

## I

*(Information)*

## COURT OF AUDITORS

## ANNUAL REPORT AND STATEMENT OF ASSURANCE CONCERNING THE ECSC

## for the financial year 2001, together with the Commission's replies

*(Article 45c(1) and (4) of the ECSC Treaty and Article 88 of the Financial Regulation of 21 December 1977, as last amended by Council Regulation (EC, ECSC, Euratom) No 762/2001 of 9 April 2001)*

(2002/C 302/01)

## TABLE OF CONTENTS

	<i>Paragraph</i>	<i>Page</i>
CHANGES IN THE ECSC BALANCE SHEET .....	1-3	2
CHANGES IN APPLICATIONS OF ECSC FUNDS AND RESOURCES .....	4-5	2
SOLVENCY OF THE ECSC .....	6-9	2
Solvency ratio .....	6-7	2
Provision for large exposures .....	8-9	2
THE LIQUIDATION OF THE ECSC .....	10-12	2
Expiry of the ECSC Treaty .....	10-11	2
Implications of the non-ratification of the Treaty of Nice .....	12	3
FOLLOW-UP TO PREVIOUS OBSERVATIONS .....	13-16	3
Cancellation of dormant commitments .....	13	3
Loans to officials .....	14-15	3
STATEMENT OF ASSURANCE CONCERNING THE ECSC .....	16-20	3
<i>Tables</i> .....		5
<b>The Commission's replies</b> .....		10

**CHANGES IN THE ECSC BALANCE SHEET**

1. The ECSC balance sheet total declined from 3 972 million euro on 31 December 2000 to 3 288 million euro on 31 December 2001, corresponding to a fall of 684 million euro (17 %) (see *Table 1*). On the assets side, this decrease was due almost entirely to the decline in loans and advances to customers (– 256 million euro to credit institutions and – 414 million euro to companies). On the liabilities side, the decline was due to the decrease in the amounts owed to credit institutions (– 377 million euro) and the fall in debenture loans (– 226 million euro).

2. Liquid asset accounts and loans made up 53 % and 43 % of the ECSC's total assets respectively. The liquid asset accounts remained stable between the financial years 2000 and 2001. At 31 December 2001, they amounted to 1 755 million euro. The liquid asset accounts concerned and the balancing items on the liabilities side are shown in *Table 2*.

3. For some years now, the financial statements of the ECSC have been audited by a private audit firm. In accordance with the international audit practice followed at the Court, the latter used this firm's audit work in drawing up its opinion on the ECSC's financial statements.

**CHANGES IN APPLICATIONS OF ECSC FUNDS AND RESOURCES**

4. Unlike previous financial years, in 2001, the appropriations for the ECSC's operating budget (EOB) went up by 17 million euro in relation to the financial year 2000, amounting to 195 million euro. This increase can be explained by the fact that, in view of the expiry of the Treaty, the Commission had encouraged the Member States to apply for aid for rehabilitation and the social measures for both the past year and the current year, as is, moreover, envisaged in the rules for these types of aid. *Tables 3 and 4* give a breakdown of the changes in the applications of ECSC funds and in the movements of the provision for financing the EOB in 2001.

5. As in the past, budgetary expenditure was lower than forecast (23 % in 1999, 24,2 % in 2000 and 5,3 % in 2001). Unlike previous financial years, the actual requirements for rehabilitation aid in 2001 were utilised at a rate of 100 % with regard to redeployment aid and 88 % for the coal social measures. By way of comparison, the utilisation of appropriations was only 50 % in 1999 and 46 % in 2000.

**SOLVENCY OF THE ECSC*****Solvency ratio***

6. The solvency ratio went up from 41,4 % on 31 December 2000 to 56,1 % on 31 December 2001. As in the past, this increase was due to the increase in the Guarantee Fund and, above all, to the fall in the volume of outstanding loans to the banks (see *Table 5*).

7. In view of the expiry of the ECSC Treaty on 23 July 2002, the Commission decided to adjust borrowing and lending policy <sup>(1)</sup>. For that date, it has committed itself to achieving a level of reserves equal to 100 % of still outstanding loans that are not covered by a State guarantee. At 31 December 2001, the coverage for these loans, which should total more than 572 million euro on 23 July 2002, stood at more than 100 %, given that the provision amounted to 580 million euro at the end of the financial year 2001.

