EUROPEAN COAL AND STEEL COMMUNITY

# Auditor's Report for the year 1973

PAUL GAUDY

Submitted in Luxembourg, 30 June 1974

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## APPENDICES

# TABLES

# F O R E W O R D

1 - The duties of the Autitor to the ECSC were defined in Article 78, paragraph 6 of the Treaty of Paris of 18 April 1951, establishing the European Coal and Steel Community.

Under Article 21 of the treaty of merger of the Executives dated 8 April 1965, establishing a single Council and a Commission of the European Communities, some of the provisions were amended and adapted to the structure of the single Executive.

The result, briefly, is that the Auditor's responsibilities are now limited to auditing the ECSC's operating expenditure, whilst administrative expenditure is audited exclusively by the Audit Board.

The Auditor is thus required to examine and approve the ECSC's balance sheet and statement of revenues and expenditures, i.e. to exercise regular and permanent supervision of the Community's own resources (income from the levy, investment of funds and fines and interest on arrears); specific expenditure charged to own resources (incurred by the financing of technical and social research, rehabilitation and industrial structural reorganization), together with all borrowing and lending activities undertaken in fulfilment of the tasks assigned to the ECSC by the Paris Treaty.

2 - The Treaty of Paris established a virtually autonomous Community by conferring on the High Authority, now the Commission of the European Communities, both executive and legislative powers in the coal and steel sectors.

In the operating field covered by this report, the Community is authorized to pursue its policies using the financial resources it is able to raise through the twofold channels of its own funds and its ability to borrow funds.

One result of uniting executive and legislative powers in one Institution, which also holds the power of decision regarding both revenues and expenditures, was inevitably a lack of the detailed regulations which are generally speaking necessary to define limits of competence and relationships within an institution.

The outside auditor, in assessing the facts and the overall management, must thus base his audit essentially on the criteria of good financial management, without, of course, neglecting to ensure that operations are in accordance with the provisions of the Treaty and materially in order. These criteria are determined, on the one hand, by banking practice (service of borrowings and loans) and, on the other hand, by a sensible administration of public finances ( levy and budgetary expenditure).

The outside Auditor thus bases himself on regular and permanent observation of the Institution's day-to-day activities in drawing up his annual report, which is a both descriptive and critical document and which is sent to the Council, the Commission and, via the Commission, to the Assembly of the Parliament.

Although the Treaty contains no provision for examination of the report or a procedure to approve it, the Parliament increasingly discusses in depth the elements and opinions furnished by the Auditor in his annual report. This provides him with the critical guidance and political support which are essential if his work is to be used to maximum advantage.

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3 - This report contains two major sections, followed by general conclusions and three annexes.

Part one presents the ECSC's balance sheet, statement of revenues and expenditures, the allocation of the excess of revenues over expenditures at 31 December 1973, and the relevant analyses and notes. The statistical tables in this part show operations for the year and a breakdown of figures for the balance sheet and management account.

Part two gives details of the ground covered in our audit and our conclusions for some of the ECSC's large sectors of activity. Our observations are intended as constructive critiscism and occasionally quote the statistics and comparative data which guided us in our audit. The areas of activity specifically controlled by the ECSC are nine in number : the levy, rehabilitation, research, reduced-interest loans granted under Articles 54 and 56 of the Treaty, assistance to coking coal, administraitve expenditure, borrowing, lending and guarantee operations, management and investment of funds and social housing construction.

In conclusion, our report sums up the most typical features of the ECSC's financial activity for the year 1973 and makes recommendations prompted by our main critical observations.

This report also comprises three annexes.

Annex I gives a summarized description of the financial mechanisms of the ECSC and the way in which they have evolved since the ECSC was established. We have dealt with this material under eight headings: the levy, rehabilitation assistance, financial aid to technical and social research, borrowing, lending and guarantee operations, management and investment of funds, financial aid to social housing construction, to coking coal and coke, and the ECSC pension fund.

Annex II shows the compensation operations for iron and steel scrap, current settlement of which is handled by the ECSC. As the latter only acts as an intermediary in distributing the compensation resources, operations prompted by this procedure are not shown in the ECSC's balance sheet.

Annex III shows the changes in the balance sheets for 1970 to 1973 and traces the main elements of the Community's finances during the last few years.

4 - All amounts in this report (tables and text) are expressed in units of account (UA), rounded up or down to the nearest whole unit.

Commission decision no. 3541/73/ECSC *(1)* of 19 December 1973, adopted with the assent of the Council, defined the value of the unit of account adopted on 1 January 1973 to replace the unit of account of the European Monetary Agreement, which lapsed on 31 December 1972 *(2)*. It was fixed at 0.88867088 grams of fine gold.

