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REPORT ON THE APPLICATION OF THE RULES
ON STATE AID TO THE STEEL INDUSTRY
IN 1993

(presented by the Commission)

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1. INTRODUCTION

Article 8 of the Commission Decision n° 3855/91/ECSC of 27.11.93[1], hereinafter referred to as the Steel Aids Code, requires the Commission to draw up annual reports on the implementation of the decision for the Council and, for information, for the Parliament and the Consultative Committee.

The calendar year 1993 is reviewed in this report. It includes a brief description of all Commission decisions on aid to the ECSC steel industry [2].

2. GENERAL OVERVIEW

2.1 The year 1993 was marked by the decisions under Article 95 of the ECSC Treaty on six aid cases concerning the restructuring, and in some cases the privatisation, of public steel companies. These cases involved six companies in four Member States: Ekostahl and Freital in the former East Germany, CSI and Sidenor in Spain, Ilva in Italy and Siderurgia Nacional in Portugal

In its proposals to the Council, the Commission ensured (with the assistance of outside consultants) that the restructuring plans were sound; that the aids should be limited to the amount strictly necessary and by requiring counterpart measures in the form of capacity reductions to contribute to the necessary structural adjustment of the sector.

In December 1993 the Council gave its unanimous assent to the abovementioned Commission proposals imposing at the same time a number of conditions. The most important of these conditions are the requirement of irreversible capacity reductions amounting to a total of around 5.5 million tonnes in hot-rolled products; the obligation to scrap or sell outside Europe the installations concerned in order to ensure that these reductions are definitive and irreversible; that there is no increase in capacity remaining, apart from productivity improvements, for at least five years and that the beneficiary companies be viable after the restructuring or privatisation. In order to ensure that all the conditions are met the restructuring plans will be subject to close monitoring for the next five years with the Member States required to submit six-monthly or, if necessary, quarterly reports.

The Commission in order to verify the accuracy of the information supplied may make checks in accordance with Article 47 ECSC and may launch investigations under Article 60 ECSC where there are complaints that the aid is being used for unfair competition practices such as unfair pricing. Furthermore, the Commission is empowered to order the suspension or recovery of aid if the

(1) OJ N° L 362, 31.12.91, p.57

(2) For the ECSC Readaptation Aid in 1993, see COM (94) 247 final

conditions are not fully respected. If necessary, recourse will be made to Article 88 ECSC if Member States fail to comply with any such decisions.

The Council and the Commission stressed the exceptional nature of these derogations and pledged that such derogations will be avoided in the future.

Details of the six Article 95 ECSC cases are given below in the presentation per Member State.

2.2 During 1993, apart from the abovementioned six aid cases, the Commission decided on 33 cases, of which in six cases it decided to initiate the procedure provided for in Article 6, paragraph 4 of the Steel Aids Code, in 26 cases it raised no objections and in one case it decided no aid elements were involved. Most of the cases concerned the territory of the former German Democratic Republic (hereinafter GDR), while no decisions were taken concerning Danemark, France, Ireland, the Netherlands and the United Kingdom.

3 DESCRIPTION OF AID CASES TO THE STEEL INDUSTRY PER MEMBER STATE

3.1 Belgium

In July the Commission initiated the procedure provided for by Article 6(4) of the Steel Aids Code, in respect of a cash loan of BFr 500 million granted by the Société Wallone de Sidérurgie (SWS) to **SA Forges de Clabecq**.

The loan was granted by SWS for one year at 8.8% interest rate, which was comparable to the interest rates of loans of the same type (straight loans) granted to firms of other sectors in Belgium by private-sector banks during the same period. However, the Commission considered that since the steel industry is a sector in difficulty, the risk premium taken into account was not satisfactory.

In November, the Commission decided to close the said procedure having concluded that no state aid was involved, as the interest rate on the abovementionned loan was increased up to 9.3%, including the suitable risk premium.

