COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION

Monitoring of Article 95 ECSC Steel aid cases, Seventeenth Report, May 2002

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1. INTRODUCTION

The Commission presents its Seventeenth Report on the Monitoring of Article 95 ECSC steel and iron ore aid cases pursuant to its decisions of 12 April 1994[1], and 29 November 1995[2]. It covers developments up to 31 December 2001 on the basis of information provided by the Portuguese and Austrian authorities on Siderurgia Nacional 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.

As for EKO Stahl GmbH, which was previously subject to monitoring obligation, the limitation of the capacity of the new hot-rolling mill to 1.5 million t/y runs up until the end of January 2005. It is guaranteed by an electronic device that makes it technically impossible to exceed that ceiling. The system operates reliably and the records of the quantities produced are regularly submitted to the Commission.

2. SIDERURGIA NACIONAL, PORTUGAL

2.1. Introduction

On 12 April 1994 the Commission approved[3] PTE 60.12 billion[4] 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[5]:

- PTE 4 925 million in social aid,
- PTE 1 000 million in aid for environmental protection.

By the end of 2001, social aid amounting to PTE 3 401.76 million and environmental aid amounting to PTE 750 million have been paid.

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)**,

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1 Decisions No 94/257/ECSC (OJ L 112, 3.5.1994, p. 52).
2 Decision No 96/269/ECSC (OJ L 94, 16.4.1996, p. 17).
3 OJ L 112, 3.5.1994, p. 52.
4 1 € = 200,482 PTE. Total amount 299 million €.
5 OJ C 390, 31.12.1994, p. 18.

– total workforce to be reduced by 1798 employees by the end of 1996

2.2. 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 six-year delay in installation of the electric arc furnace (cf. previous reports).

All the equipment has been installed. Cold trials have already taken place. Hot trials are scheduled for the first half of May.

2.3. Evolution of workforce

The initial restructuring plan (*PERG*) envisaged a reduction in the workforce by 1798 at the end of the restructuring period. The Portuguese Government's decision to privatise the operating companies immediately, will lead to a reduction of 2663 in 2002. With the closure of the blast furnace in March 2001, only 44 workers remain in SN Serviços which are needed for the dismantling of the installations.

Financing of redundancies:

	Nature	Number of workers	Art 56 ECSC	State (Art 56 ECSC)	Company[1]	Total
			Costs in PTE million			
2001	Early retirement	606	121.49	121.49	-	242.98
	Redundancy[2]	196	39.29	39.29	1465.12	1543.71
	Other	9				
	Total	811	160.78	160.78	1465.12	1786.69

* For details on the period 1993 - 2000 see previous Reports.

1 In accordance with Article 4(1) of the Fifth (until 1996 included) respectively the Sixth Steel Aid Code (as from 1997), a contribution from the State defrays 50% of these costs.

2 Through mutual agreement (negotiated redundancy).

In 2001, PTE 732.6 million in social aid authorised under Article 4 of the Sixth Steel Aid Code was disbursed.

2.4. Sales

Following the closure of its blast furnace, *SN Serviços* did not produce or sell any billets in the second half of 2001.

2.5. Financial performance

The Portuguese authorities provided a full set of financial data and financial ratios in line with the Annex to the Commission's Decision.

According to the Portuguese authorities, the losses of SN Serviços' were chiefly due to the high level of depreciation costs and provisions.

The closure of the blast furnace also resulted in an extraordinary charge owing to the inclusion in the accounts of the total compensation paid in respect of termination of the employment contracts of workers to be laid off from April 2001 onwards.

SN Serviços

(PTE million)	1999	2000	2001
Sales and services performed	19 438	20 670	4 360
Other income	-949	-1 167	-337
Cost of sales	13 053	14 547	3 124
Personnel costs	4 081	3 959	1 505
Depreciation + provisions	954	4 476	1 155
Net financial charges	211	703	477
Other costs	3 171	3 059	2 009
Operating result	-2 981	-6 538	- 4 247
Gross profit	-2 611	-7 271	- 3 110

2.6. 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. Environmental aid approved under Article 3 of the Fifth Steel Aid Code amounting to EUR 3 740 984 was paid in 2001. The use of the social aid approved under Article 4(1) of the Fifth, respectively the Sixth Steel Aid Code is explained above under 2.3 (financing of redundancies).

