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COMMISSION COMMUNICATION TO THE COUNCIL

- STEEL POLICY -

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COMMISSION COMMUNICATION TO THE COUNCIL

STEEL POLICY

PRESENTATION

This communication fulfils the Commission's undertaking at the Council meeting on industry of 1 June 1987 to present comprehensive proposals covering all aspects of steel restructuring and designed to restore the industry to lasting competitiveness.

The Commission insists that all the proposals in this communication form an indivisible whole: the industrial aspects (restructuring and market controls through the quota system) cannot be separated from the social and regional aspects stemming from the restructuring process.

The Commission feels duty-bound to ensure that the industry will be restored to health in an orderly manner and that at the end of the period of adjusting production capacities to the markets the industry will again be competitive overall. This is why the Commission is not prepared to prolong the quota system - which everyone recognizes must be updated - unless it is accompanied by closure incentives and firm commitments from the firms and governments concerned.

The Commission considers that in a period of severe job losses it must do its utmost in the form of social backup measures and its contribution in this respect must be maintained, despite budget difficulties, at the level of previous years. For the regions and with the prospect of reform of the structural Funds - in particular the second objective of conversion of declining industrial areas - a new ERDF Community programme is proposed.

It is clear, however, that the Community's readiness to make a significant effort on the social and regional fronts is brought up short by inadequate resources (for 1988 at least) both under the structural Funds (especially the Regional Fund) and under the ECSC operational budget. The Commission is therefore obliged, until the Funds have been reformed and their resources increased under Article 130 D of the EEC Treaty, to appeal to the Council to face up to its responsability and agree to a limited transfer in 1988 from the general budget of the Community to the ECSC.

INTRODUCTION

Despite the eforst made under the auspices of the Commission since the beginning of the 1980s, there is still excess capacity in the steel industry which, in line with the General Objectives for 1990, is estimated by all the experts to total about 30 million tonnes (20 million tonnes for flat products and heavy sections).

As a result, firms are attempting to achieve financial viability by, among other things, shedding jobs; on a conservative estimate, 80 000 jobs will be lost in the next three years.

Such a reduction in employment in the steel industry (and in the sectors dependent on it) will have enormous regional consequences, especially in the declining industrial regions. Conversion of these areas is one of the priority objectives on which the Commission plans to concentrate aid from the Regional Fund (ERDF) and the Social Fund (ESF) in the context of the reform of the structural Funds made necessary by the entry into force of the Single European Act (cf. COM(87)100 final).

For this reason, the further restructuring of the steel industry requires that social and regional flanking measures be adopted as a matter of urgency, since adoption by the Council of the proposals for reform of the structural Funds cannot take place immediately and will therefore primarily constitute a medium-term response to the problems posed.

It is therefore necessary to examine both the contribution that the structural Funds can make to solving the problems described in the context of the planned reform and the intrinsic merits of certain specific ECSC instruments (e.g. redeployment aid, early retirement schemes), and what can be done during the period before the reform of the structural Funds takes effect.

At the same time, the Commission must help the industry to speed up the current restructuring process with the aim of soon eliminating the surplus capacities which are exerting heavy pressure on the market and preventing the recovery of the sector. EUROFER recently tried to introduce a set of measures aimed at achieving a significant reduction in capacity, and asked the Commission and the Member States to support this initiative by maintaining the quota system and by assuming the social and region.. costs of the operation. Since EUROFER's efforts were not successful, the Commission has decided to take the initiative again and is proposing a coordinated approach to the industry's problems.

It must be stressed, however, that a quota system based on Article 58 of the Treaty is not an end in itself. Its purpose is to control market developments and temporarily balance supply and demand in order to prevent cutthroat competition; it does not in itself act as an incentive to closures and may even, in some cases, have the opposite effect.

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Although crisis conditions persist for flat products and heavy sections, the Commission, aware that the quota system itself can be an impediment to the restructuring of the industry, will implement such a system only if it receives firm commitments from companies for a satisfactory level of closures carried out over a period not to exceed three years.

The objective of any new initiative must be the continued restructuring of the industry in order to eliminate excess capacity and improve the balance between supply and demand. This is essential if firms are to benefit, firstly, from the higher prices they will be able to obtain from a market in which supply is more in line with demand and, secondly, from lower costs as a result of the concentration of production in fewer plants. This objective can be attained in an orderly and equitable manner by adopting an approach coordinated at Community level. In view of the financial, socio-regional and, indeed, political situation of many firms, it is unlikely that capacity cuts in the flat products and heavy sections sectors can be carried out on the scale required without both specific encouragement and appropriate social and regional back-up measures.

In accordance with the Council's conclusions of 1 June 1987, the Commission considers that financial incentives from the Community are the most appropriate for the purpose.

The Community therefore has to do two things. Firstly, it must soften as far as possible the social and regional impact of this inevitable development and, secondly, it must ensure that the capacity cuts and plant closures needed if the industry is to regain profitability take place in a reasonably orderly manner.

Consequently, it is now proposed that an incentive be offered to firms for plant closures, backed up by enhanced social and regional measures without which an extension of the quota system for certain product categories is not contemplated.

THE INDUSTRIAL ASPECTS

As the Commission pointed out at the Council meeting on industry on 1 June 1987, a quota system, whatever form it may take, must therefore of necessity be coupled with Community closure incentives.

Although, as in previous decisions, the quota system proposed could include provisions encouraging firms to reduce capacity and eliminate production (see Annex I), past experience shows that this method is not sufficient. Closures not only mean social costs for the firm, in the form of redundancy payments: they also affect a firm's balance sheet in that assets corresponding to the value of the plants closed vanish.

Additional financial incentives are therefore needed to encourage firms to give up producing when closing down plant. For products still covered by quotas (see point VII) for which capacity of the order to 20 million tonnes is to be closed, adequate incentives should be planned, which would come on top of what the firm could obtain by selling the quotas relating to the plant closed down. The Commission considers that a fund of the order of 600 million ECU constituted under Article 58(2) ECSC would meet the target.

I. Closure incentives

The financial incentive would consist of:

- a premium paid against the irrevocable and permanent closure of hot-rolling capacities in categories IA (wide strip), II (heavy plate) and III (heavy sections). Of the funds generated, 70% would be earmarked for this purpose. The premium would be paid (to the company closing down capacity) only if the closure involved ceasing equivalent production upon the sale of the reference quotas, that equivalent production being transferred to the firms which had bought the quotas. Should no firm wish to purchase, it would be possible for the Commission itself to purchase the quotas offered. In that event, the quotas would be annulled and all competing firms would thereby gain advantage;

- and payment by the Commission of part of the expenditure incurred by firms required to shed a large proportion (about 10%) of jobs in the product categories concerned. These sums (30% of the funds generated) would be allocated either to financing grants or allowances to workers being redeployed or made redundant, or to financing measures to promote their reemployment.

The financial incentive system would be combined with the quota system itself, as provided for in Article 58(2) ECSC. The output of products under quota arrangements (categories Ia, Ib, II and III) would be subject to the payment of levies above a certain reference level (e.g. 70% of the quotas allocated). These levies (which could be at different rates for different categories) would be increased appreciably once the undertaking exceeded the quotas allocated to it. Deliveries for export would benefit from a reduced levy.

During the period of application of the quota system, these levies should bring in enough funds (about 600 million ECU) for sufficient closures to have been made on termination of the system.

The closure premium (paid only if the closure results in a real cut in output) will be fixed at a level where the closure impact on the liquid phase is taken into consideration. It will also depend on the volume of quotas corresponding to the plant closed and given up by the firm.