In decision no. 3542/73/ECSC *(1)* of the same date the Commission, after consulting the Council, set out the rules for conversion into this unit of account of the various currencies, but stated that they would only apply as from 1 January 1974

- for drawing up the ECSC balance sheets
- for calculating the average values on which the levies were assessed
- for other operations.

Since the value fixed for the unit of account against gold is the same as that of the unit of account of the European Monetary Agreement and since, in 1973, the new conversion rules only affect the drawing up of the balance sheet, it was agreed that assessment of the year's operations, both as regards revenues and expenditure, would be based on the parities officially announced by the International Monetary Fund.

4.1 - Consequently, the relevant conversion rates up to 31 December 1973, are still the following:

| | | |
|---|---|---|
| one unit of account = | 50 | Belgian francs (BFr) |
| | 7.5 | Danish Kroner (DKr) |
| | 3.66 | Deutsche Mark (DM) |
| | 5.55419 | French francs (FFr) |
| | 0.416667 | Irish pounds (£Irl) |
| | 625 | Italian lire (Lit) |
| | 50 | Luxembourg francs (LFr) |
| | 3.62 | Dutch guilders (Fl) |

*(1) Official Journal of the European Communities of 29 December 1973, no. L 361.*

*(2) cf. 1972 Report, no. 152.*

| | |
|---|---|
| 0.416667 | Pounds sterling (£) |
| 4.0841 | Swiss francs (SFr) |
| 1.08571 | US dollars ($) |
| 1 | European Monetary Unit (Ɛ) |

The notes and tables on 1973 operations are thus based on these conversion rates and, since the latter have not varied during the year, the figures are fully comparable. For this purpose a balance sheet (Table 33) and management account (Table 35) have also been drawn up in accordance with the same conversion criteria.

However, the above-mentioned decisions of 19 December 1973 which this year are only applicable to the drawing up of the balance sheet at 31 December 1973, stipulate that the conversion of the currencies in which the different items are expressed should be carried out as follows:

- in the case of currencies within the Community margin of fluctuation, by using the official exchange rate (gold parity or central bank rate as appropriate) actually obtaining on 31 December 1973

- in the case of any other currency, by using a rate fixed by the Commission on the basis of the average rate against the currency concerned of all the currencies covered by the preceding sub-paragraph and obtaining on 31 December 1973 on the foreign exchange market of the currency concerned, where the currency is a Community currency, or on the foreigns exchange markets of the currencies covered by the preceding sub-paragraph, where the currency is that of a third country.

4.2 - Pursuant to these provisions, the conversion rates used are as follows:

| | |
|---|---|
| Belgian franc (BFr) | 48.6572 |
| Danish Krone (DKr) | 7.57831 |
| Deutsche Mark (DM) | 3.21978 |
| French franc (FFr) | 5.55419 |
| Irish pound (£ Irl) | 0.51165 |
| Italian lira (Lit) | 727.640 |
| Luxembourg franc (LFr) | 48.6572 |
| Dutch guilder (Fl) | 3.35507 |
| Pound sterling (£) | 0.51165 |
| Swiss franc (SFr) | 3.85221 |
| US dollar ($) | 1.18643 |
| European Monetary Unit (Ɛ) | 1 UA at IMF parities (see table on previous page) |

Tables 34 and 36 give the usual breakdown of the official balance sheet and management account, in accordance with these new regulations.

Finally, the effects of the new decisions, designed to ensure that conversion of the currencies of the Member States into units of account for the purposes of the Treaty establishing the ECSC should be based as closely as possible

upon economic realities' *(1)*, may be assessed item by item, either by comparing the two balance sheets and management accounts or by consulting the final column of the various tables listing the balance sheet items and showing their development since 1972.

Only a few tables giving a breakdown of the value at 31 December 1973 on an unchanged item are expressed exclusively in units of account calculated by application of the new conversion rules.

In the interests of clarity, we use the abbreviation ECSC to indicate the Community when it is carrying out its specific tasks under the Treaty of Paris and the term 'Institution' when referring to the Commission of the European Communities acting on behalf of the High Authority as a Community Executive.

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*(1) Preamble of Commission decision no. 3542/73/ECSC of 19 December 1973 - Official Journal of the European Communities of 29 December 1973, no. L 361.*

# PART ONE

# PART ONE

## INTRODUCTION

5 - The five tables 33, 34, 35, 36 and 37 at the end of this report constitute a synopsis of the ECSC's financial position, with which the notes of part one are most particularly concerned.

