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REPORT FROM THE COMMISSION

Monitoring of Article 95 ECSC Steel Aid Cases, Thirteenth Report, May 2000

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Summary

The Commission presents its Thirteenth Report on the Monitoring of Article 95 ECSC steel and iron ore aid cases pursuant to its decisions of 4 April 1994¹, 21 December 1994² and 29 November 1995³.

In accordance with the above mentioned decisions, this thirteenth report will cover the following companies: Irish Steel, Siderurgia Nacional, EKO-Stahl and Voest Alpine Erzberg. Since most conditions imposed by the Commission in its decisions approving the aid are already fulfilled, only the conditions still monitored by the Commission are addressed in this report.

1. Irish Steel, Ireland

Investments carried out at Irish Ispat up to 31.12.1999 are in line with the planned ones.

Reported production and sales for the first half of the financial year 1999/2000 (from July 1999 to June 2000) are in line with the imposed limitations.

2. Siderurgia Nacional, Portugal

The monitoring is focused on following up the plan for installation of the electric arc furnace, which according to a modified plan should be operational in the third trimester of 2001. The required reduction of workforce at SN Serviços is thereby further delayed until this date. For this reason the Commission intends to extend the monitoring until 15 March 2002.

3. Eko-Stahl, Germany

The only conditions still monitored by the Commission is respecting the annual capacity limitation (900 kt/y until the end of January 2000 and 1,5 million t/y as from February 2000) of the new hot-rolling mill and the using of its production only for further processing in the company. The capacity limitation is controlled by an electric device, the orderly functioning of which is monitored by the Commission.

¹ Decisions No 94/257-261/ECSC (OJ L 112, 3.5.1994, p. 52, 58, 64, 71, 77).

² Decision No 94/1075/ECSC (OJ L 386, 31.12.1994, p. 18).

³ Decision No 96/269/ECSC (OJ L 94, 16.4.1996, p. 17).

4. **Voest-Alpine Erzberg, Austria**

The price charged for iron ore was in line with market prices and higher than the price of imported iron ore in the monitored period.

The decision authorised ATS 57 m. aid to be granted over 1999. The company applied for ATS 51 m and ATS 47,8 m has finally been disbursed. The production exceeded the ceiling provided by the Decision. However, the amount of aid disbursed was ATS 9,2 m less than the amount of aid approved by the Commission for that year.

5. **Outstanding issues from previously monitored companies.**

ILP

Investments performed in 1999 did not modify the total production capacity of the company.

The arbitration of the dispute between Riva and IRI on the price paid for ILP, is not concluded yet.

ACERALIA

In 1999, the total production capacity of the company has not been modified.

AHV-Ensidesa Capital

Social aid paid to the company in 1999 was in line with the approved aid.

Accnor

Social aid paid to the company in 1999 was in line with the approved aid.

Freital

No increase of remaining capacity took place in 1999.

Overview

Siderurgia Nacional, EKO Stahl, Irish Steel, Voest Alpine Erzberg

Company	Aid Article 95 ECSC		aid Steel Aid Code		Capacity reduction				Redundancies		Remarks
	Authorized	Granted	Authorized	Granted	Required		Achieved		Plan	Achieved	
					kt/y	Date	Kt/y	Date			
SN	60.12 bn Esc = 306 M €	100 %	5.925 bn Esc (29,55 M €)	2.409 bn Esc (12.01 M €)	140	31.12.95	100%	31.12.95	1798	1732 = 96%	Redundancies behind plan. new electric furnace now planned to be fully operational 3 rd trimester 2001.
EKO	900.62 mio DM = 461 M €	100%	385 mio DM	100%	361	31.1.95	100%	28.2.95	650 by 1999	195 by 1999	
IRISH STEEL	38.298 M.IR£ (47.7 M €)	38.298 M.IR£ (47.7 M €)							205 by 1996	209 by 1996	
VAEG	408 mio ÖS= 29.7 M€	239,8mio ÖS (17,42 M €)	-	-	-	-	-	-	71 by 2002	61	Redundancies ahead of schedule.