In order to speed up the timetable of closures, the closure premium will be higher at the beginning of the quota system and on a declining scale thereafter.

In accordance with the spirit of the second subparagraph of Article 58(2) ECSC, 30% of the funds generated will be earmarked for the social measures referred to above, which need not necessarily be in a restructuring context but could also be aimed at rationalization (see point IX).

In addition to the financial incentives, closure incentives could also result from the limited additional quotas which the Commission would grant in cases where a firm found itself obliged to reduce its output following a closure (see Annex I).

II. Complementarity with the industry's initiatives

It should be noted that the sums paid to firms under the system proposed should not be the only financial resources mobilized to bring about closures, since the quota arrangements, like the previous systems, will encourage the sale between firms of the references relating to the closed plants.

The Commission considers that to this system should be added a voluntary system similar to that proposed by EUROFER, which would be set up by the firms and should remain the principal incentive to restructuring. It was only because the system gave rise to a large number of applications to purchase quotas and few proposals to sell, particularly in category I, that the Commission found it necessary to accompany this initiative by an additional incentive to firms giving up production and quotas.

III. Relations with non-Community countries

The Commission is aware of the increase, albeit limited, in the financial burden on undertakings arising from the proposed financial incentives. However, it realises that as prices become steadier undertakings may find that they are not bearing this cost alone.

For this reason, great care will be taken to ensure that goods are not imported under terms which adversely affect the level of domestic prices, and hence there are plans to reinforce antidumping measures as soon as possible. The Commission will make sure that under the arrangements in force no distortion occurs which could penalize the Community's steel industry.

IV. Consulting the industry

Once this communication has been sent to the Council, the Commission will start consulting the industry before finally deciding on the terms and figures in the proposed formula. Close collaboration with the industry will be necessary in particular to determine the level of incentive deemed acceptable to secure the closures envisaged, and this level may differ according to the type of plant closed (product made at the plant, utilization rate, simultaneous closure of crude-steel making facilities).

V. Conditions and duration of the quota system

As stated above, the Commission considers that the quota system is not an end in itself in the conditions of structural crisis now obtaining; it is solely a means to bring about orderly restructuring. That is why the Commission will put it into effect only where it receives a firm commitment from firms to carry out sufficient closures while the system is in operation, a period which in principle will be three years. However, the Commission reserves the right to interrupt it if restructuring does not advance at a steady pace. In particular:

- the Commission will review its position concerning the continuation of the quota system either before the new system enters into force or immediately afterwards if it finds that no new commitment has been given by the firms;

- it will terminate the system in the course of 1988 if by 1 August 1988 the firms have not made an additional effort: their commitment concerning closures to be carried out must reach a level which the Commission can consider satisfactory as a whole for the products remaining subject to quotas.

VI. Updating the quota system (see Annex I)

The quota system will be much simpler than, the present arrangements. Updating the references, which is essential after the six or seven years of the system's operation, will itself simplify matters, numerous relaxations having been introduced to enable firms to adapt within the system to market trends.

The Commission proposes to base the references on company performance in 1985 and 1986.

VII. Coverage of the quota system

As the Commission pointed out earlier in its communications to the Council in 1986, it must also be realized that the quota system cannot any longer include wire rod and merchant bars. In the case of these categories of products, as with reinforcing bars (already excluded from the system), it is up to the undertakings concerned to work out their own strategies both with regard to production methods (integrated or electric steelworks) and with regard to commercial policy according to the market. Under these conditions, a quota system would not achieve its objective and would constitute an obstacle to technical progress in these categories of products. A quota system must thus cover only categories IA, IB, II and III.

SOCIAL AND REGIONAL ASPECTS

VIII. The social and regional context

The whole range of difficulties that will be created for workforces and for the regions by the measures to restructure the steel industry must be countered by back-up measures, whatever the subsector of the steel industry (quota or non-quota) in which jobs are being lost. The Commission considers that it must provide as much assistance as possible here. As already indicated, a conservative estimate suggests that over the three years ahead there will be 80 000 job losses, 50 000 of which will be due to restructuring proper and accordingly eligible for Community social aid under Article 56(2)(b).

The Commission's analysis of the regional consequences of restructuring clearly shows that the areas which will be worst affected are for the most part located in the major steel-producing areas which have already been in a state of crisis for many years. The decline in employment in the steel industry - down by about a third since 1980 - has resulted in high levels of structural unemployment and in some cases the out-migration of young people especially, which is liable to weaken the social fabric of the areas generally. The deepening of the crisis stemming from further capacity cuts of 30 million tonnes and the loss of another 80 000 jobs will worsen the socio-economic situation in the regions, the more so in that the closures could be permanent, meaning the total disappearance of a sector which for a very long time was an integral part of the economic base of these regions. The creation of alternative employment is more difficult when it becomes necessary to find a new economic future and new regional vocations. The concentration of negative effects, compounded by the indirect consequences for suppliers and other related industries, will have an effect in the medium term on the entire economy of the areas concerned. The decline in services in both private and public sectors risks starting a vicious circle in which potential investment is discouraged and thereby every attempt at conversion.

The fresh crisis will affect not only the major steel-producing areas but also several smaller, isolated areas which have survived so far on specific location advantages which are now disappearing. The problems of conversion in these areas are no less thorny, since their economic and social structure tends to be dominated by one large firm and they are too isolated to be able to draw support from any favourable economic environment.

The combined problems of all the steelmaking areas will certainly leave their mark at macroeconomic level. In the 1960s, these areas were often the launch-pad for economic take-off, both regional and national, and they were the hard core of the industrial base. They now account for about 19% of unemployment in the Community.

This situation points up the scale of the regional problems which the Commission emphasised in its communication COM/87/100 under objective No 2 of the Community's structural policies, namely the conversion of declining industrial regions.

If the urgency of the regional problems tied up with steel conversion demands an immediate response on a scale to match, the measures proposed must also be seen in the context of the reform of the structural Funds and in particular objective No 2. In the initial stage, pending a doubling of the Funds' resources, such a response can be planned only by harnessing the Community's present instruments. The Commission has therefore sought to make the most effective use of these instruments, on the understanding that in due course the action can be taken over by broader measures like those envisaged under the reform of the structural Funds. It will then be possible, on the basis of regional conversion programmes and the resulting Community support frameworks, to give added force to the coordinated action for the industrial regions in question. This will come about after discussions between the Commission, the Member States and the territorial authorities concerned.

IX. Social back-up measures to restructuring

The social back-up measures to steel restructuring in the period 1988-90 to assist workers whose jobs will be affected from 1 January 1988 fall into three parts.

1. Conventional redeployment aids (Article 56(2)(b))

By using the system of conventional aids to redeployment, the Community will continue to bear part of the cost of redundancy measures. This system, under which aids are granted on the basis of bilateral agreements so that the diversity of national social back-up measures can be fully taken into account, is being increasingly used to promote the retraining and reemployment of workers. The aids are of three main types:

. income support grants in the event of unemployment, reemployment or early retirement (first 18 months);

. vocational training grants;

. mobility grants.

The total outlay for workers who will be affected by restructuring measures carried out from 1988 to 1990 will be 168 million ECU. To this must be added 44 million ECU for workers affected by measures carried out in 1986 and 1987 or taking part in redeployment programmes not connected with the latest wave of restructuring operations.