3.2 Germany

3.2.1. Article 95 cases

Two German cases were approved by the Council in December under Article 95 of the ECSC Treaty. The first concerned aid for restructuring at **Sächsische Edelstahlwerke Gmbh, Freital** (Saxony). The aid under the Article 95 ECSC decision amounted to ECU 140 million, in the form of social aid, debts write-off, repair and maintenance costs and guarantees on the valuation of certain assets. The Commission believed that the amount of aid was justified by the significant (47%) capacity reduction in hot-rolled finished products of 160,000 t/y, accompanied by a reduction in employment of about 50%.

The second case concerned **EKO Stahl AG, Brandenburg.** In April 1993, the German authorities sent the Commission a request for a derogation under Article 95 of the ECSC Treaty to allow the Treuhandanstalt to grant aid amounting to DM 1,944 million (ECU 997 million) for the restructuring and modernization of EKO Stahl. The restructuring project involved reductions in production capacity for pig iron, steel and cold-rolled products and the creation of a modern integrated steelworks with a capacity of 900,000 tonnes. These investments would create new production capacities using state aid. Under those circumstances, going counter to the policy decided at a community level involving drastic capacity reductions, the Commission decided to refuse the request and not to seek the Council's approval. Following this refusal the German Government prepared another restructuring plan. After examination the Commission accepted to take into account the overall reductions in hot rolling capacity in the former GDR but considered that the net reduction of 142,000 tonnes was not sufficient with regard to State aid of ECU 465 million. Finally, in November the Commission accepted to seek the Council's approval on a new project of the German Government. The Treuhand was authorized to provide ECU 428 million of aid to the company to cover restructuring and part of the cost of investment in the new hot strip rolling mill not exceeding a capacity of 900,000 tonnes. It was decided that 60% of EKO Stahl would be sold to the Italian private steelmaker Riva. While Eko Stahl will increase hot-rolling capacity with the new mill, a net reduction in capacity in the overall East German steel industry, of 462,000 tonnes would be achieved through the extra closure of the Hennigsdorf steel plant of 320,000 tonnes/year belonging to Riva, the private acquirer of EKO Stahl. On 17 December 1993, the Council gave its unanimous assent to the proposal of the Commission under Article 95 ECSC [3].

3.2.2 General investment aid schemes

According to Article 5 of the Steel Aids Code, investment aid to steel undertakings under general regional investment aid schemes in the former GDR may be allowed until 31 December 1994, provided that the aid is accompanied by a reduction in the overall production capacity of that territory.

In 1993 the Commission took decisions, based on Article 5 of the Code, on the application of some general regional investment aid schemes to the steel industry in the territory of the former GDR, already approved under the EEC Treaty. After the Commission ascertained that the reduction condition of the said Article was satisfied, the Commission approved the following aid schemes to be applied to the steel industry :

- the **"Start - up scheme of the European Recovery Programme"** (ERP-Existenzgründungsprogramm), providing loans at soft conditions for investment in connection with the start-up of new businesses, which

(3) Major events in 1994 concerning this case have been:
- the withdrawal of Riva, in May 1994, as a purchaser of EKO Stahl,
- the opening, on 6 July and 27 July, by the Commission of the procedure of Article 6(4) of Steel Aids Code with regard to public financing of the company.

are more attractive in the eastern states and East Berlin than in the western states and which can attain a maximum aid intensity of 12-13% gross;

- the "venture capital programme" (Eigenkapitalhilfeprogramm) that offers subsidized loans to individuals starting up businesses, investing in existing businesses or taking over businesses previously run by state-owned enterprises, with the loan normally limited to 350,000 DM (ECU 175,000)

- a number of European recovery programme schemes for specific purposes, applicable to the small and medium-size undertakings in the new Bundesländer. These schemes provide loans at soft conditions for investment and are the following:

  - -effluent treatment scheme
  - -waste management scheme
  - -air pollution abatement scheme
  - -investment scheme
  - -SME venture capital scheme
  - -loan-equity insurance association guarantee scheme
  - -energy conservation scheme

3.2.3 Individual cases of investment aid

During 1993, in application of Article 6(2) of the Steel Aids Code, the German authorities have notified several aid projects under the general regional investment aid schemes available in the new Bundesländer, already approved by the Commission in 1992[4] and 1993. The Commission approved all these aid projects, after it verified that the aid intensity of the proposed measures remained below the maximum ceiling allowed (35%), that the aid projects were accompanied by an overall reduction of 10% of production capacity in the territory of the former GDR, and satisfied itself that the deadlines for granting regional investment aids, as provided for in the Steel Aids Code, were respected. In the first four cases, the Commission took its decision after consultation of the other Member States, according to Article 6, paragraph 3 of the Code, as the total aided investments were higher than ECU 10 million.

