
| 4 - Assistance to coke | 676 000 | 1 024 800 | 1 700 800 | - |
| 5 - Doubtful debtors under the levy | 500 000 | - | - | 500 000 |
| 6 - Unspecified, awaiting allocation (interest for former pension fund) | 1 646 130 | -1 646 130 | - | - |
| 7 - Compensation for exchange losses on accession contributions | - | 2 473 358 | - | 2 473 358 |
| 8 - For currency risks | 431 131 | 2 268 869 | - | 2 700 000 |
| Former pension fund | 25 651 446 | 208 449 | - | 25 859 895 |
| Unallocated balance | 713 895 | 19 275 446 | 19 808 792 ⁽¹⁾ | 180 549 |
| TOTAL | 331 045 604 | 119 200 159 | 108 581 855 | 341 663 908 |

(1) Includes 18 million UA as flat-rate contribution to administrative expenditure, 478 725 UA for financial costs, and devaluation of assets held in US dollars (1 530 067 UA)