Irish Steel, Ireland

I. Introduction

The Commission decided on 7 February 1996 (Commission Decision 96/315/ECSC)⁴ to approve aid under Article 95 ECSC linked to the sale of Irish Steel Ltd (ISL) to Ispat International amounting to a maximum of IRL£ 38.298 million, serving various purposes toward the restructuring of Irish Steel (for details see the previous monitoring reports).

Under the terms of the decision the aid was approved subject to various conditions (for details see previous monitoring reports).

At present, the only remaining conditions to be monitored are the respect of the production and sales limitations until 30 June 2000 and the five years production capacity freeze up to the end of May 2001.

The ninth monitoring report on Irish Steel Ltd (currently Irish Ispat Ltd.) covers the period up to 31.12.1999, based on information submitted by the Irish authorities on 24 March 2000 in accordance with the Commission's decision.

II. Production

Actual production of finished products in the period going from the beginning of July 1999 to the end of December 1999 was 145,059 tonnes. This is lower than the level of production during the corresponding previous period. In order to respect the production limitation of 361.000 tonnes imposed by the decision for the period July 1999 - June 2000, production during the first half of 2000 should not exceed 216,000 tonnes. The following table summarises the situation :

(thousands tonnes)

Finished Products Production				
Year	Jul. to Dec.	Jan. to Jun.	Total	Limitation /year
97/98	145	185	330	350
98/99	149	165	314	356
99/00	145		145	361

Sizes of beams produced were within the current range of sizes as communicated to the Commission in November 1995.

Total billet production for the period July 1999 to December 1999 was 163,675 tonnes. Production of billets for sale outside the company for the monitored period was 951 tonnes (the limitation laid down by the Commission decision for the year 99/00 is of 90,000 tonnes).

⁴ OJ L 121 of 21.5.1996, p. 6.

III. Sales

Sales of finished products in the monitored period totalled 141,227 tonnes compared with 154,101 tonnes of total sales in corresponding previous period.

The breakdown of sales by market for the period July 1999/December 1999 shows that approximately 92% of sales or 131,135 tonnes went to European markets as defined under the decision (i.e. Community, including domestic market in Ireland, plus Switzerland and Norway). The limitation imposed by the Commission decision for European sales in the period July 1999/June 2000 is 320,000 tonnes.

The Irish authorities have also provided information on prices. The Commission has examined this information and concluded that the prices are within the normal range.

Production for sale to Community markets of ISL's largest U beams (Imperial), HE beams (metric) and IPE beams during the second half of 1999, was 14,732 tonnes. Total production for sale of these products into the European Community, plus Switzerland and Norway, in the period of 98/99 was 34,996 tonnes, slightly under the annual limitation of 35,000 tonnes as laid down in the Commission decision.

Siderurgia Nacional, Portugal

I. Introduction

On 12 April 1994 the Commission approved⁵ PTE 60.12 billion⁶ aid to the Portuguese public steel undertaking *Siderurgia Nacional* under Article 95 of the ECSC Treaty (see details in the previous monitoring reports).

This aid was paid in 1994 and 1995.

In September 1994 the Commission approved under the Fifth Steel Aid Code:⁷

PTE 4.925 billion in social aid,

PTE 1.000 billion in aid for environmental protection.

By the end of 1999, social aid amounting to PTE 2.409,56 billion has been paid. The remaining social aid and the environmental aid may still be disbursed.

Authorisation of the aid was subject to several conditions. The following conditions are still monitored by the Commission :

replacement of the blast furnace at Seixal by an electric arc furnace (**outstanding**),

total workforce to be reduced by 1 798 employees by the end of 1996 (**delayed**),

The present report covers developments up to 31 December 1999 on the basis of information provided by the Portuguese Government in its twelfth monitoring report, which was submitted, in line with the Commission's request, on 21 March 2000. The present report concentrates on the conditions still monitored by the Commission.

II. Investments

SN Longos – Electric arc furnace

Under the initial restructuring plan (PERG), the blast furnace was to be replaced by an electric arc furnace by the beginning of 1996. The Portuguese Government's decision to privatise the operating companies immediately, which was not envisaged by the initial restructuring plan, and the approach taken by the authorities of leaving the final investment decision to the new private shareholders in SN Longos have led to a three-year delay in installation of the electric arc furnace.