In particular, the aid projects in question concerned:

- **ESF Elbestahlwerke Feralpi GmbH** that was created through the sale of assets of the previous "Stahl und Walzwerk Riesa AG" to the Italian steel group Feralpi. The aid consisted of an investment subsidy of DM 19.5 million, a tax allowance of DM 5.3 million and a federal guarantee covering 80% of the eligible investment costs of DM 85 million (aid intensity 29%) for an investment plan involving the creation of hot-rolling capacity of up to 450,000 t/y of long products compared to a previous capacity of 650,000 t to be dismantled ;

- **Stahlwerk Thüringen GmbH** created through the takeover by the Luxembourg group ARBED of the core activity of the former "Maxhütte Untervellenborn". The aid project included an investment subsidy of ECU 31 million, a tax allowance of ECU 9 million and a Federal guarantee covering 65% of the investment

(4) see "Report on the application of the rules on State aid to the steel industry in 1992", paragraph 2.3.1.

loans applied for. Total investment costs amount to ECU 136 million (aid intensity 33%) and concern the modernisation of some installations taken over and the construction of a new electric arc furnace (630,000 t/y). The obsolete liquid steel capacity of the former "Maxhütte" (790,000 t) was already dismantled in 1992;

- **Brandenburger Elektrostahlwerke** including an investment subsidy of ECU 9.7 million and a tax allowance for investment of ECU 2.7 million in favour of investment costs of ECU 42 million (aid intensity 29.3%). The investments aim at modernisation and rationalisation of existing installations in favour of higher-valued products (concrete reinforcing bars for construction industry) and will not increase the company's capacity;

- **Hennigsdorfer Elektrostahlwerke** concerning an investment subsidy of ECU 14.5 million and a tax allowance of ECU 3.7 million in favour of eligible investment costs of ECU 63.2 million (aid intensity 29%). The investment plan comprises of rationalization of production in higher valued products (bright steels) and of reduction of raw materials and energy consumption, without increase of existing capacity.

  The last two undertakings have been bought from the Treuhand in 1992 by the Italian group Riva.

- thirteen companies - **Metall und Rohstoff Eberswalde GmbH, Schrottaufbereitungswerk Leipzig GmbH, Metallaufbereitung Zwickau GmbH, Jutta Grunske, Abbruch und containerdienst Cottbus GmbH, TRR Thyssen Rohstoff-Recycling Gmbh -Berlin, Faram-Fachgerechtes Handels GmbH, RVT Rohstoffverwertung GmbH, H. Gröger GmbH, Udo Fiedler, Rohstoffverwertung GmbH, Theo Steil GmbH** and **Rohstoff-Recycling GmbH** - concerning investments for the collection and treatment of iron and steel scrap for recycling in the steel industry. The aid is being granted in the form of investment grants, investment allowances and in some cases in the form of loans on special terms under the European Recovery Programme Schemes. These aid measures, being mainly concerned with the collection, sorting and treatment of iron and steel scrap, do not affect production capacity for hot rolled finished products. In addition, they have a positive environmental impact.

3.2.4 Aid for closure

In November the Commission, following consultation of Member States on basis of Article 6(3) of the Code, approved the aid elements included in a social plan in favour of staff made redundant following the restructuring of the steel undertaking **"Georgsmarienhütte"** in Saxony. The restructuring consisted of the replacement of the existing high furnace by an electric-arc furnace and the closure of the "Adjustagelinie" following the modernization resulting in a reduction in crude steel capacity.

