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I

(Information)

COURT OF AUDITORS

ANNUAL REPORT

*(concerning the ECSC for the financial year 1994)**(95/C 329/01)**Article 88 of the Financial Regulation of 21 December 1977, as last amended by Council Regulation (EC, Euratom, ECSC) No 2335/95 of 18 September 1995*

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CHAPTER 1

OBSERVATIONS CONCERNING THE ACCOUNTING

Introduction

1.1. This chapter mainly concerns the ECSC's solvency at 31 December 1994, as well as developments in respect of its principal banking and budgetary activities during the year. The ECSC's solvency is of particular interest for the following reasons:

- apart from some marginal lending from the ECSC's own funds, ECSC loans are financed by bank borrowings and issues of bonds. It is important, therefore, that the ECSC should enjoy a first-class credit rating on the financial markets. That, in turn, requires an excellent solvency level;
- since ECSC loans are back-to-back with the corresponding borrowings (in terms of rates, currency and maturity), the only banking risk to which it is exposed is the risk of non-recovery;
- as the Treaty of Paris expires in 2002, any changes in the necessary own funds must be carefully monitored in order to safeguard the ECSC's solvency right up to the expiration of the Treaty.

The ECSC's solvency

Solvency ratio

1.2. During the 1986 discharge procedure, the European Parliament requested the Court of Auditors to

provide, for each financial year, the information necessary for calculating and assessing the reserve, net asset and liquidity ratios by means of the appropriate formulae ⁽¹⁾.

1.3. As it stated in its last annual report on the ECSC ⁽²⁾, the Court will henceforth follow the Commission's practice of using the solvency ratio provided for by Council Directive 89/647/EEC for its analysis of the ECSC's solvency ⁽³⁾. This ratio is more precise than those used in previous years, in that it takes account of off-balance sheet items and each element of the denominator is weighted according to the credit risk. The ratio used by the Commission takes into account only the Guarantee Fund, the surplus not allocated and the non-specific value adjustment. It does not include the Special Reserve, former Pension Fund or provision for financing the ECSC operating budget. The interpretation of the Directive to which this definition of own funds corresponds results in a prudent valuation.

1.4. At 31 December 1994, the ECSC's solvency ratio was 14,95 %, compared with 14,94 % at 31 December 1993. The Court notes that the ratio has remained within the range (14 % to 16 %) recommended by a firm of experts which drew up a report on the subject in July 1992, at the Commission's request. The recommended range is a prudent one and was fixed in the light of a comparison between the structure of the ECSC's balance sheet and those of comparable institutions. The special nature of the ECSC's activity was also taken into account.

⁽¹⁾ OJ C 122/66, 9. 5. 1988.

⁽²⁾ Court of Auditors' annual report concerning the ECSC for the financial year 1993, paragraph 1.4, OJ C 346, 7. 12. 1994.

⁽³⁾ Council Directive of 18 December 1989 on a solvency ratio for credit institutions, OJ L 386, 30. 12. 1989, p. 14.

Risk spreading

1.5. The level of the solvency ratio is not the only indicator of a financial establishment's solvency. This is especially true of the ECSC in its current situation. Given that the Treaty of Paris will expire in 2002, the ECSC is no longer in a situation of continuing activity. Its loan portfolio will shrink, becoming concentrated on a diminishing number of debtors, so that the risks will be less widely spread. A default on the part of any borrower would thus make considerable inroads into the ECSC's own funds, if the latter decline in equal proportion to the volume of lending. This being so, the Commission should, from now on, be watchful in its application of the Council Directive on the monitoring and control of large exposures of credit institutions⁽⁴⁾. This Directive imposes two limits on the volume of a credit institution's exposure towards any one client (client or group of clients):

- the total exposure to any third party must not exceed 25 % of the own funds of the credit institution in question, in this case, the ECSC;
- the total volume of large exposures must not exceed 800 % of the own funds. The exposure is deemed to be large if the total exposure to any third party is 10 % or more.

As of 31 December 1994, the ECSC had exceeded the above two limits. Firstly, the total value of large exposures was approximately 950 % of own funds and, secondly, the ceiling of 25 % of own funds had been exceeded in the case of eleven counterparties (six banks and five industrial undertakings). The relevant directive does, in fact, lay down transitional provisions, but the ECSC must nevertheless take steps to restore the exposures to the limits specified in the Directive.

⁽⁴⁾ Council Directive 92/121/EEC of 21 December 1992 on the monitoring and control of large exposures of credit institutions, OJ L 29, 5. 2. 1993, p. 1.

Value adjustments

1.6. In 1993, the Commission reintroduced a non-specific value adjustment⁽⁵⁾, following the recommendations made by the Court. It is intended to cover the general risk of non-recovery of debts that are not backed by first-class guarantees. The amount concerned fell from 50 Mio ECU on 31 December 1993 to 22 Mio ECU at 31 December 1994⁽⁶⁾. The volume of outstanding loans has changed only slightly since last year, but in percentage terms it has gone down, from 4,0 % to 1,7 %. The Commission justifies this reduction of the non-specific value adjustment on the grounds that the economic situation in the European Union improved perceptibly in 1994, especially in the steel sector. In the Court's opinion, such a reduction of the rate previously applied is excessive. It is unsound practice to change every year, and to such an extent, a value adjustment provision whose object is to spread over time charges that are by nature random. Moreover, the trend towards market improvement may go into reverse as quickly as it appeared and steel undertakings could face a new crisis in coming years, especially as the objectives of closing structural excess production capacity have not been achieved.

1.7. The balance-sheet value of the specific value adjustments concerning loans has changed only slightly since last year. It is still around 60 Mio ECU⁽⁷⁾, of which more than 90 % is attributable to a single undertaking. The Commission uses discriminant analysis as an aid to determining in advance the probability of an undertaking's defaulting. This year, as the Court requested⁽⁸⁾, the Commission has extended its use to any undertaking that receives loans from own funds but is unable to offer first-class guarantees, whatever the maturity date of the loans. The results of the analysis did not show any necessity for further value-adjustment provisions.

⁽⁵⁾ Paragraphs 1.23 to 1.25 of the Report (Annex to the ECSC annual report 1992) on the accounting and financial management of the ECSC.

⁽⁶⁾ See note 5.1 to the ECSC financial statements at 31 December 1994: specific value adjustment on loans (24 755 428 ECU) = non-specific value adjustment (22 Mio ECU) + specific value adjustments (2 755 428 ECU).

⁽⁷⁾ See ECSC financial statements at 31 December 1994: specific value adjustments on loans (2 755 428 ECU, note 5.1) + specific value adjustment for payments due and not received (57 716 211 ECU, note 8).

⁽⁸⁾ Paragraph 1.13 of the Court of Auditors' report on the ECSC (financial year 1993), OJ C 346, 7. 12. 1994.