Year	1988	1989	1990	
Cost	76	68	68	212 m ECU

2. The additional social aid programme (Article 52(2)(b)

At a time when redundancies are again expected to peak, the Commission considers it necessary to strengthen its conventional assistance, as it did over the period 1981-1984 and in 1987 under the interim programme of social back-up measures exceptionally financed by the Commission with ECSC own resources. The Commission is proposing an additional programme of social aids for the period 1988-90 which will be directed at strengthening two important and costly types of measure: aid to early retirement and aid to genuine reemployment. This will double the Community's direct payment of the social cost per job lost (average cost in the Community estimated at about 30 000 ECU), which will thus increase from about 10% to 20%.

As shown by the expansion of national provisions for social back-up measures, aid to early retirement will continue to be a major aspect of action taken by all steel-producing Member States, because it has proved to be the only 'realistic' measure enabling a massive and rapid reduction in the workforce. The additional Community contribution (18 months over and above the period covered by the conventional aids) to the financing of some 33 000 early retirements during the period of the programme will obey the same conditions as those applying under the earlier social measures scheme. The minimum age will remain set at 55 years; but it will be lower for certain special categories of worker (those engaged on arduous work). The additional assistance will bring the total period of Community assistance up to 36 months, and will increase the average ECSC contribution for each beneficiary from 3 000 ECU to 6 000 ECU.

Marking its determination to stimulate reemployment, the Commission will grant reemployment premiums and other allowances on the same lines to some 17 000 workers affected by restructuring but unable to benefit from retirement measures. The Commission will thus contribute to the new measures launched by some Member States for organizing the reemployment of workers in other sectors of the economy. These new aids will strengthen and combine with conventional reemployment and vocational retraining grants. The average additional Community contribution for each beneficiary under this programme will be 2 000 ECU.

The cost breakdown of the additional programme for the whole period is as follows:

	1988	1989	1990	
Early retirement	33	33	33	99m ECU
Reemployment	11	11	11	33m ECU
TOTAL	44	44	44	132m ECU

Expenditure on social measures from 1988 to 1990 under Article 56(2)(b) of the ECSC Treaty will thus total 344 million ECU.

For 1988 the total appropriation for the "redeployment" chapter under ECSC own resources in the preliminary draft ECSC operational budget amounts to 174 million ECU, of which 70 million ECU is for steel workers. But the requirements to cover all social aid granted to this sector under Article 56(2)(b) stands at 120 million ECU (76 million ECU in the form of conventional grants and 44 million ECU under the additional programme). The shortfall will be made up by transfering 50 million ECU from the general budget of the European Communities to the ECSC.

For 1989 and 1990 the requirements for covering all social aids granted under Article 56(2)(b) are estimated at 254 million ECU, i.e. 112 million ECU per year. The shortfall in this case will depend both on availabilities from own resources under the ECSC operational budget and on opportunities for reducing the burden in the context of a reform of the structural Funds under objective No 2.

3. Social aids under the financial mechanism in Article 58(2)

The purpose of using the financial provision available under Article 58(2) for social aids is to ensure that the level of social protection is maintained for workers affected either by closures under the restructuring process or by any other major employment-reducing measure, and to ease the cost burden of social protection for firms.

The appropriations available under this mechanism (180 million ECU for the whole period 1988-90) can be used even in cases where the conditions of Article 56 are not met, for examle to help a firm with social charges to which there is no government contribution or a firm that is sharply reducing its workforce without necessarily cutting back its activity.

In this way it will be possible to cover social measures that cannot be taken into account under Article 56 ECSC such as redundancy payments or part-time working or suspension allowances when these measures can be used to stagger the effect of job losses over time, and early retirement.

This mechanism could also cover the internal training measures needed where workers are transferred within firms. Finally, it could be used to cover the expenditure incurred by firms to facilitate the reemployment of steel workers in other economic sectors, except investment expenditure proper, primarily within the framework of measures like those of the Saar Stahl Stiftung or conversion training leave or job promotion funds and under activities to promote reemployment financed by redevelopment corporations.

In cases where the assistance is used to cover the cost of job losses not connected with a lower level of activity by the firm, the job losses scheduled must be on a large scale - for example 10% of the workforce of a firm or plant at 1 July 1987.

X. Regional measures proposed

In this context, regional policy has a quite specific role: the aim is not so much to give direct assistance to those losing their jobs (which is a matter for social measures) but rather to make an overall contribution to the redevelopment and revitalizing of the areas concerned. This has consequences both for the quantified targets and for the specific choice of measures. The jobs target is all-embracing: the aim is to generate alternative employment by endeavouring to make up for all the jobs lost in the region, including the contraction in employment following early retirement. As in most cases new jobs will not come into being spontaneously, preparatory measures for both the physical and the intangible environment are essential.

1. ECSC conversion loans

One specific means used for the conversion of steel areas is the instrument of conversion loans carrying interest rate subsidies under Article 56(2)(a) of the ECSC Treaty. The Commission has repeatedly urged its importance, especially because of the direct link which can be established between the grant of interest rate subsidies and the creation of permanent jobs. The Commission considers that for 1988 60 million ECU is needed under the ECSC budget for continuing the conversion measures, including 40 million ECU from new appropriations. The resources under the Community programme proposed pursuant to Article 7 of the ERDF Regulation will help mobilize larger financial resources to meet the deepening crisis in the steel industry.

2. The Community programme RESIDER (see Annex II)

The principal measure proposed under regional policy is a Community programme known as RESIDER under Article 7 of the ERDF Regulation whose aim is to develop indigenous resources outside the sector in crisis. In view of their individual capacity to adapt and their scope for development, it is small and medium-sized enterprises (SMEs) which are the main target of the business stimulation measures. This seems to be the best approach for mobilizing the possibilities of regional redeployment. Besides the incentives needed for investments by SMEs, the programme provides for a range of back-up measures such as economic enterprise encouragement, the expansion of management and organization advisory services, the encouragement of services shared by several firms, the promotion of product and technology innovation in SMEs, easier access to risk capital and to market intelligence surveys covering national, Community and non-Community markets. To this range of measures is added a proposal to reserve a given amount for interest rate subsidies on global loans for small industrial projects granted under Article 56 of the ECSC Treaty.

Apart from providing direct aid to SMEs, there is also a need for action to improve certain types of infrastructure, particularly industrial sites which have fallen into disrepair as a result of industrial decline and the closure of undertakings (industrial wasteland), and to upgrade the infrastructure used in other manufacturing activities. As these sites are often in inner city areas, investment costs are relatively high and require some external assistance.

The Community's RESIDER programme has been formulated in the context of reform of the Funds, since the contribution from the Community Budget (55% of the total cost, or 300 million ECU) will cover only the first three years of the programme. If the structural Funds are doubled, the total ERDF allocation will increase from 3 500 million ECU to 7 000 million ECU a year. This means that the sum earmarked for declining industrial areas will amount to 1 400 million ECU by 1992. If necessary, the allocations to the Community programme could therefore be increased substantially. Furthermore, the selection of areas will be based on objective criteria compatible with those listed for Objective No 2. Thus areas eligible to benefit from the Community programme will be decided upon as the need arises on the basis of job losses and the regional situation. This approach will have the advantage of forging a close link between restructuring activities and regional conversion measures. It will also underline the preventive nature of Community action. Finally, the Commission will give the Member States the technical assistance they need to draw up action programmes for incorporation into the relevant Community support frameworks. It will also ensure that the Member States establish coordination committees to monitor and evaluate action programmes and to change them if necessary.