After acquisition of the shares of RIVA group, the only investor left, MEGASA, has submitted a plan for installation of the furnace that was discussed in the 12th Report, p. 8. SN Serviços and Portugal informed the Commission that a supplementary delay occurred as the furnace could not be constructed on the planned site for environmental reasons and as a

⁵ OJ L 112, 3.5.1994, p. 52.

⁶ PTE 1 billion = ECU 4.987 million (1.1.1999).

⁷ OJ C 390, 31.12.1994, p. 18.

property issue could not be settled in time. SN Serviços therefore decided to have the furnace constructed on another site, using existing facilities which will, in the end, result in the need for less civil construction work, but offers already received had to be modified and a delay occurred.

The table below shows the new planning. The schedule published in the 12th report is put between brackets.

Definition of the project and lay-out of the furnace	(April 1999) completed.
Analysis and attribution of the offers	(September 1999) March 2000
Engineering details	(December 1999) March 2000
Civil construction works	(June 2000) 4 th trimester 2000
Installing the equipment	(November 2000) 1 st trimester 2001
Start of operations	(January 2001) 2 nd trimester 2001
Furnace fully operational	(July 2001) 3 rd trimester 2001

The Commission is following the progress of the plan step by step. It needs to be stressed that when the derogation was granted under Article 95 of the ECSC Treaty, replacement of the blast furnace by an electric arc furnace was regarded as a key feature of the necessary industrial restructuring of Siderurgia Nacional.

The restructuring cannot therefore be regarded as complete until that investment has been carried out. Although there is currently no indication that the delay will make it necessary to grant further aid to SN Serviços, the Commission has to monitor the completion of the aided restructuring. Since the monitoring is at present extended until 15 September 2000 only, the Commission intends to extend further the monitoring period until 15 March 2002 to cover the whole period of the plan on the installation of the electric arc furnace.

III. Evolution of workforce

Reduction of the workforce is still lagging behind the initial plan. This delay affects only SN Serviços and will therefore have no impact on the viability of the privatised companies. The 447 workers still kept on by SN Serviços are necessary to operate the blast furnace, which was initially scheduled to cease production by the end of 1996 but can only be closed once the new electric arc furnace to be installed by SN Longos at Seixal enters into operation.

The delay in implementing the initial plan concerned altogether 359 workers as at the end of 1998. The following tables show the evolution of the workforce and the forecasts:

1997 till 1999 and forecasts for 2000 and 2001

	1997	1998	1999	2000*	2001*
SN Longos + Lusosider	925	784	710	667	609
SN Serviços	1078	985	878	796	63**
Total workforce	2003	1769	1588	1463	669
Reduction per year	233	234	181	125	-794
Planned total workforce	1410	1410	1410	1410	1410
Deviation without delay in replacing blast furnace	146	-	-	-	
Deviation from plan	593	359	178	53	-741

*Expected reductions during years 2000 and -2001

**Workers needed for dismantling the installations.

SN Longos is likely to increase its workforce once the new electric arc furnace is put into service, so that the total workforce of the privatised companies will increase slightly after the closure of the blast furnace. The initial target of 1410 employees set by the restructuring plan is expected to be achieved at latest during 2001 after closure of the blast furnace.

Financing of redundancies:

	Nature	Number of workers	Art 56 ECSC	State (Art 56 ECSC)	Company ¹	Total
1993 -	Early retirement	510	174.4	174.4	34.3	383.1
1996	Redundancy ²	442	266.1	266.1	986.1	1518.3
	Other	67	-	-	-	-
	Total³	1019	440.5	440.5	1020.4	1901.4
1997	Early retirement	140	25.8	25.8	2.0	53.6
	Redundancy ²	119	23.4	23.4	1086.2	1133
	Other	20	-	-	-	-
	Total³	279	49.2	49.2	1088.2	1186.6
1998	Early retirement	149	30.2	30.2	-	60.4
	Redundancy ²	78	15.8	15.8	706.0	737.6
	Other	13				
	Total³	240	46.0	46.0	706.0	798.0
1999	Early retirement	175	35.02	35.02	-	70.04
	Redundancy ²	13	1.4	1.4	105.94	108.75
	Other	6				
	Total³	194	36.42	36.42	105.94	178.79

1 In accordance with Article 4(1) of the Fifth Steel Aid Code, a contribution from the State defrays 50% of these costs.

2 Through mutual agreement (negotiated redundancy).

3 These figures do not correspond to the net reduction in the workforce given in the previous table because the companies have hired some new employees.