The social plan provides payments to a total of 346 employees made redundant. The total costs amount to ECU 15.6 million, whereof ECU 6.2 million will be social security payments and ECSC assistance.

The rest of the costs will be borne by the Länder and the undertaking at a level of 50% each (ie ECU 4.7 million), therefore complying with the condition laid down in Article 4, paragraph 1 of the Code on closure aid to steel undertakings.

3.2.5 Aid to research and development - Opening of procedure

In November the Commission decided to open a procedure of Article 6(4) of the Steel Aids Code in respect of an aid project to research and development in favour of the ECSC steel undertaking "Georgsmarienhütte GmbH".

The aid has been proposed by the Land Niedersachsen in order to replace the existing high-furnace and converter by a direct electric arc furnace, with the aim of developing a new production procedure using iron-bearing waste materials, which will be environmental-friendly and will reduce the steel production costs. The grant amounts to ECU 17 million for eligible investment costs of about ECU 57 million. The Commission considered that the eligible investment costs proposed by the German authorities were too high and did not comply with the Community framework for R&D.

3.3 Greece

On basis of Article 5 of the Steel Aids Code, the Commission approved an investment aid to Hellenic Steel, granted under the general aid scheme law n°1892/90, already approved by the Commission. The investment concerned the modernization and automatization of the only installations in Greece producing tin plate and plated products. The aid consisted of an investment subsidy of Drachmas 1 billion and a subsidized loan of Drachmas 800 million on total investment costs of Drachmas 3 billion (ECU 11 million). The Commission satisfied itself that the aid intensity (31,77%) remained below the maximum ceiling allowed and that the aid project did not increase the overall capacity, in conformity with the rules established in the Steel Aids Code.

3.4 Spain

3.4.1 Article 95 cases

In December the Council approved the aid and restructuring package for the special steels company Sidenor. The aid amounted to ECU 515 million in return for a reduction of some 379,000 tonnes of hot-rolled capacity.

The integrated steel company, Corporacion de la Siderurgia Integral (CSI), was also authorized restructuring aid of ECU 2,817 million, under Article 95 ECSC Treaty. It was decided that a hot-rolling capacity reduction of 2.3 million tonnes in coil (50%) should be achieved by the closure of the hot strip mill at Ansio by the end 1995 at the latest. A new company with majority private sector participation, which must be genuine, unconditional and unsupported by state aid, is envisaged to take forward a proposed investment in a compact strip production unit at Sestao (with a capacity of 1 million tonnes) partially to replace the Ansio hot strip mill.

3.4.2 Public shareholding

The Spanish Government informed the Commission in conformity with Article 6, paragraph 2 of the Steel Aids Code of a public minority shareholding in the equity capital of Siderurgica Balboa, a new steel company located in Extremadura.

In December, the Commission decided that the minority public acquisition of shareholdings of the above mentioned new steel undertaking did not contain any aid elements since the public authorities applied the same criteria as any provider of capital under normal market economy conditions. The company is expected to be profitable already in the first year of operation, the expected return on the capital invested is high and the private majority shareholder is a successful investor whose industrial group has expanded and registered profits in the past years.

3.5 <u>Italy</u>

3.5.1 **Article 95 case**

In July, the Commission initiated the procedure under Article 6, par. 4 of the Steel Aids Code against a package of state aid given to the public steel group Ilva. At the same time, on basis of Article 88 of the ECSC Treaty - being used for the first time in that context- the Commission ordered the Italian Government not to proceed with its plan to write off debts of some ECU 4 billion owed by the steelmaker Ilva, which was accepted by the Italian authorities (Boussac procedure).

Finally, the Council agreed to a restructuring plan for Ilva involving a total aid of ECU 2,573 million including a capital injection of ECU 351 million, a restructuring and winding-up expenditure of ECU 643 million and the writing off of ECU 1,579 million of debt before the assets of the company were split into a flat products business and a stainless steels business, both financially viable- Ilva Laminati Piani and Acciai Speciali Terni respectively - and privatised. The rest of Ilva's debts, estimated at ECU 5.4 billion at the end of 1993, would either be transferred to the purchasers or covered by the sale price.

