

COURT OF AUDITORS OF THE EUROPEAN COMMUNITIES

**Annual report**  
pursuant to Article 78f (5)  
of the ECSC Treaty  
**Financial year 1979**



**Annual report**  
pursuant to Article 78f (5)  
of the ECSC Treaty

**Financial year 1979**

This publication is also available in the following languages:  
DA, DE, FR, IT, NL

Luxembourg: Office for Official Publications of the European Communities, 1981

Reproduction of the contents of this publication is subject to acknowledgement of the source

*Printed in Luxembourg*

This report has been prepared in accordance with the terms of Article 78f(5) of the Treaty establishing the ECSC, which provides that the Court is to draw up an annual report stating whether the accounting and the financial management of the Commission have been effected in a regular manner.

This report must normally be submitted "within six months of the end of the financial year" but as indicated in the letter of the Court of 30.6.1980, the fact that the accounts were sent late, on 9 June 1980, meant that it was not possible to respect this time-limit.

The Court would make the following comments with regard to the financial year 1979:

- The annual accounts of the ECSC should represent the total cost of the activity of this Community.

The component parts of the operating costs of the ECSC are, it is true, entered in the general budget of the Communities as provided for by the merger treaty. It can be seen, however, that the line between operating expenditure and other expenditure is not altogether clear-cut. Thus in the case of the collateral costs of research expenditure, some are borne by the general budget while others are still borne by the 3% reserve drawn from the research allocation. The financing of certain studies under Article 46 of the ECSC Treaty is borne by the general budget. Stricter rules should be adopted, since even within the ECSC the criteria are not the same for the coal as for the steel sector.

- With regard to the bonds issued by the ECSC on the financial markets, the Commission has - for no apparent reason - changed its previous method. Whereas it treated these bonds like normal portfolio assets until maturity date even if it had redeemed them in advance, in 1979 it considered as amortized the redeemed bonds which matured during 1980. On the other hand, this kind of advance amortization was not applied to the other maturity dates. The arbitrary choice thus made is only justified by the desire to account for funds which will not in fact be available until the following year. It is true that, in its own draft directive, the Commission considered this method possible, but it made it subject to the express condition that the bonds redeemed in advance be no longer negotiable.

This condition is logical if one considers that the results of the operation must be final from the moment they are entered in the revenue and expenditure account. The year of maturity of the redeemed bonds does not constitute an objective criterion for distinguishing between identical operations. This mode of procedure has a considerable influence on the balance sheet. Since the bonds which have supposedly been amortized have remained in the normal portfolio of the holding banks - some of which have a discretionary mandate to carry out operations with these bonds to support their market rates - the former method should have been retained and the balance thus increased on the assets side by nearly 33 MEUA (initial value) and on the liabilities side by 38 MEUA (nominal value). In the same way, the result of the operation on the date of repurchase (2.7 MEUA) should not have been entered in the revenue and expenditure account, which should rather have shown the depreciation of these same bonds at the balance sheet date (2.5 MEUA).

- The items on the balance sheet should reflect the actual situation that they are supposed to represent rather than be amended by items which appear under the sundry accounts, which in themselves are insignificant in the balance sheet total. This is particularly the case with the important item "Disbursed loans" the total of which should, in the assets, represent actual amounts outstanding, while the item "Interest receivable" should include all interest due. However, under the item "Other assets" we find reimbursement of loans made by defaulting debtors (195 751 EUA) as well as the interest relating to this sub-heading (63 451 EUA).
- It is not acceptable that numerous adjustments are made as these rob the total of each item of both its significance and of the possibility of detailed exposition. Several important examples can be found which modify the gross amount of the balance sheet both on the assets and the liabilities side:
  - short-term debts to certain banks were set off against balances with other banks.
 Rectification of these entries should lead to the increase of the assets and the liabilities by an amount of 325 342 EUA;