***Provision for large exposures***

8. The provision for large exposures concerns loans which are not covered by first-rate guarantees and which exceed 25 % of the ECSC's own funds. It is therefore intended to cover the risks associated with this concentration of resources and to enable the ECSC to weather any default. As was stated in the Court's previous reports, the application of the provisions of this Directive (it is not legally applicable to the ECSC) represents a cautious policy towards exposures resulting from past transactions.

9. Because of the fall in the volume of the assets concerned following the repayments made in recent years, the amount of this provision has continued to decrease — from 18 million euro on 31 December 1999 to 17 million euro on 31 December 2000 and 6 million euro on 31 December 2001.

**THE LIQUIDATION OF THE ECSC*****Expiry of the ECSC Treaty***

10. The various Community bodies began to examine the consequences of the liquidation of the ECSC in the early 1990s. According to the Protocol annexed to the Treaty of Nice, the assets of the 'ECSC in liquidation', the main source of which is the levy on the production of coal and steel <sup>(2)</sup>, should be allocated

<sup>(1)</sup> Adjustment of borrowing and/or lending policy in view of the expiry of the Treaty (23 July 2002) (OJ C 175, 28.6.1994, p. 5).

<sup>(2)</sup> Established under Article 49 of the ECSC Treaty.

to these two sectors of economic activity to fund their research activities on the basis of an allocation formula of 27,2 % for coal and 72,8 % for steel <sup>(1)</sup>. The creation of a 'Coal and Steel Research Fund' will enable the management of this research activity.

11. The Commission has submitted three proposals to the Council with a view to putting in place the procedures for the liquidation of the ECSC and the implementation of the Research Fund:

- (a) the first concerns the necessary provisions for the implementation of the Nice Protocol <sup>(2)</sup>;
- (b) the second regards the multiannual financial guidelines for managing the assets of the 'ECSC in liquidation' <sup>(3)</sup>;
- (c) lastly, the third lays down multiannual technical guidelines for the research programme <sup>(4)</sup>.

#### **Implications of the non-ratification of the Treaty of Nice**

12. The failure to ratify the Treaty of Nice has cast doubt upon the Regulations proposed by the Commission. According to international law, after the ECSC Treaty expires, the ECSC's assets should return to the Member States. However, as this solution has not been contemplated, the Member States, meeting at an inter-governmental conference, decided to issue the Commission with a *management mandate* <sup>(5)</sup> to manage these funds according to the same principles as it would have applied to the 'Coal and Steel Research Fund'. This provisional solution will apply until the Nice Treaty has been ratified or another solution found.

<sup>(1)</sup> SEC(1998) 1948, p. 11: 'at 31 December 1997 values the percentage contributions of the coal and steel industries were 27,2 % and 72,8 % respectively'.

<sup>(2)</sup> COM(2001) 121 final of 7 March 2001 — Amended proposal for a Council Decision establishing the measures necessary for the implementation of the Protocol, annexed to the Treaty of Nice, on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel (OJ C 180 E, 26.6.2001).

<sup>(3)</sup> COM(2001) 121 final of 7 March 2001 — Amended proposal for a Council Decision laying down multiannual financial guidelines for managing the assets of the 'ECSC in liquidation' and, on completion of the liquidation, the 'Assets of the Coal and Steel Research Fund' (OJ C 180 E, 26.6.2001).

<sup>(4)</sup> COM(2001) 121 final of 7 March 2001 — Amended proposal for a Council Decision laying down multiannual financial guidelines for the research programme of the Research Fund for Coal and Steel (OJ C 180 E, 26.6.2001).

<sup>(5)</sup> Decision 2002/234/ECSC of 27 February 2002, of the representatives of the Governments of the Member States meeting within the Council, concerning the financial consequences of the expiry of the ECSC Treaty and the Coal and Steel Research Fund (OJ L 79, 22.3.2002, p. 42).

#### **FOLLOW-UP TO PREVIOUS OBSERVATIONS**

##### ***Cancellation of dormant commitments***

13. At the end of the financial year, dormant commitments had been cancelled to the tune of 58 million euro. These cancellations regarded rehabilitation aid and social measures (23,2 million and 15,5 million euro respectively), interest rebates (10,3 million euro) and research (9,1 million euro). It should be noted that, in 2001, the Commission cancelled amounts that it should have cancelled during previous financial years. In view of the liquidation of the ECSC on 23 July 2002, the Court suggests that the Commission should carry out a special examination of all the commitments that are still open and cancel those that it can assume will not to be used in the future.