In return for the aid it was agreed that 1.2 million tonnes of hot-rolling capacity would be cut at Taranto with the closure of two reheating furnaces, that the Bagnoli wide strip mill would be completely closed and that closures of another 500,000 tonnes of capacity would be provided by the company acquiring the Taranto plant within six months of privatisation, to be completed by the end of 1994.

3.5.2 **Opening of procedure Art. 6(4)**

In July, the Commission initiated the procedure set out in Article 6(4) of the Steel Aids Code to investigate some projects to apply the aid scheme law n° 10/91 for promoting energy saving with an environmental protection effect to the Italian steel undertakings **Cortenuova SpA, Leali Luigi SpA, Lucchini Siderurgica SpA (Casto-Mura)** et Lucchini **Siderurgica** SpA **(Settimo** Torinese). The

Commission in all the cases considered that the eligible investment costs proposed by the Italian authorities were too high and not directly linked to the environmental protection.

3.5.3 Environmental protection

The Commission raised no objection to an aid project applying the abovementioned aid scheme for energy saving with environmental impact to the steel undertaking Ilva SpA since it satisfies the conditions laid down in Article 3. The purpose of this aid amounting to ECU 234,000 is to finance investment of approximately ECU 987,000 (intensity of 15%) and aimed at protecting the environment by the installation of a boiler which uses flue gas heat to produce steam for industrial use.

3.6 Luxembourg

3.6.1 General R&D and Environmental protection aid scheme

The Commission approved the application of a general aid scheme **(loi cadre d'expansion économique)** in the steel sector. This scheme was previously approved by the Commission under the EC Treaty and establishes aid measures for research and development and for environmental protection.

Concerning the measures for aid to research and development they are in compliance with the provisions of the Community framework since an aid of up to 25% of the gross costs is foreseen in favour of R&D projects, viability studies of these projects or demonstration projects. A higher percentage (35% gross) is applied for aids to SMEs or for projects of european interest and a level of 50% of the gross costs is foreseen for basic industrial research.

The measures for the environmental protection are equally in conformity with the rules laid down in Article 3 of the Steel Aids Code as they provide for aid up to 25% gross grant equivalent of the investment costs (ie 15% net) for existing steel undertakings investing in order to bring their installations into line with new statutory environmental standards. The aid could take the form of subsidized loans or state guarantees.

3.6.2 Aid for R&D

On the basis of Article 2 of the Steel Aids Code the Commission approved an R&D aid programme for the steel undertaking **Arbed SA.** This multiannual programme is estimated at LFR 464 million and comprises 19 projects. The Luxembourg Authorities had reduced the eligible projects in respect of the abovementionned general scheme and the Steel Aids Code to six, with a total eligible cost of LFR 103 million. The aid consists of a grant of LFR 18.3 million and a low interest loan of LFR 18.2 million. The aid intensity (19.5%) complied with the Community guidelines.

3.7 Portugal

As part of the package of Article 95 ECSC Treaty cases agreed in December by the Council, the Commission authorized ECU 306.3 million of aid for restructuring the steel undertaking **Siderurgia Nacional.** In return the company would reduce hot-rolling capacity by 140,000 tonnes at its plant at Seixal. In its decision the Commission took account of Portugal's position as a small Member State with only one major steel company.

4. **INTERNATIONAL RELATIONS**

4.1 **Multilateral Steel Agreement**

The Commission participated in the negotiations on the Multilateral Steel Agreement. The negociations will continue in 1994.

4.2 **Central and Eastern European Countries**

During 1993, two more European Agreements, as well as Interim Agreements, including a Protocol n°2 on ECSC products were signed with Romania on March 8 and Bulgaria on December 10. Concerning state aids to the steel sector, both these Protocols recognise, as not affecting trade between the Community and the Countries in question, only state aid allowed from the ECSC Treaty and the secondary legislation (ie the Steel Aids Code) as well as public aid for restructuring purposes for a five year period. Transparency is provided for in the area of public aid.