- . in the "Other assets" account, the adjustment against other assets of a debt to undertakings resulting from the system of aid to coke is not acceptable and a rectification of 98 939 EUA is required.
- In the revenue and expenditure account, the item "Interest on bank deposits and portfolio" bears the net loss on the sale of bonds and is thus wrongly decreased by an amount of 3 157 033 EUA.
- The valuation of the portfolio at the date of the balance sheet using the lowest value method, was not thorough enough. Consequently the balance sheet recorded an under-value of 294 450 EUA.
- With regard to doubtful debtors, their debt is treated normally among disbursed loans except for the contentious part which is placed with the "Other assets". In the case of one of these debtors, however, no payment has been made for thirteen years and the realization of the guarantees is almost impossible, which would justify writing the debt off altogether. The Commission has provided against the total of doubtful debts (there are three in all), for a sum of 800 000 EUA which does not even represent the total debt of the debtor whose insolvency would justify writing it off altogether (1 152 820 EUA). One may thus conclude that the difference of 352 820 EUA at least does not represent a genuine debt.
- As far as interest collected and other income from loans and guarantees are concerned, there is a mixture of real figures and estimates. The latter is the case with interest from short-term deposit of borrowings, amounting to a total of 18 510 568 EUA. This amount is seen to be theoretical by reason of its method of calculation: the gross return on the average amount of the total funds in the Treasury is applied to the borrowed funds for the period during which they remained in the Treasury. A more accurate calculation is necessary to ensure that the loan or guarantee conditions have not been such as to lead to the application of the provisions of Article 51(3) of the Treaty. It would be simpler and more accurate in this respect to record only the return on the difference in the rates of interest of loans and borrowings. The Treaty does in fact lay down that these profits should be placed in reserve and not otherwise employed.

- The presentation of the balance sheet and its annexes does not contain all the information which one would be entitled to expect from these documents. Thus, no mention is made of the guarantees given which in fact amount to a total of 11 543 542 EUA and which should be placed in a memorandum account.

A number of important items of information do not appear in the annex to this balance sheet. These are the breakdowns relating to:

- . loans to be classified according to whether the beneficiary is a bank or financial institution on the one hand or an undertaking on the other;
- . borrowings, according to type, either public or bank;
- . portfolio securities according to whether they are issued by the public sector, bank sector or the private sector.

Finally, the annexes should above all serve to indicate special operations whose frequency has not necessitated separate accounts being opened (for example, deposit of bills and forward currency transactions). The breakdowns in the annexes should contain all the information required to identify clearly the categories in question: unclassified amounts should not be allowed (thus when describing the loan guarantees the item "miscellaneous" includes a large amount of loans for which there is no guarantee (64 853 419 EUA) without the reader being able to see this).

\*

\*

\*

Subject to the reservations arising from the above comments on the financial year 1979, the Court of Auditors finds that the balance sheet and the statement of revenue and expenditure drawn up at 31.12.1979 as annexed to this report have been effected in a regular manner.

EUROPEAN COAL AND STEEL COMMUNITY

BALANCE SHEETS AS OF DECEMBER 31, 1979 AND 1978

(Currency — European Units of Account)

A S S E T S	1979	1978	L I A B I L I T I E S	1979	1978
Loans outstanding (Note 3)	4,793,693,335	4,549,891,467	Reserves (Note 6)		
Bank balances and deposits	448,858,943	309,677,951	Guarantee fund	230,000,000	200,000,000
Investment securities	169,380,099	167,265,646	Special fund (housing and reconversion)	140,000,000	138,500,000
Accrued interest receivable	113,121,166	105,172,535	Former pension fund	41,530,962	41,062,662
Deferred issuing costs & premiums	70,902,275	70,494,437	Allocations from income (Note 7) -	411,530,962	379,562,662
Other assets (Note 4)	47,523,448	43,356,556	Financial aid	310,021,337	267,084,274
Bank deposits for bonds and coupons payable	40,376,952	34,230,814	Other	105,033,906	76,194,889
Repurchased bonds (Note 5)	37,254,525	78,209,905	Unallocated income	419,033	113,045
Property	260,752	272,401	Total reserves and allocations	827,005,238	722,954,870
			Borrowings (Note 8)	4,675,047,371	4,416,237,654
			Accrued interest	166,822,885	151,289,973
			Bonds and coupons payable	40,376,859	34,230,814
			Due to banks	8,268,671	28,457,135
			Other liabilities and payables	2,848,488	4,196,928
			Reimbursement premiums payable	1,001,983	1,204,338
	<u>5,721,371,495</u>	<u>5,358,571,712</u>		<u>5,721,371,495</u>	<u>5,358,571,712</u>
	=====	=====		=====	=====