Summary of financial requirements for regional measures

Article 56 ECSC: 60m ECU/year (see doc. COM(86)422)

Community programme RESIDER

1. Job losses 1986-89:
   215m ECU (2 500 ECU per job lost)

2. Reserve for ECSC interest rate subsidies: 60m ECU
   (1988-90)

3. Launch of regional conversion in the new Member States:
   25 million ECU

Total: 300m ECU (1988-1989-1990)

XI. Structural Funds: use and reform

It is clear from the foregoing that the social and regional proposals are not only compatible with the Commission's proposals concerning the reform of the structural Funds (doc. COM(87)100) but also provide a clear example of the need for such an approach. The action proposed for the regional measures falls within objective No 2 as regards both its scale and the selection of areas (see point X.2).

In particular, it is planned that the total appropriation for the RESIDER programme will be increased as the total budget of the structural Funds is expanded under their reform pursuant to Article 130 D of the EEC Treaty. Generally, as the Commission presents specific proposals to the Council for the reform of the structural Funds, it will detail its proposals for their use, including, as applicable, proposals for the RESIDER programme.

The action proposed will be implemented on the basis of the principles set out in communication COM(86)422 on the strengthening of structural measures to assist steelmaking areas.

As regards the social measures, the changing pattern of redeployment expenditure (point IX.2) reflects the possibility of reducing its impact on the ECSC operational budget as a result of the reform of the structural Funds under objective No. 2.

XII. ECSC budget (see Annex III)

In view of the foreseeable stagnation in revenue accruing from the levy at a constant rate and given the increased social aid commitments which the Commission will try to meet under the agreements already signed to assist workers in the steel and coal industries, there is virtually no further room for manoeuvre within the ECSC budget. As stated in points IX.1 and 2, the appropriations entered in the draft ECSC budget for 1988 will not cover the probable volume of applications under traditional redeployment aids (70 million ECU) set out in the table in point IX (appropriations: about 70 m ECU), nor will they provide the 44 million ECU to be committed under the additional social aid programme.

The Commission could not contemplate cutting back on expenditure on ECSC research (which is vital in order to maintain steel's competitiveness and secure its future role as a raw material) or alter its policy concerning reserves (which, since 1986 following a review at the request of the budgetary authority, are set in accordance with objective criteria recommended by independent consultants, and are in fact kept virtually constant).

There is only one possible solution for meeting these additional requirements, and that is to transfer from the EEC budget to the ECSC in 1988, and until the reform of the structural Funds makes such an operation superfluous by 1989, an amount of 50 million ECU for aids to redeployment in the steel sector (including the additional programme).

A proposal for a Council decision is attached (Annex IV). The cost to the general budget in 1988 will be 4 million ECU (see financial statement in Annex IV) to be financed in due course by transfer.

XIII. Inclusion of Spain and Portugal

The Spanish steel industry, which is covered by transitional arrangements until the end of 1988, poses a prticular problem with regard to the industrial measures envisaged. The transitional arrangements expire at the end of 1988, and extending them would require a unanimous decision by the Council and an amendment of the Accession Treaty which was ratified by 12 national Parliaments. At the end of the transition period, on 1 January 1989, Spain must be included in the quota system. However, in 1988 it will already benefit from the social and regional measures envisaged, and, in the Commission's view, from the improvement in prices brought about by the restructuring undertaken by its partners using their own financial resources.

Spain is therefore urged to participate in the new restructuring effort as from 1 January 1988, but without this entailing any shortening of the three-year transition period provided for in Article 52 of the Act of Accession. The Commission is offering Spain the option of participating in the restructuring on a voluntary basis in 1988 and is willing to work out, in conjunction with the Spanish steel industry, appropriate reference figures under the quota system.

For Portugal, the industrial aspects are different. Only a very small part of its output would be affected by the quota and closure premium systems proposed. Moreover, the transition period during which, under the Accession Treaty, the Portuguese steel industry is authorized to receive national aids lasts until the end of 1990.

The sections of this paper on industry would therefore not concern Portugal.

On the other hand, Portugal is obviously very closely concerned by the social and regional aspects of the proposals, which should obviously take account of the special situation of Portuguese industry. Portugal, like Spain, is therefore invited to join in the policy.

Proposals

Within the limits set out above, the Commission is responding to the Council's request to present a set of coherent measures and again take the initiative in the restructuring of the steel industry, which is still the ultimate objective.

The Council is therefore requested:

(i) to give its assent to the introduction of a quota system including a system for financing premiums for categories IA, IB, II and III, for three years in principle, subject to the provisions set out in point V;

(ii) to authorize the Commission to endeavour to determine, in conjunction with Spain and Portugal, an arrangement for their participation as from 1988 in the measures proposed as indicated in point XIII;

(iii) to adopt the Community programme for steel areas (RESIDER) under Article 7 of the Regional Fund Regulation;

(iv) to take a unanimous decision to transfer 50 million ECU from the general budget to the ECSC in 1988 for social measures.

Annexes:
I. Quota system under Article 58 ECSC
II. The RESIDER programme
III. Information memo on the ECSC budget and on ECSC reserves
IV. Proposal for a Council Decision concerning a contribution to the ECSC from by the general budget.

ARTICLE 58 QUOTA SYSTEM

The Commission proposes to introduce, with effect from 1st January 1988, a quota system designed both to facilitate the further restructuring of the industry and also to create stable market conditions in which that restructuring can take place. The introduction of this quota system is conditional upon the Commission receiving from the industry, before 30th November, firm commitments in respect of a substantial closure of hot rolling capacity. The duration of the quota system is envisaged as being, as a maximum, three years but if the Commission finds, by 1st August 1988, that the initial commitments plus additional engagements given in the interim period cannot be regarded as sufficient to give reasonable assurance of the future viability of the industry, the Commission may decide to terminate the quota system at an earlier date.

The essential elements of the proposed new quota system are given below: --

The product coverage would be limited to categories Ia, Ib, II and III. The definition of the product categories would be as at present, with the exception that hot rolled coils supplied to other ECSC producers for transformation to cold reduced coils would be excluded from the quota system. The current quota system for categories IV and VI would therefore terminate at the end of this year.

The quota references of the steel undertakings would be based on the annual average of actual production and actual delivery in the Community of the products in question during the years 1985 and 1986, subject to undertakings having paid fines levied for excess production or excess deliveries to the Common Market. In cases where the possible imposition of fines is still under examination, a provisional fine will be levied pending final decision.

It is envisaged that undertakings which produce only one of the quota products, or where the production of one product exceeds 80% of the total of quota products, would have their references adjusted, if need be, to ensure that their share of the references for the product would be at least equal to their share arising from the references established on January 1st, 1986. Similarly, the Commission would adjust the Community delivery references of producers to incorporate additional quota accorded during 1987 under the terms of Decision 1433/87/ECSC (adjustment of ratio I:P). This latter provision will be re-examined in light of the development of market conditions and also to take account of the ruling which may be given by the Court of Justice in connection with the complaints which have been introduced concerning this matter.

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The proposed quota system would have an article giving the Commission powers to grant supplementary quotas to producers facing exceptional difficulties caused by the existence of the quota system, but the total of such supplements would be limited to a ceiling of 1% of quotas accorded, since the updating of the references will have resolved many difficulties. Provision would continue to be made for supplements accorded to meet exceptional export opportunities, although it is envisaged that this provision would be less necessary in future, again because of the change in the references.

In category Ia, tonnage would be made available to satisfy fully demand arising from the manufacture of small welded tubes.