Changes in application of ECSC funds and budgetary resources

Table 1.1 — Changes in principal applications and budgetary resources in 1992, 1993 and 1994

(Mio ECU)

Item	1992	1993	1994	Variations between 1993 and 1994
		(a)	(b)	(b) - (a)
Application				
Administrative expenditure	5,0	5,0	5,0	0
Net commitments ⁽¹⁾	401,4	437,2	323,1	-114
Allocation to the indemnity provision	85,6	6,3	0	-6,3
Compensation actually paid	0	0	32,5	32,5
Total applications (A)	492,0	448,5	360,6	-87,8
Resources				
Result of non-budgetary operations ⁽²⁾	131,5	201,3	112,6	-88,7
Levy	146,5	121,3	107,7	-13,6
Use of reserves	53	22	2	-20
Transfer from indemnity provision	0	0	91,9	+91,9
Total resources (B)	331	344,6	314,2	-30,4
Balance (B) — (A)	-161	-103,9	-46,4	
Net movements against the provision for financing the ECSC operating budget ⁽³⁾	-163,2	-105,9	-43,3	

⁽¹⁾ Net commitments correspond to the new legal commitments less the year's cancellations.

⁽²⁾ The result of non-budgetary operations derives chiefly from cash management income (and in particular interest and capital gains on securities). It also includes value adjustments.

⁽³⁾ Comparison of the final two lines of *Table 1.1* shows that the net movement against the provision for financing the ECSC operating budget is used to supplement the resources for the financial year if the latter are not sufficient to cover all items. The two lines do not correspond exactly, because *Table 1.1* includes only the main elements and does not take account of some lesser items.

Source: ECSC financial statements at 31 December 1992, 1993 and 1994.

Changes in the application of funds

Table 1.2 — Changes in the ECSC's main operating budget expenditure (legal commitments for each financial year) 1992-1994

Instrument	1992		1993		1994	
	Mio/Ecu	%	Mio/Ecu	%	Mio/Ecu	%
Redeployment aid						
— traditional	154,8		182,4		157,0	
— social measures steel industry	46,2		60,0		86,0	
— social measures coal industry	50,0		50,0		40,0	
Total redeployment	251,0	52,6	292,4	55,0	283,0	73,3
Research	120,2	25,2	124,6	23,5	51,9	13,4
Interest subsidies (Art.56)	106,0	22,2	114,2	21,5	51,5	13,3
Grand total	477,2	100,0	531,2	100,0	386,4	100,0
Total cancellations	-75,8		-94,0		-63,3	
Net commitments	401,4		437,2		323,1	

Source: ECSC financial statements for 1992, 1993 and 1994, note 15.

1.8. In the environment of diminishing resources that is associated with the expiry process, the level of social aid for the redeployment of workers remained virtually constant in 1994, which was inevitably to the detriment of research aid and interest subsidies. The amounts allocated to the two latter aspects have been divided more or less evenly between them for several years past.

Changes in resources

1.9. The ECSC's resources diminished slightly, despite the withdrawal from the indemnity provision. The provision was established in 1992 and increased in 1993 to a level which corresponded to the maximum compensation that the ECSC might be required to pay to undertakings in respect of losses sustained in connection with the quota system applied between October 1980 and June 1988. At the end of the day, when the negotiations were concluded, only 32,5 Mio ECU of the

91,9 Mio ECU in the provision was disbursed (shown under 'compensation actually paid' in Table 1.1). The difference was allocated to the ECSC operating budget as extraordinary revenue in 1994.

1.10. The levy on the production of coal and steel by Community undertakings continued to decline, due, in particular, to the reduction of the rate to 0,23 % in 1994. Since 1990, when it was 0,31 %, the rate has been reduced by 0,02 % each year and is expected to be abolished completely in 1999.

1.11. In 1994 the figure for non-budgetary transactions fell by 44 % compared with 1993, despite the transfer of 28 Mio ECU from the non-specific value adjustment (see paragraph 1.6). The change is mainly due to a value adjustment of almost 70 Mio ECU on bonds and other fixed-interest securities (valued at the lower of the acquisition cost or the market value at 31 December

1994). The adjustment was due, in turn, to the general decline in bond markets in 1994.

Changes in the provision for financing the ECSC operating budget

1.12. In 1992 and 1993, there were substantial calls, of 163,2 Mio ECU and 105,9 Mio ECU respectively, on the provision for financing the ECSC operating budget. They were necessitated by the shortfall in resources relative to expenditure occasioned by various factors, as explained in the Court's report last year ⁽⁹⁾. In 1994, the

net decrease was only 43,3 Mio ECU, but, over the same period, 28 Mio ECU was withdrawn from the non-specific value adjustment (see paragraph 1.6) and was also used to fund that year's expenditure.

1.13. Fines, surcharges on late payments and repayments of interest subsidies are not treated as ECSC resources until they have actually been collected. Until such time as they are collected, an amount corresponding to these claims is allocated to provisions. Consequently, the 72,5 Mio ECU in question is not yet available to fund the ECSC operating budget. This provision increased considerably in 1994 because of fines, to a total

Table 1.3 — Movements against the provision for financing the ECSC operating budget in 1994

(Mio ECU)

Item	Balance at 31. 12. 1993	Utilization	Allocation	Net movement	Balance at 31. 12. 1994
1) Provision available for financing the operating budget	114,2	-86,2	+42,9	-43,3	70,9
2) Provision for fines and surcharges and interest subsidy repayments to be collected subsequently	3,4	—	+69,1	+69,1	72,5
3) Indemnity provision	91,9	-91,9	0	-91,9	0
Total	209,5	-178,1	+112,0	-66,1	143,4

Source: ECSC Financial statements at 31 December 1994, note 16.

Table 1.4 — Changes in ECSC own funds

(Mio ECU)

Item (after allocation of surplus)	31. 12. 1993 (a)	31. 12. 1994 (b)	Net movement (c) = (b) - (a)
Guarantee Fund ⁽¹⁾	429,9	429,9	0,0
Special reserve	167,0	165,0	-2,0
Former Pension Fund	60,4	62,0	1,6
Surplus brought forward ⁽¹⁾	0,1	0,0	-0,1
Non-specific value adjustments ⁽¹⁾	50,0	22,0	-28,0
Provision for financing the ECSC operating budget	114,2	70,9	-43,3
Total	821,6	749,8	-71,8

⁽¹⁾ Own resources included in the numerator of the solvency ratio.

Source: ECSC Financial statements at 31 December 1994

⁽⁹⁾ Paragraphs 1.9 and 1.10 of the Court of Auditors' 1993 report on the ECSC, OJ C 346, 7. 12. 1994.

Table 1.5 — Changes in the ECSC summary balance sheet, before allocation of surplus, between 31 December 1993 and 31 December 1994

	31/12/1993		31/12/1994	
	Mio. ECU	%	Mio. ECU	%
Assets				
Loans (to banks and undertakings)	7 676	74,9	7 008	73,9
Liquid assets (bank balances and bonds)	2 143	20,9	2 081	21,9
ECSC operating budget (levies, fines and interest subsidies receivable)	16	0,2	81	0,9
Tangible and intangible assets	13	0,1	11	0,1
Other assets	68	0,7	14	0,1
Prepayments and accrued income	335	3,2	290	3,1
Total assets	10 251	100,0	9 485	100,0
Liabilities				
Amounts owed (including bond issues)	7 331	71,5	6 571	69,2
Other liabilities	406	4,0	470	5,0
Accruals and deferred income	270	2,6	236	2,5
Provisions for liabilities and charges	5	0,0	42	0,4
ECSC operating budget (commitments and provisions)	1 571	15,3	1 504	15,9
Reserves and surplus	657	6,4	657	6,9
Value adjustment reserve	11	0,1	5	0,1
Total liabilities	10 251	100,0	9 485	100,0

Source: ECSC Financial statements at 31 December 1994.

of around 104 Mio ECU, which the Commission imposed on steel undertakings for failure to observe the rules of competition in marketing steel beams. The amount in respect of fines that have not yet been collected is included on the assets side of the balance sheet, under loans and advances.