The accompanying notes are an integral part of these statements

EUROPEAN COAL AND STEEL COMMUNITY

Commission of the European Communities

F. X. ORTOLI  
Vice-President of the Commission

A. NICOLETTI  
Director-General for Credit and Investments



EUROPEAN COAL AND STEEL COMMUNITY

STATEMENTS OF REVENUES AND EXPENDITURES

FOR THE YEARS ENDED DECEMBER 31, 1979 AND 1978

(Currency -- European Units of Account)

	1979	1978
<b>REVENUES</b>		
From loans and guarantees (Note 9)	406,186,807	374,456,791
Levy (Note 10)	103,239,638	100,775,514
Contributions from Member States	28,000,000	28,000,000
Interest from deposits and investments	44,080,665	33,781,463
Gain on retirement of repurchased bond (Note 8)	2,739,281	-
Miscellaneous	801,725	187,876
	585,048,116	537,201,644
<b>EXPENDITURES</b>		
For borrowings and guarantees (Note 11)	382,613,609	352,181,251
Reduction of portfolio to market value (Note 12)	10,387,724	-
Other financial expenses	231,627	236,252
Budgetary expenditures -		
Research projects	33,101,821	32,306,675
Rehabilitation projects	33,020,436	20,993,860
Assistance under Article 54	5,374,622	3,976,808
Assistance under Article 56	6,399,500	4,799,675
Coke projects	4,570,486	-
Administration (Note 13)	5,000,000	5,000,000
	480,699,825	419,494,521
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	104,348,291	117,707,123
<b>LOSS FROM CONVERSION OF FOREIGN CURRENCIES</b>	297,923	10,783,339
<b>NET INCOME AVAILABLE FOR ALLOCATIONS</b>	104,050,368	106,923,784

The accompanying notes are an integral part of these statements.

EUROPEAN COAL AND STEEL COMMUNITY

Commission of the European Communities

F.X. ORTOLI  
Vice-President of the Commission

A. NICOLETTI  
Director-General for Credit and Investments

EUROPEAN COAL AND STEEL COMMUNITYSTATEMENTS OF NET INCOME ALLOCATIONSFOR THE YEARS ENDED DECEMBER 31, 1979 AND 1978

(Currency -- European Units of Account)

	<u>1979</u>	<u>1978</u>
Unallocated income as of January 1	113,045	85,593
Net income available for allocations	<u>104,050,368</u>	<u>106,923,784</u>
Available for allocations	<u>104,163,413</u>	<u>107,009,377</u>
Allocations to (Note 1)		
Guarantee fund	30,000,000	17,000,000
Special fund	1,500,000	4,000,000
Former pension fund	468,300	1,146,241
Financial aid	42,937,063	76,917,616
Other	28,839,017	7,832,475
Total allocations	<u>103,744,380</u>	<u>106,896,332</u>
Unallocated income as of December 31	<u>419,033</u>	<u>113,045</u>

The accompanying notes are an integral part of these statements.

EUROPEAN COAL AND STEEL COMMUNITYNOTES TO FINANCIAL STATEMENTSDECEMBER 31, 1979 AND 1978

(Currency -- European Units of Account)

1. PRESENTATION OF FINANCIAL STATEMENTS

The European Coal and Steel Community (ECSC) was established as a sovereign entity by the Treaty of April 18, 1951. The purpose of the ECSC under the Treaty is to aid the economic development of the nine Member States through the creation of a common market for coal and steel. The ECSC's principal sources of funds are its levy-taxing power and borrowings.

Since 1967, the European Commission manages all the affairs of the ECSC subject to the cooperation of and review in certain circumstances by the Council of the European Communities.