##### ***Loans to officials***

14. The Commission (DG Personnel and Administration) is required to draw up an annual report concerning the situation of loans to officials, which amounted to 34,8 million euro at the end of 2001. Until 1987, this report was forwarded to the Council. Since then, it has only been sent to the various Commission departments. The most recent report available relates to the period 1994 to 1995. In reply to the Court's report concerning the financial year 2001 <sup>(6)</sup>, the Commission committed itself to drawing up the missing reports by the end of 2001. It did not comply with this commitment.

15. Up until July 1999, the Commission's departments used a certain database for the management of loans to officials. Following various problems, it exported the data to another database without validating them. The Commission only started the task of validating the data for the financial years after 1999 at the beginning of February 2002. Furthermore, there is a gap of two to three months between DG ADMIN's data (the personnel and administration Directorate-General) and the data held by DG ECFIN (the economic and financial affairs Directorate-General), which is responsible for drawing up the ECSC's monthly and annual balance sheets. The Court notes with concern the weaknesses found in the management of these loans and recommends that urgent steps should be taken to restore sound management.

#### **STATEMENT OF ASSURANCE CONCERNING THE ECSC**

16. Pursuant to Article 45c of the Treaty establishing the European Coal and Steel Community (ECSC), the Court has

<sup>(6)</sup> Annual Report concerning the ECSC for the financial year 2000 (OJ C 366, 20.12.2001).

examined the ECSC's accounts so as to provide the European Parliament and the Council with a statement of assurance concerning the reliability of the accounts and the legality and regularity of the underlying transactions.

17. The accounts concerned are the financial statements of the ECSC at 31 December 2001, which were drawn up under the responsibility of the Commission and published in the *Official Journal of the European Communities* <sup>(1)</sup>.

18. In its report on the ECSC's financial statements at 31 December 2001 <sup>(2)</sup>, which incorporates the Statement of Assurance concerning the reliability of the accounts and which is published together with the financial statements concerned, the Court concluded that the latter gave 'a true and fair view of the assets

and financial situation of the European Coal and Steel Community at 31 December 2001, and of the result of its operations for the financial year then ended'.

19. The Court performed its audit in accordance with its audit policies and standards. These have been adapted from generally accepted international auditing standards to reflect the specific characteristics of the Community context. The Court carried out such tests of the accounting records and other audit procedures as it deemed necessary in the circumstances. Through this audit, the Court obtained a reasonable basis for the opinion expressed below.

20. In the Court's view, taken as a whole, the legality and regularity of the transactions underlying the ECSC accounts for the financial year 2001 are sufficiently assured.

This Report was adopted by the Court of Auditors in Luxembourg at its meeting of 10 October 2002.

*For the Court of Auditors*

Juan Manuel FABRA VALLÉS

*President*

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<sup>(1)</sup> Financial Statements of the ECSC at 31 December 2001 (OJ C 158, 3.7.2002).

<sup>(2)</sup> Report on the Financial Statements of the ECSC at 31 December 2001 (OJ C 158, 3.7.2002).

Table 1

**Changes in the ECSC summary balance sheet, before allocation of the surplus, between 31 December 2000 and 31 December 2001**

	31.12.2000		31.12.2001	
	Mio EUR	%	Mio EUR	%
<b>Assets</b>				
Loans (to banks and undertakings)	2 071	52,1	1 401	42,6
Liquid assets (bank balances and bonds)	1 758	44,3	1 755	53,4
ECSC operating budget (levy, fines and subsidies receivable)	42	1,1	43	1,3
Tangible and intangible assets	—	—	—	—
Other assets	5	0,1	7	0,2
Prepayments and accrued income	96	2,4	83	2,5
<b>Total assets</b>	<b>3 972</b>	<b>100,0</b>	<b>3 288</b>	<b>100,0</b>
<b>Liabilities</b>				
Amounts owed (including bond issues)	2 044	51,5	1 441	43,8
Other liabilities	7	0,2	0	0,0
Accruals and deferred income	92	2,3	78	2,4
Provision for liabilities and charges	159	4,0	151	4,6
Provision for large exposures	17	0,4	6	0,2
ECSC operating budget (commitments and provisions)	836	21,0	771	23,4
— commitments	435	11,0	381	11,6
— provisions	401	10,1	390	11,8
Reserves and surplus	818	20,6	841	25,6
<b>Total liabilities</b>	<b>3 972</b>	<b>100,0</b>	<b>3 288</b>	<b>100,0</b>

Source: Financial Statements of the ECSC at 31 December 2001.