No further provision for supplementary tonnage is envisaged with the notable exception of a quota bonus which would be granted to undertakings which close hot rolling capacity and subsequently transfer the associated references to another undertaking. The amount of the bonus would reflect the extent of the closure and would take into account associated reductions in liquid steel capacity. The provisions in the current quota system which serve to facilitate the restructuring of the industry will be retained, with the exception of the provision which permits an undertaking to transfer references from one of its products to other products subsequent to the closure of an installation.

In the case of an undertaking being declared bankrupt, the Commission would reserve the right, having taken all circumstances into account, to prohibit the transfer of all or part of the product references to a new owner.

The Commission is of the view that the preservation of the traditional flows of trade in steel products between member States is inconsistent with the Community objective of achieving an open internal market by 1992. It is therefore proposed that the current monitoring procedures introduced under Decision 3717/83/ECSC (Accompanying Documents and Certificates of Production) should be discontinued at the end of this year.

The special provisions now applying to Greece and Ireland would be retained.

Category Ia

- hot rolled wide strip for direct use and export;
- medium and heavy plate with a thickness of 3 mm or more, obtained by cutting hot rolled wide strip;
- hot rolled strip less than 600 mm wide, including tube strip.

Category Ib

- cold rolled sheet cut or coiled, with a thickness of less than 3 mm;
- cold rolled plate of 3 mm and over (cut or coiled);
- hot rolled sheet in cut lengths, with a thickness of less than 3 mm.

Category II

- reversing mill plate and wide flats.

Category III

- heavy sections.

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RESIDER programme

EXPLANATORY MEMORANDUM

1. The attached proposal for a Community programme is based on Article 7 of the ERDF Regulation. The purpose of this type of programme is to help in solving serious problems affecting the socio-economic situation of the regions by providing "a better link between the Community's objectives for the structural development or conversion of regions and the objectives of other Community policies". The measure under consideration is intended to assist, in tandem with the social measures, the efforts being made to restructure the steel industry, by contributing to the development of new economic activities. It thus serves directly one of the major objectives of the Community's structural policies, as defined by the Commission in its communication to the Council entitled "Making a success of the Single Act; a new frontier for Europe",[1] namely, the conversion of declining industrial areas.

2. In the case of the steel industry, it has to be said that, despite the major restructuring efforts carried out in recent years, notably under Commission Decision No 2320/81/ECSC on the steel aids code, the problem of overcapacity is far from being solved. According to the estimates made in connection with the general objectives for steel for 1990, capacity cutbacks of some 30 million tonnes are still needed, and this could mean a loss of around 80 000 jobs between 1987 and 1989, and this on top of the 180 000 jobs lost between 1980 and 1985 and the 26.000 in 1986 alone.

3. The Commission is aware of the serious implications of this trend and has drawn up a number of social and regional measures to alleviate them. In particular, it has put forward, in its communication on stronger Community structural measures to assist steel restructuring areas,[2] an action programme that includes the launching of a Community programme within the meaning of Article 7 of the ERDF Regulation.

4. The Community programme proposed is in two parts:

- first, it is designed to allow the new Member States, once the Council has adopted the corresponding regulation, to participate fully in the regional conversion effort under way at Community level under conditions comparable to those already enjoyed by the other Member States;

[1] COM(87)100 final, 15.2.1987.
[2] COM(86)422 final, 24.7.1986.

- second, it is designed to back up Member States' regional conversion efforts in cases where restructuring up to the end of 1989 entails a deterioration in the socio-economic situation in the main areas affected, notably those defined by the Commission in its communication COM(86)422; this measure will make it possible to step up, by mobilizing additional resources, and at the same time to extend to 1992 special programmes which are at present being carried out with financial assistance from the ERDF under the former non-quota section and to which a total of 285 million ECU has been allocated.[3]

5. The measures put forward in this Community programme are focused on the development of indigenous potential, the approach best suited to renewing the economic fabric and exploiting the dynamism to be found in the regions and areas concerned. They correspond, in fact, to the various operations advocated by the Commission in its communication COM(86)422 and which combine improvement of the infrastructure and of the physical and social environment in the areas concerned with the development of small and medium-sized enterprises (SMEs), notably through the provision of business advisory services, improvements in management, the development of common services, the promotion of innovation, access to risk capital, the preparation of sectoral studies, and investment aid. On top of these measures is aid in the form of interest subsidies on global loans granted to small industrial projects under Article 56 of the ECSC Treaty. The purpose of the latter mechanism, as announced in COM(86)422, is to permit mobilization of resources for SMEs in steel areas over and above those available from the ECSC budget.

6. The provisional financial allocations deemed necessary by the Commission for the attached proposal amount to 300 million ECU. This provisional amount, concentrated on the first three years of the programme, could be increased as a result of the reform of the structural Funds.

The financial breakdown for the first part of each programme concerns Spain only, with the areas to benefit being specified in the proposal. As for the second part, the breakdown by Member State will depend on the number of jobs lost in the steel industry up to the end of 1989. It will be determined as and when the Commission, at the request of the Member States concerned, adopts the decisions specifying the areas that will be assisted.

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[3] Council Regulation (EEC) No 2616/80, as amended by Regulation (EEC) No 216/84 (OJ No L 271 of 15 October 1980, p. 9, and OJ No L 27 of 31 January 1984, p. 9).

The programme will cover the period 1988-92. The estimated schedule for commitments is as follows:

RESIDER programme: Schedule for commitments						
	1988	1989	1990	1991	1992	Total
Part one Spain	5	10	10	-	-	25
Part two (all Member States)	55	110	110	-	-	275
Total	60	120	120	:	:	300

Programme for the conversion of steel areas

Proposal for a Council Regulation (EEC)
instituting a Community programme to assist
the conversion of steel areas
(RESIDER programme)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Regulation (EEC) No 1787/84 of 19 June 1984 on the European Regional Development Fund,[1] as last amended by Regulation (EEC) No 3641/85[2], and in particular Article 7(4) thereof,

Having regard to the proposal from the Commission,[3]

Having regard to the opinion of the European Parliament,[4]

Having regard to the opinion of the Economic and Social Committee,[5]

Whereas Article 7 of Regulation (EEC) No 1787/84, hereinafter referred to as the Fund Regulation, provides for participation by the Fund in Community programmes, the purpose of which is to help in solving serious problems affecting the socio-economic situation in one or more regions and which are designed to provide a better link between the Community's objectives for the structural development or conversion of regions and the objectives of other Community policies;

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1 OJ No L 169, 28.6.1984, p. 1.
2 OJ No L 350, 27.12.1985, p.40
3
4
5

Whereas the Commission has determined, pursuant to Article 46 of the ECSC Treaty, the general objectives for steel in the Community for 1990; whereas, despite the considerable effort that has been made in recent years and that has led to sizeable reductions in production capacity, the steel industry in the Community is still faced with problems of overcapacity;

Whereas a number of areas in the Community which are highly dependent on steelmaking and which have already suffered major job losses as a result of the decline in the steel industry are likely to see a worsening of these adverse consequences;

Whereas, on 7 October 1980, the Council adopted Regulation (EEC) No 2616/80,[1] as amended by Regulation (EEC) No 216/84,[2] which instituted a specific Community regional development measure contributing to overcoming constraints on the development of new economic activities in certain zones adversely affected by restructuring of the steel industry; whereas the areas in the new Member States adversely affected by steel restructuring should be allowed to benefit, in the form of a Community programme, from measures analogous to those introduced by the said Regulation;