For easier comparison of the various items and figures shown in these tables (balance sheet in UA shown against the old and new exchange rates, management account and allocation of the excess to the various reserves and provisions) the three tables can be fully unfolded to the right, so that they are constantly visible to the reader of the report, whatever point he wishes to study.

It must be remembered, as pointed out in the forword on the value of the unit of account, that Table 34 and the last comumn of Table 37 are merely translations, into units of account of a different value, of the same data shown in Table 33 and the penultimate column of Table 37. Our notes are usually derived from the latter and particularly when they are based on references to the preceding year or when describing changes during the year under consideration.

6 - Part one of the report gives first of all notes and an analysis of the assets, liabilities and suspense account items in the ECSC financial statement (balance sheet). The balance sheet total is 1 617 239 697 UA at 31 December 1973 as against 1 307 197 127 UA at 31 December 1972.

Secondly, there follow notes, in the order in which the items appear in Table 35, and an analysis of the management account statement of revenues and expenditures and changes affecting the Community's net assets from one financial year to the next. The excess of revenues over expenditures for 1973 was 54 969 054 UA as compared with 10 618 305 UA for 1972, which represents an increase of some 418 %. As regards the movements affecting the Community's net assets (Table 37) in particular, the notes will be found chiefly in the analysis of the balance sheet items carried as liabilities (changes in the various provisions and reserves).

7 - The way in which the balance sheet (Tables 33 and 34) and management accounts (Tables 35 and 36) are presented in our report differs somewhat from that of the balance sheet and statement of revenues and expenditures officially published by the ECSC in the Official Journal of the European Communities. The reason for this is that from 1968 onwards the Institution, in an effort to simplify the procedure, made these two statements less unwieldy by grouping and arranging the earlier headings differently and attaching brief notes in appendix. We for our part, in our desire to provide ease of comparison with previous years and to make the balance sheet and statement of revenues and expenditures more explicit, have retained the official headings but supplemented them with those used in the earlier presentations.

## NOTES TO THE BALANCE SHEET

## ASSETS

8 - I. Disbursed loans

The sum of 1 176 229 286 UA represents the total value of all loans granted out of borrowed funds and own funds - including the former ECSC pension fund - which had been paid out at 31 December 1973, net of redemptions already made.

The net increase of 217 795 776 UA compared with the position for the preceding year results from disbursements on new loans or current contracts (274 889 950 UA) less redemptions for the year (57 094 174 UA).

9 - A. Loans granted out of borrowed funds

Loans out of borrowed funds granted by the ECSC from its inception up to 31 December 1973 total 1 460 964 612 UA *(1)*, or 1 085 935 667 UA net of repayments.

Table 1 gives a breakdown, by country and use, of the loans disbursed and still outstanding at 31 December 1973, after redemption or anticipated repayment, together with movements affecting loan operations during the year.

At 31 December 1973 the overall liquid assets included borrowed funds totalling 59 196 273 UA which had not been disbursed as loans, a loan of 250 667 UA which the Institution has required to be repaid on account of the debtor's non-fulfilment of his contractual obligations, and the sum of 627 902 UA arising from a timing discrepancy between disbursement of the loans and receipt of the corresponding borrowing. The greater part of the funds not disbursed, i.e. 53 527 968 UA, represents issues made in the second half of 1973; the sum of 4 095 628 UA relates to issues made in the first half of 1973, and the residue relates to 1972 borrowings (214 108 UA) and even 1971 borrowings (480 000 UA).

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*(1) Includes new loans granted out of anticipated repayments of these loans.*

Table 1 : - LOANS GRANTED OUT OF BORROWED FUNDS
- BREAKDOWN BY USE AND COUNTRY
- OPERATIONS IN 1973 AND SUMS DISBURSED AND OUTSTANDING AT 31.12.1973