In 1999 PTE 52.97 million in social aid authorised under Article 4 of the Fifth Steel Aid Code was disbursed.

IV. Sales

The sales of billets on the Portuguese market by *SN Serviços* go exclusively to *SN Longos*. Prices for these products are fixed on normal market conditions for a period of three months. Residual steel production is sold on the market against market prices (Metal Bulletin spot prices). The average prices achieved by the different product groups were given in the monitoring report. The Commission has compared these prices with the average market prices and considers them to be within the normal range.

V. Financial performance

SN Serviços

The Portuguese authorities provided a full set of financial data and financial ratios in line with the Annex to the Commission's Decision. As set out in the 12th Report, *SN Serviços* suffered during the first half year of 1999 from the general collapse of steel prices. The large part of the losses were accrued during this period. Steel prices considerably improved as from the second half year of 1999⁸ and *SN Serviços* was able to realise a positive cash-flow in the second half year of 1999. Its price arrangements with *SN Longos* (price fixed for 3 months, see above), implying that market prices are followed at a distance, did not allow *SN Serviços* to profit immediately from market price improvements. The company hopes to return to profitability in 2000.

(PTE million)	1997	1998	1999
Sales and services performed	24 044	21 741	19 438
Other income	31	89	-949
Cost of sales	14 389	13 977	13 053
Personnel costs	4 280	4 143	4081
Depreciation + provisions	1 161	1 381	954
Net financial charges	807	226	211
Other costs	4 291	3 534	3171
Operating result	6	- 1 430	-2 981
Gross profit	509	- 581	-2 611

⁸ Price movement in line with steel market development, see the Commission's Forward Programme for Steel for the year 2000, OJ C 27/2 of 29.1.2000.

VI. Aid

The aid authorised under Article 95 of the ECSC Treaty has been paid in six instalments between March 1994 and June 1995 as explained in the fourth monitoring report. The environmental aid approved under Article 3 of the Fifth Steel Aid Code has not so far been paid. The use of the social aid approved under Article 4(1) of the Fifth Steel Aid Code is explained above under II.3 (financing of redundancies).

EKO Stahl GmbH, Germany

I. Introduction

On 21 December 1994 the Commission authorised⁹ DEM 900.62 million¹⁰ aid to *EKO Stahl GmbH* under Article 95 of the ECSC Treaty (see details in the previous monitoring report).

On 21 December 1994 the Commission further approved¹¹ regional investment aid of DEM 385 million under Article 5 of the Fifth Steel Aid Code.

Authorisation of the aid was subject to several conditions. The following conditions are still monitored by the Commission:

- the new hot-rolling mill to reach a capacity of 900 kt/y by the end of 1997 and to be kept at that level until the end of January 2000. As from February 2000, the company is allowed to increase the capacity of this mill to 1,5 mio tonnes/year until the end of January 2005 (**monitored**, see II),
- the output of the new hot-rolling mill to be used only for further processing in the company's own cold-rolling facilities (so far **observed**).

The present report covers developments up to 29 February 2000 on the basis of the information provided by the German Government in its report submitted to the Commission on 15 March 2000. The present report concentrates on the two conditions still monitored by the Commission.

II. Capacity limitation

Limitation of the capacity of the new hot-rolling mill to 900 kt/y up until the end of January 2000 and thereafter to 1.5 million t/y up until the end of January 2005 is guaranteed by an electronic device that makes it technically impossible to exceed those ceilings. This technical solution was accepted in principle by the Commission in early 1996. For further details on the system, see the fifth monitoring report. The system has operated reliably and the records of the quantities produced have been regularly submitted to the Commission.

The authorised capacity increase as from February 2000 posed technical problems to the company as the electronic device is adjusted for the capacity year, which runs from July to June.

⁹ OJ L 386, 31.12.1994, p. 18.