Whereas, on account of the worsening difficulties in the steel industry, it will also be necessary to introduce in other areas of the Community, in the form of a Community programme, measures analogous to those already taken in certain areas of the Community under Regulation (EEC) No 2616/80 and, where appropriate, to reinforce as part of the same programme the existing measures in those areas, in view of the considerable job losses which

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1 OJ No L 271, 15.10.1980, p. 9.
2 OJ No L 27, 31.1.1984, p. 9.

have occurred in the steel industry since 31 December 1985, the date of expiry of Commission Decision No 2320/81/ECSC;[1]

Whereas the Member States concerned have provided the Commission with the necessary information and whereas, pursuant to Commission Decision No 1566/86/ECSC,[2] steel undertakings must supply the Commission with iron and steel statistics at regular intervals;

Whereas, by assisting with the conversion of the declining industrial regions affected by restructuring of the steel industry, the Community programme contributes to the furtherance of both regional development objectives and the Community's objectives with regard to steel; whereas the level of Community participation must therefore be the maximum permissible under the Fund Regulation and whereas, at the same time, the programme is to be given priority in the management of Fund resources;

Whereas it is necessary to avoid combining aid granted under the specific Community measures instituted pursuant to former Council Regulations (EEC) No 724/75[3] or (EEC) No 3634/84[4] with aid granted under this Community programme;

Whereas Community assistance must be provided in the form of multiannual programmes drawn up by the competent authorities in the Member States concerned; whereas, to ensure sound financial management of the Fund, Member States must transmit those aid programmes to the Commission within a certain period after the areas to be covered by the Community programme have been determined; whereas it is for the Commission, in adopting those programmes, to ensure that the operations proposed therein are in keeping with this Regulation ;

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[1] OJ No L 228, 13.8.1981, p. 14.
[2] OJ No L 141, 28.5.1986, p. 1.
[3] OJ No L 73, 21.3.1975, p. 1.
[4] OJ No L 350, 27.12.1985, p. 6.

Whereas, in view of the coming reform of the Structural Funds under Article 130 D of the EEC Treaty, the choice of regions in the present Community programme and the criteria on which this choice is based should be consistent with the approach to be followed in the above-mentioned reform,

HAS ADOPTED THIS REGULATION:

Article 1

A Community programme within the meaning of Article 7 of the Fund Regulation that contributes to the conversion of certain declining industrial regions in the Community adversely affected by restructuring of the steel industry is hereby established.

Article 2

The purpose of the Community programme shall be to contribute, in the areas concerned, to the removal of obstacles to the development of new, job creating economic activities. To this end, the programme shall provide for the implementation of a series of consistent, multiannual measures aimed at improving the infrastructure and the physical and social environment in the areas concerned, as well as the establishment of new activities, the growth of small and medium-sized enterprises and the development of innovation.

The Community programme shall thereby seek to provide a better link between the Community's objectives for the conversion of regions and the objectives of the Community's policy for the steel industry.

Article 3

1. The Community programme shall apply to areas satisfying the following criteria:

(a) minimum number of jobs in the steel industry;
(b) industrial employment dependent in large measure on the steel industry;
(c) major job losses in the steel industry;
(d) socio-economic situation in the region in which the area concerned is located characterized by particularly marked employment difficulties;

2. As soon as this Regulation has entered into force, the Community programme shall apply to the areas in Spain which satisfy the criteria specified in paragraph 1, namely:

- the region of Asturias and the areas covered by a national regional aid scheme in the provinces of Alava and Vizcaya.

3. The Community programme shall apply, subject to a decision by the Commission, to areas in all Member States which satisfy the criteria specified in paragraph 1 and in which restructuring of the steel industry carried out within the framework of the Community's general objectives for steel between the date of expiry of Commission Decision No 2320/81/ECSC and the end of 1989 entails major job losses in the industry.

The Commission shall take its decision within three months of the date on which the Member State concerned submits an application in respect of the areas eligible for the Community programme. Applications shall be sent to the Commission by 30 April 1990 and shall be supported by the requisite information, notably concerning job losses in the steel industry; such information shall be consistent with that provided under Decision No 1566/86/ECSC.

Article 4

The Fund may participate, under the Community programme, in operations such as those defined in Article 4 of Regulation (EEC) No 2616/80, with the exception of point 2. For the purposes of this Regulation, this latter provision shall read as follows: "Infrastructure contributing to the creation, the development and the adaptation of job-creating productive activities."

Article 5

1. The Community programme shall be financed jointly by the Member State concerned and the Community. Assistance from the Fund, which may not exceed 55% of the total public expenditure taken into account in the programme, shall be provided from the appropriations entered for this purpose in the general budget of the European Communities. The Community contribution, by type of operation, may not exceed the rates fixed in Article 5(1) of Regulation (EEC) No 2616/80, with the exception of points (b) and (k).

For the purposes of this Regulation the provision in the said Article 5(1)b shall read as follows: "for infrastructure operations provided for in Article 4.2: 50 % of public expenditure."

In the case of operations relating to interest subsidies on Community global loans, the cost shall be borne by the Community. The rate and the period of subsidy applied shall correspond to those fixed by the Commission for global loans as part of the procedures and conditions for granting conversion loans pursuant to Article 56 of the ECSC Treaty.

2. Where the Community programme concerns areas in Portugal, the level of the Community contribution provided for in paragraph 1, with the exception of the last indent, shall be increased until 31 December 1990 by 20 percentage points, subject to a ceiling of 70%.

Article 6

1. All or part of the aid may be in the form of a capital grant or an interest subsidy.

2. The Fund contribution to interest subsidies on Community global loans may not be less than 20 % of the total contribution to the programme. The budget commitments in respect of such subsidies shall not be made in annual instalments but shall be determined by the Commission for each loan, subject to its being granted, when adopting the decision to make a global loan under the ECSC budget.

3. The following shall be eligible for Fund assistance in respect of operations referred to in Article 4: public authorities, local and regional authorities, other bodies, businesses, cooperatives or self-employed persons carrying on a productive activity.

4(a) Aid granted under the Community programme shall not be combined with aid granted for the same project under specific Community measures introduced pursuant to former Fund Regulation (EEC) No 724/75 or to Regulation (EEC) No 3634/85;

(b) In addition, the aid referred to in Article 5(1)(c) and (e) of Regulation (EEC) No 2616/80 and, where it benefits businesses directly, the aid referred to in Article 5(1)(g) of the said Regulation may not have the effect of reducing the share of expenditure met by recipient businesses to less than 20% of total expenditure.

Article 7

1. The programme of assistance drawn up by the competent authorities in the Member State concerned shall be sent to the Commission:

(a) in respect of the areas referred to in Article 3(2), within six months of the date of entry into force of this Regulation;

(b) in respect of the areas referred to in Article 3(3), within six months of the date of the Commission Decision to be adopted pursuant to the said paragraph 3.

Where the Commission's decision relates to an area referred to in Article 3(2) or covered by a Commission decision within the meaning of Article 3(3), the programme of assistance shall be adapted accordingly.

2. The duration of the programme of assistance may not extend beyond 31 December 1992.

Article 8

The amount of Fund assistance may not exceed the amount laid down by the Commission when adopting the programme agreement referred to in Article 13(1) of the Fund Regulation.

Article 9

This Regulation shall be re-examined and if necessary amended to accord with the revision of Regulation (EEC) N° 1787/84 provided for in Article 130 D of the EEC Treaty.