1.14. Overall, although a significant reduction in budgetary expenditure made it possible to reduce the imbalance between applications of funds and the resources generated during the financial year, 71,8 Mio ECU of own funds were consumed during the year, as can be seen from *Table 1.4*.

Changes in the ECSC balance sheet

1.15. The ECSC balance sheet total declined by 7,5% between 31 December 1993 and 31 December 1994. This 766 Mio ECU reduction was mainly due to the reduction in lending and borrowing activities, which were down by 668 Mio ECU and 760 Mio ECU respectively. The volume of lending continues to be above the level of borrowing, due to the loans from own funds. The second significant decrease on the assets side was in the liquid assets and was essentially due to a value adjustment of approximately 70 Mio ECU (see paragraph 1.11).

Table 1.6 — Changes in the ECSC's liquid assets and the principal balancing items between 31 December 1993 and 31 December 1994

Balance-sheet item	(Mio ECU)	
	31. 12. 1993	31. 12. 1994
Liquid assets (assets side)		
Balances with central banks	1,2	1,6
Loans and advances to credit institutions		
— repayable on demand	22,0	21,0
— with agreed maturity dates or periods of notice	418,1	434,2
— bonds	1 701,6	1 623,6
Total liquid assets	2 142,9	2 080,4
Principal balancing items (liabilities side)		
Guarantee Fund	429,9	429,9
Provision for financing the ECSC operating budget (OB)	209,5	143,4
(Multiannual) commitments for the ECSC OB	1 361,2	1 360,5
Total principal balancing items	2 000,6	1 933,8

Source: Financial statements of the ECSC at 31 December 1994.

Other items

Tangible assets

1.16. The ECSC made no new property acquisitions in 1994. On the contrary, it transferred ownership of the properties it owned in Paris to the EC on 21 December 1994. The buildings were bought in 1990 and immediately written off in full by virtue of the exceptional income from the sale of the previous premises in Paris⁽¹⁰⁾. As with the old premises, the new property was jointly owned by the three Communities, the ECSC's share being 28%. The buildings, which were recently valued by experts at around 6 Mio ECU, were transferred to the EC free of charge. There is no record in the accounts which would show that in the past the other Communities have repaid to the ECSC its 28% share of

⁽¹⁰⁾ See Report by the Court (Annex to ECSC annual report 1990) on the accounting and financial management of the ECSC, paragraphs 5.21 to 5.24.

the investment. The ECSC has abandoned its share of the value, namely 1,68 Mio ECU.

Recovery of subsidies

1.17. The Court notes with satisfaction that the Commission proposes to apply to the Court of Justice for recovery of the subsidies that were wrongly paid in Bagnoli⁽¹¹⁾, which it had unsuccessfully asked to be repaid. In the case of the subsidies paid to two British mines⁽¹²⁾, the Commission argued that the closures had been imposed by the British government and were not the result of any decision on the part of the beneficiary. It therefore considered that it could not recover the subsidies already paid, but did not, however, make any further payments.

⁽¹¹⁾ Information supplementary to the Court's annual report concerning the ECSC financial statements for the year 1991, section 22.

⁽¹²⁾ Paragraph 2.36 of the Court of Auditors' 1993 ECSC report, OJ C 346, 7. 12. 1994.

Closure timetable

1.18. The closing accounts and supporting documents are sent to the Court of Auditors too late. This year, the first version of the financial statements, which was incomplete and provisional, was forwarded informally at the end of April 1995, as were other important documents such as those relating to the statement of borrowers. Under these circumstances, it is difficult for the Court to carry out its task within the time limits imposed by Community legislation and the Parliamentary discharge procedures. To be sure, the closure does require a considerable amount of time, especially as it involves two accounting systems, one in Directorate-General XVIII which leads to the annual accounts, and one in Directorate-General XIX for the ECSC operating budget accounts. All the same, the Commission should examine the problem, to see whether it can arrange matters so that the Court can perform its audit earlier.

Conclusion

1.19. The ECSC's solvency ratio at 31 December 1994 was still within the recommended range. Observance of these limits does not, however, confer any guarantee of adequate solvency and the spread of risk must be carefully monitored in view of the continuing decline in lending activity. The Court was pleased to note that discriminant analysis has been extended to include all debtors that do not have first-class guarantees. Policy regarding the non-specific value adjustment, however, fluctuates too much and takes excessive account of economic factors, to the detriment of the structural statistics which show that prudence is still required.

1.20. In 1994, the ECSC reported a decline in expenditure which was greater than the rise in revenue, and thus made it possible to restore budgetary equilibrium. It was, however, necessary to call on the reserves, though the call was significantly lower than in the two previous years. The overall reduction in the operating budget will undoubtedly continue in future, because of the expected changes in resources. As a result of this trend it will be necessary to make certain budgetary choices which also take account of any transfers of activities to the general budget.

CHAPTER 2

STATEMENT OF ASSURANCE CONCERNING THE ECSC

2.1. In accordance with Article 45c of the Treaty establishing the European Coal and Steel Community, the Court has examined whether the accounts for the financial year 1994 are reliable and whether the underlying transactions have been effected in a lawful and regular manner.

2.2. The Court's report on the financial statements of the ECSC at 31 December 1994⁽¹³⁾ constitutes a statement of assurance as to the reliability of the accounts.

2.3. In addition, the Court has relied on its knowledge of the internal control systems and has also carried out tests in order to obtain an assurance as to the legality and regularity of the transactions underlying the ECSC's accounts for the 1994 financial year. As a result, the Court considers that it was able to obtain adequate assurance as to the legality and regularity of those transactions.

CHAPTER 3

REDEPLOYMENT AID

Introduction

3.1. This chapter concerns redeployment aid paid by the ECSC. The audit examined the period between 1 January 1989, the date on which the bilateral conventions entered into force, and 31 December 1994. In terms of volume, this form of aid is the most important instrument in the ECSC operating budget. It accounted for 56% of the statement of commitments at 31 December 1994. Two other instruments in the ECSC operating budget, namely research and interest subsidies, were the subject of observations by the Court in its annual reports concerning the ECSC for 1992 and 1993 respectively.

3.2. The Commission pays ECSC redeployment aid in the form of grants, through various agencies (e.g. ministries, regional bodies, or the undertakings concerned), to workers in the coal and steel industries who have become unemployed because of economic circumstances (resulting in restructuring or closure) or technical circumstances (modernization). The channels vary from Member State to Member State.

Legal bases and main characteristics of the different types of aid

3.3. The aid takes two forms: 'traditional' and 'complementary' aid. As a general rule, the latter is paid only to primary beneficiaries. Complementary aid comprises the Rechar programme (1990-1993), the social measures (1994-1997) for the coal sector and the social measures (1993-1995) for the steel sector which followed the measures applied in the steel sector between 1988 and 1981.

⁽¹³⁾ Report of the Court of Auditors of the European Communities on the financial statements of the European Coal and Steel Community at 31 December 1994, OJ C 244, 21 September 1995, p. 10.