The accompanying financial statements as of December 31, 1979, include the proposed allocations of the 1979 net income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESa. Foreign currency conversion

The ECSC uses the European unit of account (EUA) as the unit of measure for presenting its financial position and operations. The EUA as adopted by the Council of the European Communities has been defined as equal to the sum of the following amounts of the currencies of the Member States :

Belgian francs	3.66
Danish crowns	0.217
Dutch guilders	0.286
French francs	1.15
German marks	0.828
Irish pounds	0.00759
Italian lire	109.00
Luxemburg francs	0.14
United Kingdom pounds	0.0885

The value of the EUA, in terms of the currencies of the Member States, is determined by the Commission of the European Communities by converting the above-mentioned amounts of currencies into the currency concerned on the basis of the official exchange rates prevailing on that currency's national market. The value of the EUA in terms of a non-member currency is determined on the basis of the cross rates of the currency concerned relative to the EUA on a financial market of the Member States that the Commission

considers to be representative; normally this is the Brussels market.

Accounts denominated in foreign currencies were converted into EUA's using the following rates as of December 31,

	<u>1979</u>
Belgian francs	40.3181
Danish crowns	7.71697
Dutch guilders	2.74085
French francs	5.79312
German marks	2.49057
Irish pounds	0.670579
Italian lire	1157.19
Luxemburg francs	40.3181
Swiss francs	2.29783
United Kingdom pounds	0.646904
United States dollars	1.43839

The gain or loss resulting from the conversion at year end of the accounts in foreign currency is taken into account in the determination of net income available for allocation.

b. Investment securities

Investment securities, mainly governmental securities, are valued at the lower of average cost or market.

c. Property

Property consists of a building located in Washington D.C., which is valued at cost.

d. Deferred issuing costs and premiums

Issuing costs and related expenses are amortized over the terms of the respective borrowings.

3. LOANS

The breakdown of approximately 1,000 loans granted in the European Community is as follows as of December 31, 1979 :

## From borrowed funds in -

United States dollars	1,951,819,054
German marks	1,149,083,958
Swiss francs	491,932,563
French francs	422,395,220
Luxemburg francs	159,997,281
Belgian francs	135,183,023
Dutch guilders	120,542,897
Italian lire	85,776,952
Canadian dollars	44,527,298
United Kingdom pounds	41,240,663
European Monetary Units	8,908,071
European Units of Accounts	17,062,784
	<hr/>
	4,628,469,764
	=====

## From other sources -

Special reserve fund for the financing of workers housing projects	137,743,009
Pension fund for housing loans to the European Communities' personnel	21,246,399
Pension fund for Frioul Iron Industry	3,888,730
Funds allocated for technical research	2,114,038
Funds allocated for rehabilitation	231,395
	<hr/>
	165,223,571
	<hr/>
	4,793,693,335
	=====

An analysis of these loans by country  
is as follows :

Germany	1,216,142,003
United Kingdom	1,437,608,204
France	942,524,992
Italy	692,784,344
Belgium	192,711,409
The Netherlands	141,129,397
Denmark	36,760,068
Luxemburg	97,970,568
Ireland	14,815,951
	<hr/>
	4,772,446,936
Communities' personnel	21,246,399
	<hr/>
	4,793,693,335
	=====

A breakdown of these loans by principal form of guarantee is as follows :

Loans secured by Member States	1,970,926,729
Loans secured by banks	957,956,840
Loans secured by mortgages	930,382,874
Loans secured by other guarantees	758,643,054
Loans secured by industry groups	175,783,838
	<hr/>
	4,793,693,335
	=====

The terms of the loans granted to corporations within the European Community vary significantly.

The duration of the loans for workers housing projects varies between 20 and 25 years while the duration of the loans to the Communities' personnel varies between 10 and 20 years.

#### 4. OTHER ASSETS

As of December 31, 1979, this caption included the following accounts :

Levy receivable	21,547,051
Member States contributions	19,676,293
Others	6,300,104
	<hr/>
	47,523,448
	=====

#### 5. REPURCHASED BONDS

Repurchased bonds, which are temporarily held in treasury, are valued at the lower of average cost or market, except for the bonds maturing in 1980, which were retired (Note 8).