¹⁰ DEM 1 million = ECU 511 299.72 (1.1.1999).

¹¹ OJ C 18, 17.1.1997, p. 7.

On 15 March 1999 the Commission therefore agreed to a proposal from the German authorities that the production from July 1999 until July 2000 will be counted using the average production of the two thresholds which results in a yearly capacity of 1,150 million t for the capacity year July 1999 - June 2000¹². The machine has been adapted accordingly on 1 July 1999 and will be adjusted to 1,5 million t/y on 1 July 2000.

III. Production of the new hot-rolling mill

Hot-rolled strip produced in the new hot-rolling mill is used exclusively in the cold-rolling mill.

The production of hot rolled strip amounted to 775,026 tonnes in the period 1 July 1999 - 29 February 2000. For the period 1 March - 1 July 2000 the authorised residual production is 374,974 tonnes.

¹² Calculated as follows: $(7/12 \times 900 = 525) + (5/12 \times 1,5 = 625) = 1,150$.

Voest Alpine Erzberg GmbH, Austria

I. Introduction

On 29 November 1995 the Commission approved¹³ state aid to *Voest Alpine Erzberg GmbH* (VAEG) to enable it to close down its mining operations gradually up to the year 2002. Approved aid amounts to ATS 272 million¹⁴ to cover operating losses over the period 1995-2002 and ATS 136 million to cover the costs of closing down mines safely and in an environmentally friendly manner.

The following annual ceilings were approved for the different types of aid are indicated below in the table under point 4.

Authorisation of the aid was subject *inter alia* to the following conditions:

- the annual aid ceilings and the production ceiling as given in the table above were not to be exceeded (**production ceiling exceeded; see under II.2.a**),
- the amount of operating aid was not to exceed the difference between production costs and revenues (so far **observed**),
- the price charged for iron ore was to be in line with market prices and was not to be lower than the price of imported iron ore (so far **observed**).

This report covers developments up to 31 December 1999 on the basis of information provided by Austria in its eighth monitoring report, which was submitted, in line with the Commission's request, on 15 March 2000.

II. New monitoring report

I. The company

The company *Voest Alpine Erzberg Gesellschaft mbH* (VAEG) is held by *ÖIA Bergbauholding Aktiengesellschaft*, which in turn belongs to *Österreichische Industrieholding Aktiengesellschaft*, an industrial holding company wholly owned by the Austrian State. VAEG is involved in the mining of low-density iron ore (~32 % Fe). The company has only one client, *Voest Alpine Stahl AG* (VASA), which was privatised in the autumn of 1995.

¹³ OJ L 94, 16.4.1996, p. 17.

¹⁴ ATS 1 million = ECU 72,672.00 (1.1.1999).

2. Operating aid

(a) Production and sales

In 1999, VAEG produced 1,149 million tonnes of iron ore with an average content of 33.6% Fe and 589.662 tonnes of low grade products which VASA can use for the blast-furnace burden (*Möllerzusatzmaterial*). These quantities were sold and delivered to VASA.

Production decreased from 1.3 million t/y in 1998 to 1,149 million t/y in 1999 but exceeded the ceiling of 1 million t/y for 1999 provided in Article 1 of the Decision. The Austrian authorities have indicated that this has led to a better operating result and to a need for less aid than authorised.

The Commission is examining this situation in the light of the Decision and has asked the Austrian authorities for information. The latter informed the Commission on 18 April 2000 that the situation was due to unforeseen circumstances. In the end of 1999 a risk of collapse forced VAEG to explode part of the mine prematurely. The ore thus set free was meant to be produced and delivered in 2000 only. VAEG decided to deliver it already in the end of 1999 as an advance under the contract for 2000. The Austrian authorities ensured the Commission that the advance delivery will consequently be deducted from the authorised production in 2000 and that production ceilings will be respected.

(b) Production costs

The production costs for the standard-grade iron totalled ATS 169.915 million, i.e. ATS 147,22 per tonne in 1999. The production costs for the low grade products totalled ATS 33.581 million, i.e. ATS 56.95 per tonne. These amounts include closure and rehabilitation operations carried out in 1999. A detailed overview of production costs is given in the Annex.