3. Voest Alpine Erzberg GmbH, Austria

3.1. Introduction

On 29 November 1995 the Commission approved[6] State aid to *Voest Alpine Erzberg GmbH* (VAEG) to enable it to close down its mining operations gradually up to the

OJ L 94, 16.4.1996, p. 17.

year 2002. Approved aid amounts to ATS 272 million to cover operating losses over the period 1995-2002 and ATS 136 million[7] to cover the costs of closing down mines safely and in an environmentally friendly manner.

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 (**so far observed**),
- 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**).

3.2. Production and sales

In 2001 VAEG produced 980 000 tonnes of iron ore with an average content of 33.6% Fe and 902 000 tonnes of low grade products which its only client, *voestalpine Stahl GmbH* (VSG), can use for the blast furnace burden (*Möllerzusatzmaterial*). The company has therefore respected the authorised ceiling for 2001[8].

The standard-grade iron ore was sold at € 10.14 per tonne. This standard price had been set in November 2000 for the whole of 2001.

The low-grade material (*Möllerzusatzmaterial*) was sold at € 6.03 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 € 7.92 per tonne. Including the costs of transport to VSG/Linz, the price charged was € 53.01 per tonne Fe.

The above price per tonne Fe for iron ore is higher than the comparable price for imported iron ore. It may therefore be concluded that the prices charged in 2001 were not lower than required under Article 2 of the Commission's Decision of 29 November 1995.

A detailed overview of production, production costs, sales, prices and losses is given in the Annex.

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7 1 € = ATS 13,7603. ATS 272 million = 19,76 million €; ATS 136 million = 9,88 million €.

8 Cf. 16th Report point 5.2.2.1.

3.3. Aid payments in relation to aid authorised

(ATS million)	Total aid		Operating aid		Closure aid	
	Authorised	Paid	Authorised	Paid	Authorised	Paid
1995-2000*	306	274.8	226	211	80	63.8
2001	52	26	26	26	26	
2002	50		20		30	
Total	**408**	**300.8**	**272**	**237**	**136**	**63.8**

* For details on the period 1995 - 2000 see previous Reports

3.4. 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	273	254	242	210	181
Closure operations	6	10	13	13	20	20	31	34
Total	**286**	**286**	**286**	**286**	**274**	**262**	**241**	**215**

Departing from the original plan the total workforce was reduced to 183 by 31st December 2001. Reduction of workforce is therefore ahead of plan.

ANNEX

Comparison of production costs and revenues, 2001

	Iron ore		Low-grade product		Closure and securing	Total	
Production (tonnes)	980 000		902 000			1 882 000	
Costs	(EUR 000')	(EUR/tonne)	(EUR 000')	(EUR/tonne)	(EUR 000')	(EUR 000')	(EUR/tonne)
Production	1 932	1.97	1 380	1.53		3 312	1.76
Extraction	3 551	3.62	1 380	1.53		4 931	2.62
Processing	3 609	3.68	983	1.09		4 592	2.44
Quality control	632	0.64	271	0.30		903	0.48
Transport	481	0.49	441	0.49		922	0.49
Overheads	1 071	1.09	983	1.09		2 054	1.09
Cost related to exhausted parts of mine	321	0.33				321	0.17
Closure (technical and social measures)					627	627	0.33
Total cost of sales	11 597	11.82	5 438	6.03	627	17 662	9.38
Revenues:	Iron ore		Low grade product			Total	
Sales (tonnes)	980 000		902 000			1 882 000	
Sales (value)	9 937	10.14	5 438	6.03		15 375	8.17
Deduction for difference in quality	-455					-396	
Total	9 482	9.68	5 438	6.03		14 920	7.93

Difference

Operating result	-2 115				-627	-2 742	

Aid

	1 924					1 924	

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