At December 31, 1979, the nominal value of the repurchased bonds in portfolio was 45,227,489.

#### 6. RESERVES

The guarantee and special fund result from allocations of the ECSC's net income made by the Commission.

The former pension fund represents the balance of the pensions funded by the ECSC prior to March 5, 1968, from which date on the pension commitments for the personnel are assumed directly by the Member States.

#### 7. ALLOCATIONS FROM INCOME

Allocations from net income are made for industrial projects, social housing projects for workers and technical and economic research in accordance with the provisions of the treaty establishing the ECSC. As of December 31, 1979, these funds were planned to be used for the following projects :

Financial aid (contracted commitments) -			
Rehabilitation projects	189,567,279		
Research projects	73,379,930		
Developments and reconversion (Art. 56)	20,562,518		
Industrial loans (Art. 54)	17,686,418		
Coal and coke grants	8,825,192	310,021,337	
Other (approved commitments) -			
Research projects	11,930,288		
Developments and reconversion (Art. 56)	41,607,911		
Industrial loans (Art. 54)	18,495,707		
Budget 1980	23,000,000		
Other	10,000,000	105,033,906	
			415,055,243
			=====

#### 8. BORROWINGS

As of December 31, 1979, the ECSC had borrowed 4,675,047,371 under the form of approximately 220 loans on different capital markets at varying interest rates. The loans come to maturity at various dates through 2001.

The breakdown of the net debt outstanding by currency was as follows :

United States dollars	1,951,344,142
German marks	1,202,667,421
Swiss francs	493,726,690
French francs	427,079,881
Luxemburg francs	171,566,244
Belgian francs	127,555,614
Dutch guilders	120,926,720
Italian lire	82,959,324
Canadian dollars	44,527,298
United kingdom pounds	35,631,253
Units of Account	17,062,784
	<hr/>
	4,675,047,371
	=====

Repurchased bonds held in treasury as of December 31, 1979, for a nominal value of 38,103,892 and maturing in 1980 were retired and a profit of 2,739,281 was recorded.

#### 9. REVENUES FROM LOANS AND GUARANTEES

The detail of the revenues from loans and guaranties is as follows :

Interest on loans	382,896,568
Interest on available funds	18,810,568
Guarantees fees	61,976
Miscellaneous	4,417,695
	<hr/>
	406,186,807
	=====

#### 10. LEVY

The ECSC is authorized under the Treaty to impose a levy on the average value of the production of coal and steel of the enterprises in the Community. During the year 1979, the percentage was 0,29%.

#### 11. EXPENDITURES FOR BORROWINGS AND GUARANTEES

The detail of the expenditures for borrowings and guaranties is as follows :

Interest on borrowed funds	363,208,185
Amortization of issuing costs	14,510,254
Guarantees fees	3,864,210
Miscellaneous	1,030,960
	<hr/>
	382,613,609
	=====



12. REDUCTION OF PORTFOLIO TO MARKET VALUE

In accordance with its accounting policies, which call for the valuation of its portfolio of investment securities and repurchased bonds at the lower of average cost or market, the ECSC recorded a provision of 10,387,724 to reflect the reduction in market value of the portfolio as of December 31, 1979. As of December 31, 1978, the difference amounted to 6,574,993 for which no reduction was recorded but which was included in the "Other allocations from income".

13. ADMINISTRATIVE EXPENDITURE

The ECSC contributed to the administrative budget of the Commission of the European Communities for an amount of 5,000,000.

14. COMMITMENTS

As of December 31, 1979, the Commission had signed formal agreements for the borrowing of a total amount of 147,488,642; outstanding loan commitments amounted to 48,038,104.

15. GUARANTEES GIVEN

The ECSC guarantees loans made to various coal and steel companies by third parties; such guarantees are secured by guarantees to the ECSC from Member States, industrial concerns and banks or by mortgages on the projects financed.



OFFICE FOR OFFICIAL PUBLICATIONS  
OF THE EUROPEAN COMMUNITIES

L-2985 Luxembourg