(c) Pricing

The standard-grade iron ore was sold at ATS 139.50 per tonne. This standard price was set in December 1998 for the whole of 1999.

The low-grade material (*Möllerzusatzmaterial*) was sold at ATS 76 per tonne, fixed on the basis of the market price for lime gravel (*Kalkschotter*).

The average price for deliveries of iron ore and low-grade material (*Möllerzusatzmaterial*) results in ATS 99.60 per tonne. Including the costs of transport to VASA/Linz, the price charged was ATS 667.50 per tonne Fe.

The information submitted by Austria in its ninth report confirm the information given by Voest Alpine Rohstoffbeschaffungs GmbH, a subsidiary of Voest-Alpine Stahl AG responsible for the purchase of raw material, that the above price per tonne Fe for iron ore is higher than the comparable price payable for imported iron ore.

It may therefore be concluded that the prices charged in 1998 were not lower than required under Article 2 of the Commission's Decision of 29 November 1995.

(d) Operating aid

The total losses incurred by VAEG in the first half of 1999 were ATS -52.158 million.

Of the total losses sustained in this period, ATS 23.233 million related to closure operations. Further details on losses are given in the Annex.

The company requested ATS 51 million in operating and closure aid for 1999. Only 47,8 million ATS had to be disbursed. This amount is ATS 9,2 million less than the maximum amount of ATS 57 million authorised for 1999 by the Commission (ATS 34 million operating aid and ATS 23 closure aid). The need for less aid is due to the fact that VAEG was able to achieve higher cost savings than anticipated in the original plan and achieved a better operating result due to a higher production than planned and provided in the Decision.

3. Closure aid

The authorised maximum amount of closure aid for 1999 is ATS 23 million. In 1999 ATS 17.8 million was paid, whereas the closure costs were ATS 23.233 million.

4. Aid payments in relation to aid authorised

(ATS million)	Total aid		Operating aid		Closure aid	
	Authorised	Paid	Authorised	Paid	Authorised	Paid
1995	50	47	45	42	5	5
1996	50	48	42	40	8	8
1997	50	48	39	39	11	9
1998	47	49	36	36	11	13
1999	57	47.8	34	30	23	17.8
2000	52		30		22	
2001	52		26		26	
2002	50		20		30	
Total	408	239.8	272	187	136	52.8

5. Evolution of workforce

The plan for reducing the workforce is as follows:

Workforce	1995	1996	1997	1998	1999	2000	2001	2002
Production	280	276	273	230	219	242	210	181
Closure operations	6	10	13	13	20	20	31	34
Total	286	286	286	243	239	262	241	215

Departing from the above plan, the workforce in production was reduced to 230 in 1998 as explained in the Eleventh Monitoring Report. In 1999, workforce in production was reduced to 219. Reduction of workforce is therefore ahead of plan.

Annex

Comparison of production costs and revenues in 1999

	Iron ore		Low-grade product		Closure and securing	Total	
Production (tonnes)	1 149 309.00 t		589 662.00 t				
Costs	(ATS million)	(ATS/tonne)	(ATS million)	(ATS/tonne)	(ATS million)	(ATS million)	(ATS/tonne)
Production	27,486	23.92	10,991	18.64	12,824	36,479	22.13
Extraction	43,371	37.74	13,002	22.05		56,373	32.41
Processing	48,476	42.18	8,627	14.63		57,103	32.84
Quality control	9,383	8.16	0,672	1.14		10,055	5.78
Transport	11,077	9.94	0,289	0.49		11,386	6.54
Overheads	29,400	25.58				29,400	16.91
Total cost of sales	169,195	147.22	33,581	56.95		12,824	215,600
Revenues:	Iron ore		Low grade product			Total	
Sales (tonnes)	1 149 309.4 t		596 562.8 t*			1 745 872.2 t	
Selling price	160,329	139.50/t	45,339	76.00/t		205,666	
Deduction for difference in quality	- 31,787					- 31,787	
Total	128,542		45,339			173,881	99.60/t

Difference

Operating result	-40,653		11,758		-23,233	-52,128	
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Aid

	30,000				17,800	47,800	
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* The difference of 6.900 tonnes was sold out of stock.