Article 10

This Regulation shall enter into force on the day following that of its publication in the Official Journal of the European Communities.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at

For the Council
The President

RESIDER programme

FINANCIAL RECORD

1. Relevant budget heading

Title V
Chapter 50
Article 505

2. Legal basis

Article 7 of Regulation (EEC) No 1787/84

3. Proposal for classification as non-compulsory expenditure

4. Description of the measure

The purpose of the measure is to set up a Community programme, within the meaning of Article 7 of the ERDF Regulation, that will contribute to the conversion of certain declining industrial regions in the Community adversely affected by restructuring of the steel industry. To this end, the programme provides for measures to promote new economic activities which will create alternative jobs to those lost in the steel industry by improving the infrastructure and the physical and social environment of the areas and by developing small and medium-sized enterprises (SMEs). The measure will thus contribute both to conversion of declining industrial regions and to attainment of the Community's objectives for steel.

There are two parts to the measure: (i) its immediate application in certain regions and areas of Spain which have suffered major job losses in recent years, and (ii) its subsequent application in all areas in the Community that suffer job losses as a result of further restructuring up to the end of 1989. The Commission reckons that, between the date of expiry of Decision No 2320/81/ECSC at the end of 1989, the steel industry will lose another 106.000 jobs,(i.e. 80.000 in the years 1987-1989 together with 26.000 job-losses in 1986) of which approx. 80 % are in regions where the socio-economic situation is already unfavourable.

5. Financial implications

The amount of the Fund contribution is put at 25 million ECU for the first part of the measure and provisionally at 275 million ECU for the second, giving a total of 300 million ECU. This provisional amount, concentrated on the first three years of the programme, could be increased as a result of the reform of the structural Funds.

6. Expected cost of the first part of the Community programme (concerning areas in Spain)

(a) Indicative breakdown of the allocation, by operation:

Article 4 of Regulation 2616/80, as amended	Operation	million ECU
4(1)	Site improvement	13
4(2)	Productive infrastructure	
4(3)	Management and organization of SMEs, business advisory services	
4(4)	Common services	3
4(5)	Promotion of innovation	
4(6)	Access to risk capital	
4(7)	Sectoral analyses	
4(8)	Investment in SMEs	4
4(9)	Interest subsidies on ECSC loans	5
	Total	25

(b) Indicative schedule for commitment appropriations

Year	1988	1989	1990	1991	1992	Total
million ECU	5	10	10	-	-	25

(c) Payment appropriations

Article 30(2) of the Fund Regulation should make it possible each year to make payments not exceeding 80% of commitments, the balance being settled at a later date.

7. <u>Expected cost of the second part of the Community programme</u> (that may concern areas throughout the Community)

(a) Indicative breakdown of the allocation, by operation:

Article 4 of Regulation 2616/80, as amended	Operation	million ECU
4(1)	Site improvement	:
4(2)	Productive infrastructure	
4(3)	Management and organization SMEs, business advisory services	
4(4)	Common services	:
4(5)	Promotion of innovation	:
4(6)	Access to risk capital	:
4(7)	Sectoral analyses	:
4(8)	Investment in SMEs	:
5(9)	Interest subsidies on ECSC loans	55
	Total	275

(b) Indicative schedule for commitment appropriations

Year	1988	1989	1990	1991	1992	Total
million ECU	55	110	110	:	:	275

(c) Payment appropriations

Article 30(2) of the Fund Regulation should make it possible each year to make payments not exceeding 80% of commitments, the balance being settled at a later date.

8. Expected total amount of Community participation

(a) Indicative breakdown of the total allocation, by operation:

Article 4 of Regulation 2616/80, as amended	Operation	million ECU
4(1)	Site improvement	:
4(2)	Productive infrastructure	
4(3)	Management and organization of SMEs, business advisory services	:
4(4)	Common services	:
4(5)	Promotion of innovation	:
4(6)	Access to risk capital	:
4(7)	Sectoral analyses	:
4(8)	Investment in SMEs	:
4(9)	Interest subsidies on ECSC loans	60
	Total	300

(b) Indicative schedule for commitment appropriations

Year	1988	1989	1990	1991	1992	Total
million ECU	60	120	120	:	:	300

(c) Payment appropriations

Article 30(2) of the Fund Regulation should make it possible each year to make payments not exceeding 80% of commitments, the balance being settled at a later date.

INFORMATION MEMO ON THE ECSC BUDGET AND THE ECSC RESERVES

1. Introduction

The legal base for the ECSC's financial and bugetary activity is provided in the second indent of Article 5 and in Articles 49 to 56 of the Treaty of Paris under which the ECSC is empowered to borrow on the capital markets in order to place financial resources at the disposal of undertakings and to impose levies on the production of coal and steel in order to finance specific non-repayable aids.

All the ECSC's financial and budgetary operations are covered by the financial statements which the High Authority approves every year.

At 31 December 1986 the balance sheet totalled 9 189 million ECU and the borrowings outstanding amounted to around 7 000 million ECU. The total of loans raised in 1986 was 1 517 million ECU and the outturn of the 1986 buget 329 million ECU.

The two types of ECSC financial operations - non-repayable aids and loans to finance investments - are backed by two key elements: the ECSC budget and the ECSC reserves.

2. The budget system

2.1. In the ECSC budget the year's resources finance the legal commitments entered into that year. The funds held to cover commitments awaiting payment and the counterpart to the ECSC reserves are invested to yield revenues, , most of which (after deduction of amounts allocated to reserves to maintain the ECSC's international credit rating (triple A)) is used under the guise of the disposable balance of the annual profit and loss account to provide extra ECSC budget revenue for the following year. Maintaining this approach makes it possible to provide additional resources and to safeguard the Community's financial base at a time when the industries are facing severe problems.

It should be stressed that the level of this revenue depends on market interest rates and on the ECU rate for the various currencies. The ECSC cannot do much to anticipate movements in market rates since it is not entitled to engage in currency arbitrage operations.

This budget system was endorsed by Parliament's Committee on Budgetary Control in the context of the latest grant of discharge to the ECSC.

2.2 The ECSC budget's main resources are :

(a) <u>the levy on coal and steel production</u>

Since 1980 the levy rate has been 0.31 % , and, if this rate remains unchanged, the levy yield for the next five years should be somewhere between 140 and 180 million ECU, with the real value probably declining.

On the basis of preliminary estimates for 1988, the extra revenue for each increase of 0.01 % in the levy rate would be rather less than 5 million ECU.

(b) <u>the disposable balance from the annual profit and loss account</u>

As already noted, the disposable balance from the annual profit and loss account is made available for the following year's budget. Most of it is entered directly into the budget [1] but a small amount is normally placed at the start of the year in a reserve for budgetary contingencies to be drawn on the meet resources shortfalls or extra demands for aid.

For the next 5 years, the estimate of this contribution may be between 120 and 140 million ECU, although an estimate of this type is of course heavily dependent on the behaviour of the markets.

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1) net prior year balance

(c) additional resources, usually of modest amounts, are provided by the cancellation of legal commitments already entered into, revenue from fines and other minor items (miscellaneous).

From the above, it may be estimated that from 1988 onwards the ECSC budget's total ordinary resources will be between 250 and 300 MioECU, well below the 1986 figure of 329 million ECU[2], unless the Commission decides to increase the levy rate.

2.3 Apart from the contribution of 5 million ECU to the general budget for the ECSC's administrative expenditure, ECSC budget expenditure is limited to three types of non-repayable aid:

(a) Social aids to coal and steelworkers made redundant (redeployment aid). Until 1984 the ECSC financed additional special social programmes connected with the restructuring of the coal and steel industry by means of a transfer from the general budget to the ECSC budget.