Traditional aid

3.4. Traditional redeployment aid is provided for in subparagraphs (1)(c) and (2)(b) of Article 56 of the ECSC Treaty. The main difference between these two paragraphs corresponds to the two types of circumstance that underlie job losses.

3.5. Article 56(1)(c) refers to exceptionally large cuts in work-force requirements due to the introduction of new technical processes or equipment. It was applied for the first time in 1989 ⁽¹⁴⁾, and only in the coal sector. It is used in the context of improvements to productivity in the most profitable mines, when mechanization gives rise simultaneously to productivity increases and substantial redundancies, without necessarily reducing the level of production.

3.6. Article 56(2)(b) refers to cases where undertakings are compelled to discontinue, curtail or change their activity because of fundamental changes in market conditions in the coal or steel industries that are not directly linked to the establishment of the common market. This instrument came into force in 1954 and has been used extensively — including during the period between 1989 and 1994 — in both the coal sector, where there have been many closures, and, to an even greater extent, in the steel sector, where major restructuring has been necessary.

3.7. Article 56 of the ECSC Treaty provides that in all such cases the Commission 'shall make the provision of non-repayable aid conditional upon payment by the State concerned of a special contribution of not less than the amount of that aid, unless an exception is authorized by the Council, acting by a two-thirds majority'.

3.8. These ECSC Treaty provisions have been incorporated into the bilateral conventions signed between the Commission and each Member State. The conventions entered into force on 1 January 1989 and replaced the agreements that had existed previously. Their main objectives were to harmonize, as far as possible, the aid paid in the different Member States and to limit ECSC intervention by introducing ceilings. They also introduced some innovations relative to the previous mechanisms: for example, they take account of the economic potential of different regions and appropriations are automatically cancelled if they have not been used by 30 June of the fourth year after the year of the original Commission decision.

3.9. The bilateral conventions specify five standard situations that may be eligible for partial funding from the ECSC: early retirement, unemployment, internal transfer, external redeployment and vocational training. For each of these there are details of the expenditure to which the ECSC may contribute, the method of calculating the contribution and the relevant ceilings (see Table 3.1).

Table 3.1 — Forms of ECSC aid by standard situation

Standard situation	ECSC contribution monthly maximum (as % of previous salary)	Maximum duration ^(*) (months)	Ceiling (ECUs) ^(b)
Early retirement	12 (18) ^(c)	18	4 000
Unemployment	12 (16) ^(c)	15	3 000
Internal transfer	5	12	1 000
External redeployment	10	12	2 000
Vocational training	55 (65) ^(c)	12	4 000

^(*) The duration is taken into account when calculating the ECSC contribution.

^(b) There is an average ceiling (per worker) for each standard situation. Furthermore, there is a global ceiling (also an average per worker) of 3 000 ECU (for all standard situations combined) each year per sector (coal and steel) and per Member State.

^(c) The higher ceiling applies in regions with low economic capacity, where the per capita gross domestic product (GDP), calculated as the average over the previous three years, is less than 75 % of average Community GDP.

Source: Bilateral convention, Articles 6 and 9.

⁽¹⁴⁾ Written procedure E/1679/89 concerning the conditions for the implementation of Article 56(1)(c) of the ECSC Treaty in the Coal Sector.

3.10. A reserve clause (Article 10 of the bilateral conventions) states that if the appropriations entered in the ECSC operating budget are not sufficient to cover the eligible aid applications, the Commission may reduce the amount of its contribution. In that case, a straight-line reduction is applied to all the eligible applications.

3.11. As part of the phasing out (expiry of the ECSC Treaty, transfer of certain items to the general budget), the Commission decided to suspend its contribution to vocational training programmes and employment aid under Article 56 of the ECSC Treaty, both traditional and complementary, with effect from 1 January 1995⁽¹⁵⁾. In future it will be possible for such measures to be funded from the European Social Fund (ESF) if they satisfy the requisite conditions, that is to say, if, in particular, they qualify for funding under the Structural Fund regulations⁽¹⁶⁾. This eases the pressure on the ECSC operating budget (whose resources will inevitably diminish), whilst maintaining the level of ECSC aid for the remaining measures. In addition, the sectoral nature of the above aid measures is, obviously, lost.

Complementary aid in the coal sector

3.12. The ECSC adopted a four-year programme (1990-1993), to run in parallel with the EEC initiative for the economic conversion of coal basins⁽¹⁷⁾. The two programmes are known as 'Rechar'. The ECSC Rechar aid, like the traditional aid, is governed by Article 56(1)(c) and (2)(b) of the Treaty of Paris.

3.13. A Communication from the Commission to the Member States⁽¹⁸⁾ specifies the four measures that are eligible (vocational training, retraining, enterprise creation aid and early retirement) and lays down the criteria according to which they are granted. As a general rule, the aid is paid as a supplement to the traditional forms of aid, usually by doubling the duration of the assistance and increasing the average amount per worker from 3 000 ECU to 7 000 ECU. Unless otherwise specified, the other procedures and management conditions for Rechar aid are the same as those laid down in the bilateral conventions governing the traditional forms of aid.

3.14. Parallel to the EEC Community initiative Rechar II (1994-1997)⁽¹⁹⁾⁽²⁰⁾, which followed on from Rechar, Decision No 3632/93/ECSC⁽²¹⁾ introduced social measures to accompany the coal industry restructuring programme for the same period. The procedures for the social measures, which were specified in an information note⁽²²⁾, are similar to those for Rechar (1990-1993), with some notable changes:

- compensatory payments for loss of earnings, severance grants and payments for geographical mobility associated with redeployment (this corresponds to the external redeployment element of traditional aid) became eligible, as did unemployment;
- the maximum ECSC supplementary contribution remained at 4 000 ECU, except in the case of unemployment, where it was 2 000 ECU.

In addition, vocational training programmes and employment aid ceased to be eligible on 1 January 1995, pursuant to the Commission Decision of 24 June 1994⁽²³⁾.

Social measures (steel) (1993-1995)

3.15. The social measures which accompanied the restructuring programme for the steel industry (1993-1995) included provision for assistance from the European Social Fund (ESF), as well as from the ECSC. In this latter case, the social measures include the redeployment aid provided for in Article 56(2)(b) of the relevant Treaty. The procedures relating to the social measures are specified in a Commission information note⁽²⁴⁾.

3.16. In order to qualify, a worker's job must be affected by a programme for the closure of production capacity. This requirement is more restrictive than the criteria that apply to traditional aid. Moreover, only three types of measure are eligible: early retirement, redeployment (including the relevant vocational training) and unemployment. The average ceilings for assistance are 5 000 ECU, 4 000 ECU and 3 000 ECU respectively. Finally, unless otherwise specified, the administrative conditions and procedures are taken from the bilateral conventions on the granting of traditional forms of aid.

⁽¹⁵⁾ OJ C 178, 30. 6. 1994, p. 21.

⁽¹⁶⁾ Council Regulation (EEC) No 2084/93 amending Regulation No 4255/88 laying down provisions for implementing Regulation (EEC) No 2052/88 as regards the European Social Fund, OJ L 193, 31. 7. 1993, p. 39.

⁽¹⁷⁾ OJ C 20, 27. 1. 1990, p. 3.