Table 2

**Changes in ECSC liquid assets and principal balancing items, 31 December 2000 to 31 December 2001**

(Mio EUR)

Items	31.12.2000		31.12.2001	
	Partial	Total	Partial	Total
<b>Liquid assets</b>				
<i>Loans and advances to credit institutions:</i>		33,7		141,8
— repayable on demand	8,3		8,6	
— with agreed maturity date	25,4		133,3	
<i>Bonds</i>		1 803,7		1 684,4
— public issuers <sup>(1)</sup>	995,0		1 102,7	
— ECSC bonds	—		—	
— sundry items	808,7		581,7	
<b>Total liquid assets</b>		<b>1 837,4</b>		<b>1 826,2</b>
<b>Balancing items</b>				
<i>Reserves</i>		631,7		585,8
— Guarantee fund	565,0		580,0	
— Special reserve	42,1		0,6	
— reserve	176,1		118,0	
— utilisation	- 134,0		- 117,4	
— Former pension fund	24,6		5,2	
— reserve	74,6		40,0	
— utilisation	- 50,0		- 34,8	
<i>Commitments for the operating budget</i>		434,5		380,9
<i>Provisions for financing the operating budget</i>		401,0		389,8
— for budget imponderables	73,0		31,0	
— for the financing of future operating budgets	328,0		358,8	
<i>Assets of the Research Fund</i>				100,0
<i>Provision for liabilities and charges</i>		116,4		108,3
<i>Provision for large exposures</i>		17,0		6,0
<i>Value adjustments</i>		223,0		170,7
— on loans disbursed on loan capital	143,1		99,3	
— on bonds	79,9		71,4	
<i>Sundry items</i>		13,8		84,7
<b>Total balancing items</b>		<b>1 837,4</b>		<b>1 826,2</b>

<sup>(1)</sup> Before value adjustments.

Source: Financial statements of the ECSC at 31 December 2001.

Table 3

## Changes in applications of funds and in resources during the period 1994 to 2001

(Mio EUR)

Items	1994	1995	1996	1997	1998	1999	2000 (a)	2001 (b)	Variation (b) – (a)
<b>A. Applications</b>									
Administrative expenditure	5,0	5,0	5,0	5,0	5,0	5,0	5,0	5,0	—
Commitments	386,4	277,9	201,2	180,9	154,0	145,6	129,9	184,6	54,7
Exceptional applications	32,5	—	—	—	—	—	—	—	—
<b>Total applications (A)</b>	<b>423,9</b>	<b>282,9</b>	<b>206,2</b>	<b>185,9</b>	<b>159,0</b>	<b>150,6</b>	<b>134,9</b>	<b>189,6</b>	<b>54,7</b>
<b>B. Resources in the financial year</b>									
Results of non-budgetary operations	112,5	90,8	95,6	143,3	69,6	82,9	82,1	136,0	53,9
Levy	107,7	102,3	95,9	101,6	—	—	—	—	—
Other budgetary resources (fines, subsidies, etc.)	4,8	11,6	4,4	4,3	12,3	19,5	3,0	2,0	-1,0
Cancellations of commitments	63,3	70,7	90,0	195,2	134,2	85,4	71,6	58,0	-13,6
Exceptional resources	91,9	—	—	—	—	—	—	—	—
<b>Total resources in the financial year (B)</b>	<b>380,2</b>	<b>275,4</b>	<b>285,9</b>	<b>444,4</b>	<b>216,1</b>	<b>187,8</b>	<b>156,7</b>	<b>196,0</b>	<b>39,3</b>
(B) – (A)	-43,7	-7,5	79,7	258,5	57,1	37,2	21,8	6,4	-15,4
Transfer from (+) / to (-) the provision for financing the operating budget	43,3	0,3	-58,6	-224,9	-26,0	-13,0	-8,0	—	8,0
Transfer from (+) / to (-) the reserves	2,0	9,0	-19,0	-31,3	-30,0	-23,0	-12,0	15,0	27,0
<b>Surplus for the financial year</b>	<b>1,6</b>	<b>1,8</b>	<b>2,1</b>	<b>2,3</b>	<b>1,1</b>	<b>1,2</b>	<b>1,8</b>	<b>8,6</b>	<b>6,8</b>

Source: Financial statements of the ECSC for the financial years in question.