(b) Aid for research projects, the results of which are made available within the Community.

(c) Interest subsidies on ECSC loans in priority areas, mainly for loans to create jobs in areas affected by the restructuring of the coal and steel industries (conversion loans under Article 56 ECSC).

2.4 As regards resource allocation, in recent years over half the annual ECSC budget has been allocated to social expenditure (1985: 63%; 1986: 52%; 1987: 61%) expenditure on research aids and interest subsidies being more or less equally balanced.

The ECSC does not practice a 'fair shares' approach, but it will be noted that coal undertakings now pay just over a quarter of the levy, while the coal sector at present receives about 60% of traditional redeployment aids, 50% of interest subsidies and 40 % of research aids.

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2) Exceptional non-recurring items, as listed in document COM (87) 289, will probably bring the 1987 budget total to around 40 million ECU.

3. ECSC reserves

3.1 The purpose of the ECSC reserves is to guarantee its borrowings on the capital markets. ECSC borrowing operations are not backed by any special security and are guaranteed in the final instance by the Member States as the founders of the ECSC in accordance with the general principles of international law[3].

A description of the ECSC reserves and policy guidelines for the annual allocation of the net surplus are contained in SEC(86) 1532 final which the Commission approved on 8 October 1986 and which was sent to Parliament, the Council and the Court of Auditors in January 1987.

As set out in this document,the Commission's policy is, both on budgetary grounds (to take account of the difficulties connected with , the state of crisis in the steel sector) and for financial and legal reasons (to safeguard the market finance instrument of ECSC undertakings), to allocate as much of the annual net surplus as possible to the ECSC budget. With regard to the financial statements and hence the level of reserves, the aim is simply to keep the main financial ratios at a level close to that of the balance sheet at 31 December 1984.

The need to maintain the financial ratios was set out in the detailed analysis conducted on the Commission's behalf by the international consultants Deloitte, Haskins and Sells (SEC(86) 780) which clearly shows that the ECSC reserves are not excessive and that they are at the lower end of the scale compared with similar institutions (for example, the ratio of reserves to total assets is 8% for the ECSC and 12% for the EIB).

This view was accepted by Parliament's Committee on Budgetary Control in the context of the latest grant of discharge to the ECSC.

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3) For EEC and Euratom borrowings, on the other hand, the Member States offer a guarantee on a first demand basis.

3.2 The statistics in the Annex illustrate the Commission's new policy. An analysis of these figures shows that at the closure at 31 December 1986 :

- The amounts allocated to the guarantee fund dropped to a merely symbolic level of 5 million ECU in 1986.
- The absolute value of reserves remained roughly stable.
- The amounts transferred to the ECSC budget as disposable balance increased considerably to the exceptional level of 211 million ECU. This cannot happen again in future on the same scale and was achieved only by mobilizing all the funds available.

4. Conclusions

In conclusion, the ECSC budget is a simple instrument with a stable structure and a fixed pattern of resources and expenditure which has proved capable, whithin the given financial limits, of making a useful contribution to the life of the ECSC.

The ECSC reserves and the current policy for allocating the net annual surplus will make it possible to channel loans to investment by ECSC undertakings while at the same time increasing the annual budget funds for financing non-repayable aids.

Particular care must therefore be taken not to damage these time-tested systems (the ECSC budget and reserves) and thus jeopardize our future effectiveness.

Any increase in ECSC resources in relation to the above estimate could be financed only through an increase in the levy or by taking in resources from outside the ECSC.

Main statistics on the allocation of the ECSC's annual net surplus

	1983	1984	1985	1986[1]
Allocation to the guarantee fund (million ECU)	40	40	20	5
Total allocation to reserve[2] (million ECU)	97	43	18	- 11.5
Contribution to budget as investment interest and contengency reserve	113.2	100	149.4	211
Total free reserves after allocation (million ECU)	490	530	538	526.5
Total reserves after allocation[3] (million ECU)	697.74	740.64	758.53	754.5
Free reserves / Borrowings outstanding (%)	7.49	7.45	7.64	7.55
Free reserves / Total assets (%)	5.8	5.73	5.86	5.76
Reserves / Borrowings outstanding (%)	10.67	10.40	10.78	10.80
Reserves / Total assets (%)	8.25	8.00	8.27	8.25

[1] Including exceptional contribution by Spain and Portugal.

[2] Including allocation to Guarantee Fund.

[3] Including total free reserves.

Annex IV

PROPOSAL
FOR A
COUNCIL DECISION

CONCERNING A CONTRIBUTION TO THE EUROPEAN COAL AND STEEL COMMUNITY FROM THE GENERAL BUDGET OF THE EUROPEAN COMMUNITIES TO FINANCE MEASURES CONNECTED WITH THE RESTRUCTURING OF THE STEEL INDUSTRY

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 235 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European parliament, 1)

Having regard to the opinion of the Economic and Social Committee, 2)

Whereas the difficulties currently facing the Community's steel industry have made it necessary to adopt a new restructuring programme under the Treaty establishing the European Coal and Steel Community;

Whereas this programme consists of a series of measures to rationalize production and raise productivity to a level where the industry can compete on the world market, in accordance with the General Objectives for Steel - 1990 within the meaning of Article 46 of the ECSC Treaty;

Whereas this restructuring will lead to extensive job losses; whereas special social support measures are therefore needed to alleviate the consequences for the workforce; whereas it has proved necessary in this respect to apply Article 56(2)(b) of the ECSC Treaty and to provide support in particular for early retirement schemes and measures to promote re-employment which will continue to dominate social support measures for steel workers;

Whereas the resources provided for by the ECSC Treaty are not sufficient to fund these measures; whereas, until such time as reform of the structural Funds under Article 130 D of the EEC Treaty makes it possible to ease the burden on the ECSC budget, an exceptional contribution from the general budget of the Communities will be needed in this purpose in 1988;

1) Document ...
2) Document ...

Whereas the secondary effects of the situation, if not remedied, could aggravate the Community's general employment situation and impair the harmonious development of economic activity, thereby jeopardizing attainment of one of the Community's main objectives;

Whereas the Commission has submitted a request for an exceptional contribution of 50 million ECU from the general budget of the Communities to enable it to implement the proposed special social support measures;

HAS DECIDED AS FOLLOWS:

Sole Article

An exceptional contribution of 50 million ECU is hereby granted to the ECSC from the general budget of the European Communities to cover Community financing of social support measures in the steel industry in 1988. The volume of appropriations to be transfered annually shall match the payments to be made by the ECSC as and when the measures are implemented.

For the Council,

The President

FINANCIAL STATEMENT

1. Budget heading

chapter 65 - Contribution to the ECSC for social measures in connection with the restructuring of the coal and steel industries.

2. Legal basis

Article 235 of the EEC Treaty

3. Proposed classification of expenditure

Compulsory

4. Description and nature of expenditure

Contribution to the ECSC to cover expenditure relating to the implementation of social measure to accompany restructuring of the steel industry. The aid takes the form of a contribution to expenditure by the Member States. Detailed rules are laid down for each Member State in accordance with common criteria applicable throughout the Community.

The amount to be committed for these measure in 1988 is 50 million ECU.

5. Financial impact of the measures

Commitment		Payments				
		1988	1989	1990	1991	1992
1988 forecast	50	4	19	18	7	2

Note: The cost to the general budget will correspond to amounts paid (Non-differentiated appropriations: 4 million ECU in 1988, etc.).