⁽¹⁸⁾ OJ C 185, 26. 7. 1990, p. 18.

⁽¹⁹⁾ OJ C 180, 1. 7. 1994, p. 26.

⁽²⁰⁾ OJ L 193, 31. 7. 1993, pp. 24, 36.

⁽²¹⁾ OJ L 329, 30. 12. 1993.

⁽²²⁾ OJ C 108, 16. 4. 1994, p. 3.

⁽²³⁾ OJ C 178, 30. 6. 1994, p. 21.

⁽²⁴⁾ OJ C 146, 26. 5. 1993, p. 5.

Financial significance of the ECSC redeployment aid

Table 3.2 — Allocation by Member State of redeployment aid committed between 1989 and 1994 inclusive

(in Mio ECU)

Member State	Traditional aid steel	Supplementary aid steel	Traditional aid coal	Supplementary aid coal	Total	
					Mio Ecu	%
Belgium	11,9	10,1	20,3	18,4	60,7	3,8
Denmark	0,0	0,0	0,0	0,0	0,0	0,0
Germany	179,7	164,6	150,3	74,9	569,5	36,0
Greece	1,1	0,1	0,0	0,0	1,2	0,1
Spain	55,6	55,4	42,4	22,0	175,4	11,1
France	109,2	35,7	69,7	35,9	250,5	15,8
Ireland	0,3	0,0	0,0	0,0	0,3	0,0
Italy	118,5	42,4	1,9	0,0	162,8	10,3
Luxembourg	14,9	7,8	0,0	0,0	22,7	1,4
Netherlands	17,6	2,1	0,0	0,0	19,7	1,2
Portugal	14,0	6,3	1,7	0,6	22,6	1,4
United Kingdom	29,8	7,9	198,6	63,8	300,1	18,9
Total	552,6	332,4	484,9	215,6	1 585,5	100,0

Source: Commission statistics

Audit objectives and approach

3.17. The main objectives of the enquiry were to ascertain whether the Community and national systems for redeployment aid function satisfactorily (insofar as the Commission relies on information from national administrations), and to evaluate their effectiveness. In order to achieve these objectives, the Court paid audit visits to the Commission and the seven Member States that are the principal beneficiaries of this form of aid.

Effectiveness of ECSC redeployment aid

3.18. In its most recent observations concerning redeployment aid ⁽²⁵⁾, which date from 1989, the Court of Auditors requested the Commission to draw up a report on how far the objectives of the new conventions had been achieved. The Commission replied that it would report periodically on the ECSC's redeployment

measures. Since then, the Commission has produced two reports on ECSC redeployment aid, in 1991 ⁽²⁶⁾ and 1994. In view of the interval between them, the Court would prefer the analysis to cover the whole of the period since the previous report, rather than the current financial year. It would also be of interest, if, in addition to describing the progress of the social objectives, the reports gave details of the extent to which the industrial and regional objectives of the supplementary aid have been achieved.

3.19. Evaluating the effectiveness of ECSC redeployment aid is very difficult, especially as no-one knows how the situation would have evolved without it. The objectives (social, industrial and regional) must be defined, if evaluation is to be possible; however, they vary according to the type of aid (traditional or supplementary) and the sector (coal or steel). Furthermore, the matter can be discussed at two levels: that of the instrument in general and that of each type of measure, or even, each form of expenditure that is jointly funded by the ECSC.

⁽²⁵⁾ Report (Annex to the 1989 ECSC annual report) concerning the accounting and financial management of the ECSC, paragraph 2.100.

⁽²⁶⁾ 1990 report on the activities of the European Coal and Steel Community readaptation aid, SEC(91) 2394 final.

Effectiveness of traditional aid

3.20. The objective of the traditional forms of aid is essentially social. The process of change in coal and steel markets has led to large-scale job losses in both sectors. The aim of the ECSC payments, which are in addition to national aid, is thus to provide a satisfactory level of welfare benefits for the workers concerned. In other words, thanks to the ECSC, coal and steel workers are supposed to enjoy preferential treatment so that the structural adjustment in these sectors can be achieved in relative social harmony. The source of the ECSC's budgetary resources provides the justification for the privileged treatment that workers in ECSC industries enjoy by comparison with other workers. The aid is, in fact, financed by levies on coal and steel production or by interest generated by the ECSC's reserves and other liquid assets. In that respect, the Community funds involved serve as a sectoral welfare fund.

3.21. The Commission studies seem to demonstrate the utility of the redeployment aid, in that hundreds of thousands of jobs have been eliminated, with relatively little social conflict. Most redundancies were, in fact, voluntary, because it was possible to negotiate a consensus with workers by virtue of the aid which they received.

3.22. Without wishing to dispute the success of the main social objective, one may ask what impact the ECSC aid will have in the future. Historically, the ECSC has been in the vanguard of advanced social policies. That, in turn, has influenced the level of intervention by Member States in the coal and steel sectors and served as a model for national social policy in other sectors. This snowball effect is now less evident, partly because of the general improvement in welfare benefits. In practice, the welfare aspects are usually governed by national agreements as far as the workers are concerned and the ECSC payments appear as a partial reimbursement of the government aid.

3.23. The link between national aid and ECSC aid varies from one Member State to another. In consequence it is sometimes difficult to determine whether a reduction of ECSC aid would have repercussions on the development of national aid and thus on the treatment of workers. The examples quoted below are contradictory, so that it is not possible to draw any conclusion on this point, at least, not one that would apply to all the Member States. One Member State (Spain) did not need to modify its social welfare scheme for coal and steel workers in order to qualify for ECSC aid when it joined the European Communities. On the other hand, workers in several problem sectors other than coal and steel,

where, for obvious reasons, the ECSC makes no contribution, qualify for the same national system. In such circumstances, redeployment aid does not have any real impact. On the other hand, another Member State (Netherlands) terminated its special welfare system for steelworkers, on the pretext of a reduction in the ECSC's contribution to the funding for the total cost of the scheme. Finally, yet another Member State (United Kingdom) ceased to pay special aid to workers in the steel sector and expects to do the same in the coal sector, despite the existence of ECSC aid.

Effectiveness of the Rechar programme (1990-1993)

3.24. With some few exceptions, the European coal industry is doomed, for purely economic reasons, because of its low productivity compared with the international competition. As a result of this, the measures adopted by the Member States are part of a wider energy policy. Belgium ceased coal-mining in 1992; France expects to close its last mines, in Lorraine, in 2005; the United Kingdom has privatized its few remaining mines, which employ around 8 000 people; having considered the social and strategic factors, Germany and Spain decided not to halt production and are currently discussing the problem. All this has been accompanied by substantial job losses, with the ECSC trying to attenuate the social and regional impact.

3.25. The ECSC social measures (1990-1993) for the coal sector form part of the EEC regional programme, Rechar. The objective of the measures is to increase Community support for the economic rehabilitation of coal-mining areas in the Community. In its 1994 activity report, the Commission stated that the ECSC programme had resulted in total contributions of 175 Mio ECU, benefiting 121 812 workers. In addition, in view of subsequent job losses, a second programme of social measures (1994-1997) for the coal industry has been adopted, with an allocation of 40 Mio ECU for 1994. Presentation of the results of these aid measures is confined to their primary impact — the social impact — and the regional aspect is not discussed.