Table 4

**Movements against the provision for financing the ECSC operating budget in 2001**

(Mio EUR)

Items	Balance at 31.12.2000	Utilisation	Allocation	Net change	Balance at 31.12.2001
Available provision for financing the ECSC operating budget	401,0	251,2		- 251,2	149,8
Available provision for coal and steel research <sup>(1)</sup>	—		240,0	240,0	240,0
Provision for fines and surcharges to be collected subsequently and for subsidies to be recovered <sup>(2)</sup>	42,3	0,9	0,8	- 0,1	42,2
<b>Total</b>	<b>443,3</b>	<b>252,1</b>	<b>240,8</b>	<b>- 11,3</b>	<b>432,0</b>

<sup>(1)</sup> The allocation of 240 million euro corresponds to the provision for financing coal and steel research after the liquidation of the ECSC.

<sup>(2)</sup> Fines, surcharges and interest subsidies are considered to be ECSC resources only at the point when they have actually been paid. Until then, an amount equivalent to these claims is included in this provision. As a result, the 42 Mio EUR in question is not yet available to finance the operating budget.

Source: Financial statements of the ECSC at 31 December 2001.



Table 5

## ECSC own funds in 2001

(Mio EUR)

Items (after allocation of surplus)	31.12.2000	Allocation	Withdrawal	31.12.2001
Guarantee fund <sup>(1)</sup>	565,0	15,0	0,0	580,0
Special reserve	176,1	0,0	58,1	118,0
Former pension fund	74,6	0,0	34,6	40,0
Assets of the coal and steel research fund	0,0	100,0	0,0	100,0
Surplus brought forward	2,0	1,3	0,0	3,3
<b>Subtotal (reserve and surplus)</b>	<b>817,7</b>	<b>116,3</b>	<b>92,7</b>	<b>841,3</b>
Provision for large exposures	17,0	0,0	11,0	6,0
Provision available for financing the operating budget	401,0	0,0	251,2	149,8
Provision for financing coal and steel research	—	240,0	0,0	240,0
<b>Total</b>	<b>1 235,7</b>	<b>356,3</b>	<b>354,9</b>	<b>1 237,1</b>

<sup>(1)</sup> Own funds used by the Commission in the numerator of the ECSC solvency ratio.  
Source: Financial Statements of the ECSC at 31 December 2001.

## THE COMMISSION'S REPLIES

### CHANGES IN APPLICATIONS OF ECSC FUNDS AND RESOURCES

5. The forecasts of expenditure in 2001 were made on the basis of estimates provided by the Member States, as in previous years.

### FOLLOW-UP TO PREVIOUS OBSERVATIONS

13. The Commission shares the Court's concern regarding cancellations of dormant commitments and regularly examines commitments that are still open with a view to cancelling them where necessary, as shown by the relatively high level of cancellations in 2001.

Caution is nevertheless required since cancellations cannot be reversed. As regards interest rebates, a minimum level of appropriations needs to be maintained in case a sub-borrower were to

supply additional documentation proving entitlement to the late payment of a rebate.

14. The Commission is aware of the problems that have accumulated over the last few years with the management of building loans. The situation has to do with the Commission's decision to stop granting building loans before expiry of the ECSC Treaty and the existence of a fairly complex administrative set-up chiefly based on systematic double checking by the department managing the loans. The latter's priority has tended to be to carry out a minimum of essential day-to-day management tasks. Now that the ECSC Treaty has expired, the Commission is able to give the assurance that the delayed annual reports will be presented in the autumn of 2002.

15. The Commission has completed validating the data for the years 1999 to 2002. The task of validating data for years prior to 1999 is in hand.

From September 2002 monthly balance sheets will be closed not more than six weeks after the reference period.

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