Effectiveness of the social measures (steel) 1993-1995

3.26. The economic environment in the steel sector is extremely different from that of the coal sector. It is a question, not of managing its decline, but of restructuring it in order to increase its competitiveness. In 1992 the Commission evaluated the structural surplus capacity in the production sector of the European steel industry, for

each product category. It proposed certain measures, including social support from ECSC budget funding, that were intended to remedy the problem⁽²⁷⁾. According to an enquiry that was carried out among undertakings at the Commission's request (Braun mission) and information obtained from national administrations, the expected number of beneficiaries as a result of the restructuring was estimated to be around 69 000 people. The Commission earmarked an allocation of 240 Mio ECU for this purpose and entered 60 Mio ECU in the 1993 budget.

3.27. The objective of the social measures (1993-1995) for the steel sector is, of course, social, but it is also linked to industrial policy, in that the measures are required to accompany a programme for the reduction of production capacity. By the end of 1994, 146 Mio ECU had already been granted for 43 969 workers. In 1993, when eligible aid applications outstripped the 60 Mio ECU provided for in the budget, the Commission carried over the surplus applications to the 1994 budget, so as to avoid making across-the-board cuts. Due to this carry-over from 1993, there was also a slight surplus in 1994, which was carried forward to the 1995 budget. According to recent Commission estimates, the rest of the 1995 budget should be sufficient to cover the applications that are expected this year. The ECSC Consultative Committee is, however, convinced that the 240 Mio ECU for the social measures will prove inadequate, in view of the extent of the job losses that are expected after 1995⁽²⁸⁾.

3.28. As regards the industrial objective of restructuring the steel industry, the Commission drew up a final assessment⁽²⁹⁾ in October 1994, in which it concluded that 'the target of a minimum level of capacity reductions of 19 MT/a has not been achieved' and 'there is no longer any reason to maintain the bulk of the flanking measures'. In consequence it did not propose to increase the budgetary allocation beyond the 240 Mio ECU originally earmarked. It is difficult to establish how the social support measures have affected the results of restructuring in the steel industry. It is not clear whether the situation would have improved had the amounts been larger. Conversely, the level of reduction achieved might have been lower had less social support been available. The answer must be sought at the level of individual undertakings and their decisions as to whether, in the light of numerous parameters, production capacity should be shut down or reduced.

⁽²⁷⁾ Towards greater competitiveness in the steel industry: the need for further restructuring, SEC(92) 2160 final.

⁽²⁸⁾ Resolution of the Consultative Committee of the ECSC, adopted at the 318th session of 16 December 1994, OJ C 40, 17. 2. 1995, p. 2.

⁽²⁹⁾ Restructuring the Community steel industry: final assessment and conclusions, COM(94) 466 final.

Effectiveness of various standard situations

3.29. For ease of evaluation, the standard situations can be grouped into two categories: those which help workers to find new work and those which may be regarded as closer to a form of compensation for workers who agree to leave their employment.

3.30. The first category includes vocational training, external redeployment (including aid for enterprise creation) and internal retraining. With the exception of the premiums, the money is not usually paid to workers; instead it is used to provide them with additional skills to enable them to find new employment, or to help them create their own jobs by providing them with abundant advice and assistance. Although the enterprise creation aid has remained relatively marginal and is by nature limited, vocational training has been used extensively, sometimes in combination with other standard situations (unemployment, external redeployment or internal retraining). Assessing the actual effectiveness of vocational training is often difficult, because it requires some form of follow-up in the interval between the training and the future employment of the person concerned. This rarely happens. However, the positive nature of the aid measures is becoming evident, in line with the objectives of both the European Social Fund (ESF), in which they have been included since 1 January 1995, and the White Paper on growth, competitiveness and employment.

3.31. The second category comprises the remaining standard situations, which are, essentially, early retirement and unemployment. It is not the intention of this report to question the worth of measures that have proved to be very effective as a means of achieving a consensus on redundancies. They do, however, have their limitations and, in any case, there are differences between them and the ESF objectives which aim to sustain employment.

3.32. In the case of early retirement in particular, the term 'redeployment' is itself incorrect, since early retirement concerns workers who are finally leaving the labour market. The minimum age for early retirement varies from one Member State to another, ranging from 48 (in Portugal) to 57.5 (in the Netherlands). Sometimes it is replaced by a seniority requirement (e.g. 20 years for Belgian miners), so that, on occasion, people who are still relatively young may find themselves out of work, which can pose economic and social problems. It is a measure which is very expensive for the Member States. Lastly, it causes serious personnel problems, especially in steel

undertakings, because the people who qualify for early retirement are often the most experienced workers. To sum up, early retirement is undoubtedly the lesser evil for people who have been declared redundant, but it has many drawbacks. This is the standard situation that is by far the most frequently used. It will be less so in future, because of the decline in the number of workers who meet the requisite conditions of age or seniority.

Regularity audit

3.33. Various on-the-spot audits by Court officials in the main beneficiary Member States did not reveal any irregularities. In the area of redeployment aid, the risk of irregularity, whether deliberate or not, is relatively limited, for the three reasons set out below.

3.34. Firstly — the main reason — the fact that the Member States pay a special contribution that is at least equivalent to that of the ECSC (and, in reality, is often much higher) is an incentive for them to apply their own controls. This was how one case of presumed fraud was discovered in a Member State recently.

3.35. The expenditure co-financed by the ECSC (for early retirement, unemployment, etc.) is manifold and varied. On the whole, however, the justification for it is relatively simple to verify, with the exception of vocational training expenditure.

3.36. Various Commission departments check the industrial eligibility aspect (the reality of the economic or technical environment that led enterprises to make staff cuts) and the number of workers eligible. The departments in question have a good knowledge of the coal and steel sectors, which enables them to cross-check the information supplied with aid applications.

Application of the bilateral conventions

3.37. The bilateral conventions were drafted out of a desire to harmonize aid among the Member States while taking account of the individual characteristics of national social security legislation. Nevertheless some clauses are still specific to each country (for example, the age and seniority requirements for early retirement). Moreover, the actual content of certain terms varies from one Member State to another (e.g. the 'previous salary' used to calculate the ECSC contribution may be the

average for the previous three, six or 12 months or a set salary per sector or per enterprise, etc.).

3.38. This diversity is accompanied by a complexity which sometimes makes the bilateral conventions difficult to implement. Some administrations are not always fully conversant with the conventions, even several years after they took effect. Sometimes they do not request all the aid to which they should be entitled, either because of ignorance, or because the necessary management effort is considered too onerous and too expensive in relation to the amount that would be received. The Commission should therefore provide them with more explanations and, possibly, technical assistance. For example, one Member State's applications for external redeployment aid were found to have been undervalued for many years, because the amounts applied for had been badly calculated. The State in question was receiving such a small amount for this standard situation that it was considering abandoning it. Another Member State continued to apply rules that had appeared in previous agreements, but were no longer included in the new conventions. These problems did not lead to significant wrong payments by the ECSC, because the pecuniary impact was limited by the ceilings applied. The situation should, however, be rectified.

Functioning of the management unit at the Commission

3.39. The supporting documents submitted with aid applications by national administrations vary between Member States and are often inadequate. The officials concerned are obliged to ask for further information, which often requires numerous telephone calls and an increased amount of correspondence. Standardizing the information required from Member States would speed up and simplify the processing of applications, and thus reduce the risk of error. Moreover, files would be more readily understood by those who might need to consult them for information and audit purposes, even though they did not compile them.

3.40. The Commission management unit should make other checks on payments, which means that it must hold the necessary documents. The problem of obtaining the documents that should accompany aid applications occurs again at the level of requests for payment. In addition, Article 13 (3) of the bilateral conventions, which specifies the documents to be submitted with requests for payment, stipulates that 'the Commission shall be given access to the necessary documents proving that the payments relating to each programme have been made; the said documents shall include identification of workers having qualified for such payments and justification of their entitlement to ECSC aid'. In reality the Commission does not always ask for this documentation to be made available. However, a simple

review of a suitable listing could make it possible to detect simple factors such as the absence of the necessary seniority or the special contribution from the Member State.

3.41. The absence of some checks is partly due to lack of time and staff; it is also explained, and to some extent justified, by the checks carried out by national administrations. The latter apply the criteria and ceilings specified in the bilateral conventions in order to filter, and often calculate, the commitments and payments for which they are applying to the ECSC. However, if the Court is to rely on checks by third parties, it must have information concerning their systems and must be able to audit them. On this point, as on many others, it is not possible to generalize for all the Member States, but the information concerning these national systems is often inadequate. This shortcoming can be attributed, in particular, to recent staff changes and failure to pass on information. In order to redress the situation, a permanent file should be compiled for each Member State. It should contain a description of the national procedures (which are often very complex), any special characteristics, the strong points and, above all, the weaknesses for which the Commission must compensate by means of its own controls. It should also specify the situations where the eligibility criteria for State aid are less restrictive than the criteria for Community aid, in which case national administrations could attach less importance to the controls on Community aid.

3.42. The management unit for redeployment aid carries out on-the-spot audits of the administrations and enterprises concerned. The individual files that are audited on these occasions should be selected by the auditor systematically and independently. That is not always the case. The audit visits usually result in interesting reports. The Court was unable to obtain a list of all the audits carried out since 1989, because the information is not centralized within the unit. In consequence, it was possible to consult only a few reports in certain files. It would be preferable if there were a full and more systematic filing system for this aspect. Furthermore, the Court is not systematically advised of the unit's mission programme.

3.43. The transactions concerning redeployment aid are recorded in two systems: the general accounts of Directorate-General XIX, which centralize all the transactions concerning the ECSC operating budget; and an internal accounting system within the management unit for this form of aid. The first is the official accounting system. It is this system which generates the figures that are included in the ECSC's financial statements. Its purpose is to enable the Financial Controller to check that the balance of commitments is sufficient to cover the payments in question. The second system is used by the staff responsible for management of commitments and payments and gives them direct access

to the system, so that they can consult account balances at any time.

3.44. The management unit's accounts are no longer up-to-date and, therefore, no longer reliable. This statement can be modified for certain accounts, but, generally speaking, the balances produced by this system should be reconciled regularly with those from DG XIX's system. This was not done in 1994. One of the reasons given to explain this problem was that the official who was most familiar with the system had left the service. This shows that there is a problem with familiarization.

Conclusion

3.45. The various forms of aid for the redeployment of ECSC workers constitute a measure that has multiple objectives (social, regional, industrial). As regards the primary objective of providing a satisfactory level of welfare benefits for workers who lose their jobs in the coal and steel sectors, the effectiveness of the aid in question is satisfactory. Several hundred thousand jobs have, in fact, been eliminated with only limited social conflict. On the other hand, the restructuring objectives for the steel industry (and the capacity reduction objective in particular) have not been achieved, and it is difficult to evaluate the impact of the social measures in this sector. Moreover, presentation of the results of the social measures for the coal sector is confined to their primary impact — the social impact — and does not cover regional aspect.

3.46. The ECSC's suspension of the aid measures for vocational training and for enterprise creation has enabled it to focus its resources on the measures which are still funded by it. In future, other measures, and more especially those which are designed to encourage workers' geographical and vocational mobility, could also be co-financed by the European Social Fund, insofar as their aim is to sustain employment. On the other hand, the reasoning behind the early retirement and redundancy aid measures is completely different, so that they could not, therefore, be replaced by any other general budget measure, as the legislation stands at present.

3.47. The bilateral conventions that have been in force since 1989 have improved the redeployment aid measures substantially, but they have also made them much more complex. This calls for increased vigilance in the application of them and the national administrations concerned also require more assistance.

3.48. During its audits in the Member States, the Court did not detect any problems that could have a significant impact on ECSC payments. The involvement

of national administrations whose contribution is often higher than that of the Commission provides an additional safeguard as regards the controls applied.

3.49. At Commission level, a number of operational problems were noted in the management unit. The Commission has already adopted measures for remedying

several of them. The measures mentioned in paragraphs 3.39 to 3.44 should be adopted as soon as possible, in order to speed up the processing of applications, reduce the risk of error, extend the controls based on the documents received and establish files that can be consulted more easily. Moreover, improved working methods would free time for on-the-spot audits and the preparation of reports on the redeployment measures.

This report was adopted by the Court of Auditors in Luxembourg at the Court meeting of 25-26 October 1995.

For the Court of Auditors

A. J. MIDDELHOEK

President

**THE COMMISSION'S REPLIES TO THE COURT'S OBSERVATIONS
ON THE FINANCIAL YEAR 1994 (ECSC)**

CHAPTER 1

OBSERVATIONS CONCERNING THE ACCOUNTING

The ECSC's solvency

Risk spreading

1.5. As a matter of principle, the Commission has always complied with the directives on credit institutions even if, from the strictly legal standpoint, they do not apply to the ECSC, because of its statutes and the special character of its activities.

On the matter of risk spreading, the Commission would remind the Court that in 1992 it brought out a manual of procedures for monitoring overall internal risk in the ECSC. This manual takes account of the ECSC's peculiarities (its Treaty-dictated concentration on particular sectors, the political background to certain special operations and so on) and came out too early to incorporate the principles of Directive 92/121/EEC, which did not come into force until 1 January 1994.

The Commission accepts that the Court's arguments are valid, but before it can contemplate adopting a new approach to the handling of large risks it needs some additional information, for example:

- the effect of applying the directive on all the commitments which flow from the implementation of the Decision of 22 June 1994 on the ECSC's borrowing and lending activity;
- the advisability of altering the level of the solvency ratio referred to in paragraph 1.4, in view of the imminent expiry of the ECSC Treaty.

The Commission hopes, as far as possible, to be able to apply the results of this analysis before the financial statements for 1995 are produced.

Value adjustments

1.6. On 31 December 1994 the Commission decided to hold the solvency ratio at the same level as in the preceding year, primarily because of the improving economic situation in the steel industry in 1994 and the strengthened position of a number of ECSC debtors. To achieve this, and having regard to the amount of own funds taken as the basis for calculating the solvency ratio, it could have reduced the non-specific value adjustment or the guarantee fund. It preferred to cut the non-specific value adjustment by ECU 28 million rather than touch the guarantee fund, which is equivalent to the ECSC's capital.

At all events, the non-specific value adjustment comes to 1.7 % of debts not backed by first-class guarantees, which, for the reasons stated above, was regarded as adequate.

Changes in application of ECSC funds and budgetary resources

Changes in ECSC resources

1.11. The recovery in the bond markets in the first half of 1995 enabled a sizeable proportion of the value adjustment on bonds and other fixed-interest securities made on 31 December 1994 to be taken back on 30 June 1995 (ECU 38 million out of ECU 70 million).

Other items

Tangible assets

1.16. On 11 June 1992 the Commission took a decision specifying the framework within which the ECSC acquires property for the EEC. This decision, which merely formalized existing practice, laid down that the EEC would pay the ECSC rent calculated so as to guarantee an income on the invested capital equal to that achieved by investing the funds on the market. The ECSC continues to own the property until the last payment has been made, when ownership is transferred to the EEC. In the case of the building in Paris, which was acquired in 1958, the procedure was different in that ownership was split between the three Communities, which at the time were separate entities. The object of the exercise was the same, however, the agreement being that the Institutions renting office space and garages in the building paid a rent calculated in such a way as to write off the premises, pay interest on the tied-up capital and make a flat-rate contribution to the fixed and variable running costs. The point, in other words, was to secure a proper return on the money the ECSC had invested. When the building was paid for in full and the ECSC's investment had been paid off, the Commission was able to transfer ownership to the EEC pursuant to the 1992 decision.

Recovery of subsidies

1.17. Regarding the subsidies paid to two British mines which were closed at the instance of the British Government after the investment schemes had been carried out, the Commission's Legal Service and an independent lawyers' office have confirmed that the subsidies cannot be recovered under the terms of the contracts.

Closure timetable

1.18. The late presentation of the ECSC accounts was due to an unusual combination of circumstances. The Commission has taken steps to ensure that it does not happen again.

Conclusion

1.19.-1.20. The Court of Auditors repeats the criticisms already made in paragraphs 1.5, 1.6 and 1.11 and answered by the Commission.

Regarding risk spreading (paragraph 1.5.), before it considers adopting a new approach to dealing with large risks, the Commission believes that a certain amount of additional information is needed.

As far as possible the Commission hopes to be able to apply the results of this analysis before the financial statements for 1995 are produced.

Regarding the non-specific value adjustment (paragraph 1.6.), the Commission decided on 31 December 1994 to hold the solvency ratio at the same level as in the preceding year. To achieve this, it preferred to cut the non-specific value adjustment by ECU 28 million rather than touch the guarantee fund, which is equivalent to the ECSC's capital.

Regarding the changes in resources (paragraph 1.11.), the recovery in the bond markets in the first half of 1995 enabled a sizeable proportion of the value adjustment on bonds and other fixed-interest securities made on 31 December 1994 to be taken back on 30 June 1995 (ECU 38 million out of ECU 70 million).

CHAPTER 3

REDEPLOYMENT AID

Effectiveness of ECSC redeployment aid

3.18. The information in the reports is general and is particularly suited to publication at intervals of several years. The 1993 report contained a wider range of information. The plan for the next one (coming out in 1996) will be based on that and will include information about 1994 and 1995, plus a paper setting the steel industry social measures in their proper perspective, against the background of the results of the Community programme of steel plant closures. Thereafter the Commission proposes to bring out this type of report every two years.

3.19. Aid given under Article 56 of the ECSC Treaty can certainly be used for one or other secondary purpose, but the social objective is still, of course, paramount. The

priority for this type of aid, whether traditional aid or a combination of it and supplementary programmes, can be seen as being to achieve an individual objective, i.e. to provide workers who lose their jobs with a decent level of social protection or help them find new jobs; on a wider stage, it also helps to cut down industrial disputes by making it easier to achieve consensus on the need for restructuring.

Effectiveness of traditional aid

3.23. It is indeed difficult to imagine what the effects of reducing ECSC aid on workers would be, when situations vary so much between Member States. In the case of Spain, at any rate, even if there are similar social security measures for workers in a number of industries in difficulty, the amount of aid is not necessarily the same in each one.

Effectiveness of the Rechar programme (1990-1993)

3.25. Any indirect contribution which redeployment aid, either traditional or additional, may have made to assisting economic activity in mining areas is impossible to identify in isolation, especially since a great deal of such aid was for early retirement and its contribution to assisting economic activity was in the form of support for individual living standards.

Effectiveness of the social measures (steel) 1993-1995

3.27. The social measures for the steel sector expire at the end of 1995. Since expected job losses after 1995, whether due to production capacity cuts or not, will in any case cease to be eligible, the ECU 240 million allocation will therefore still be adequate.

Effectiveness of various standard situations

3.30. An implementation report including a summary assessment of the results of the programme receiving aid is generally sent in with applications for payment of aid committed.

Application of the bilateral conventions

3.37. At the meeting on 26 September 1991 the Commission and the national government departments responsible for aid under Article 56 of the ECSC Treaty agreed on a way of calculating the previous salary used to calculate the ECSC contribution. The method in

question is based on a uniform definition of salary in terms of its components and allows for national, not to say local, practice in relation to the transmission of company data.

3.38. The Commission has regular and frequent exchanges with the national administrations concerned, at the annual meetings with all the Member States, on official joint committees, during audits and through many direct contacts.

The Commission is also at the moment making an extra effort to simplify and harmonize the system, which should prevent any further occurrence of the types of anomalies referred to in the Court's report.

Management of aid by the Commission

3.39. The standardization the Court advocates is being carried out. A form to be sent out with all aid applications from 1996 onwards has been produced. Some of the Member States have already started attaching it to their official applications in 1995.

3.40. Here, too, standardization is under way. A standard form to be sent in with every application for payment has been sent to national administrations. It contains all the data specified in the Court's suggested listing.

3.41. The Commission encourages mobility among its staff. Unfortunately, this always means that there is a gap between the departure of one official and his replacement by another, which rules out a direct handing on of experience acquired on the job. For an individual Member State, however, as responsibility for aid management is shared between two people, one of them responsible for making awards and the other for making payments, know-how about national procedures and situations can in most cases be passed on via the other

member of the team. Even so, the department will make sure that there is actually a mechanism for passing on knowledge about particular Member States' systems, and will incorporate the Court's suggestion.

3.42. On-the-spot audits serve a number of purposes: (1) to carry out direct checks, possibly on a sample basis, to find out whether information is correct, particularly as regards workers' eligibility, and supporting documents are valid; (2) to widen the Commission's knowledge of the sector; (3) to exchange practical information, especially about procedure, with national administrations. In future the Commission will routinely send the Court of Auditors its audit reports and audit programmes. As regards preparation of the audits, now that it is becoming general practice to notify Member States of all the documentation they need to have ready and to select individual files from the sample in advance, there should be improvements.

3.44. The data processing system in the management unit is being redesigned, particularly as regards the data base for day-to-day monitoring of payments and cancellations. It would be difficult to carry out an accounts reconciliation exercise as long as the system is not operational, which it should be in autumn.

Conclusion

3.45. Even supposing the supplementary programmes, besides their primary objective, which is clearly social, had some other, secondary objective relating to a particular Commission policy, their impact in that respect, basically because it would by its very nature be marginal, would be impossible to separate out from the impact of other measures implemented as part of that policy.

3.49. Some of the measures the Court of Auditors suggests are already being carried out or will be shortly. The expected return to stable staffing levels should make it easier for the management unit to achieve this.

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