| CATEGORIES / COUNTRIES | Position at 31.12.1972 | | Operations in 1973 | | Position at 31.12.1973 | | Position at 31.12.1973 (new parities) | |
|---|---|---|---|---|---|---|---|---|
| | Sums disbursed | Sums outstanding | Sums loaned | Redemptions, anticipated repayments and accelerated redemptions | Sums disbursed | Sums outstanding | Sums disbursed | Sums outstanding |
| I. INDUSTRIAL INVESTMENTS (article 54 of the Treaty) | | | | | | | | |
| Belgium | 69 090 467 | 52 289 519 | 600 000 | 984 392 | 69 690 467 | 51 905 127 | 69 251 423 | 52 360 129 |
| Denmark | - | - | 7 600 000 | | 7 600 00 | 7 600 000 | 7 809 738 | 7 809 738 |
| Germany | 443 016 667 | 281 132 190 | 152 184 644 | 22 689 812 | 595 201 311 | 410 627 022 | 607 188 232 | 422 245 012 |
| France | 196 798 290 | 148 681 223 | 100 895 902 | 5 731 514 | 297 694 192 | 243 845 611 | 292 996 040 | 242 540 091 |
| Italy | 180 677 818 | 126 253 283 | 440 000 | 9 245 426 | 181 117 818 | 117 447 857 | 175 088 577 | 112 308 496 |
| Luxembourg | 2 921 056 | 2 000 000 | - | - | 2 921 056 | 2 000 000 | 3 116 312 | 2 273 447 |
| Netherlands | 34 836 651 | 32 445 071 | 2 800 546 | 1 195 791 | 37 637 197 | 34 049 826 | 36 455 041 | 32 519 862 |
| Total | 927 340 949 | 642 801 286 | 264 521 092 | 39 846 935 | 1 191 862 041 | 867 475 443 | 1 191 905 363 | 872 056 775 |
| II. SOCIAL HOUSING | | | | | | | | |
| Belgium | 20 615 000 | 13 552 850 | 480 000 | 1 313 706 | 21 095 000 | 12 689 144 | 21 677 162 | 13 039 328 |
| Germany | 14 474 713 | 5 700 129 | - | 746 127 | 14 474 713 | 4 954 002 | 16 453 748 | 5 631 331 |
| France | - | - | 214 109 | - | 214 109 | 214 109 | 214 109 | 214 109 |
| Italy | 7 961 056 | 5 171 200 | 75 200 | 467 200 | 8 036 256 | 4 779 200 | 6 954 403 | 4 105 052 |
| Luxembourg | 1 700 000 | 1 180 932 | - | 66 408 | 1 700 000 | 1 114 524 | 1 746 915 | 1 145 281 |
| Netherlands | 2 140 884 | 1 333 702 | - | 82 322 | 2 140 884 | 1 251 380 | 2 309 937 | 1 350 195 |
| Total | 46 891 653 | 26 908 813 | 769 309 | 2 675 763 | 47 660 962 | 25 002 359 | 49 356 274 | 25 485 296 |
| III. STRUCTURAL REORGANIZATION (Article 56 of the Treaty) | | | | | | | | |
| Belgium | 33 910 213 | 29 084 874 | - | 1 195 516 | 33 910 213 | 27 889 358 | 34 287 613 | 27 833 877 |
| Germany | 83 443 149 | 80 156 059 | - | 3 165 072 | 83 443 149 | 76 990 987 | 87 604 213 | 80 651 315 |
| France | 53 871 497 | 51 394 218 | 2 251 971 | 1 253 713 | 56 123 468 | 52 392 476 | 57 244 933 | 53 267 183 |
| Italy | 25 336 425 | 18 071 190 | 440 000 | 1 938 690 | 25 776 425 | 16 572 500 | 25 434 965 | 15 667 107 |
| Netherlands | 22 188 354 | 20 865 907 | - | 1 253 363 | 22 188 354 | 19 612 544 | 20 887 753 | 18 588 916 |
| Total | 218 749 638 | 199 572 248 | 2 691 971 | 8 806 354 | 221 441 609 | 193 457 865 | 225 459 477 | 196 008 398 |
| SUM TOTAL | (1) 1 192 982 240 | 869 282 347 | 267 982 372 | (2) 51 329 052 | (1) 1 460 964 612 | 1 085 935 667 | (1) 1 466 721 114 | 1 093 550 469 |

*(1) This total comprises sums received as anticipated repayments and accelerated redemptions and made available as new loans.*

*(2) This total takes account of anticipated repayments (250 667 UA) and normal redemptions (51 078 385 UA).*

Total loans granted out of borrowed funds at 31 December 1973 break down into the following three types of financing :

9.1 - The first - and most important - is the financing of industrial investment projects submitted by Community enterprises under Article 54 of the ECSC Treaty. Loans for this purpose were granted to the iron and steel industry (819 485 688 UA), coal mines and coking plants (225 378 149 UA), iron mines (28 098 783 UA), power stations (111 993 341 UA) and shipyards (6 906 080 UA).

Total loans were up by 224 674 155 UA from 1972 to 1973 and include 55 new loans amounting to 264 521 092 UA.

9.2 - A second category of operations (under Article 56 of the Treaty) is the financing of industrial structural reorganization in areas particularly affected by closures of steelworks and pits. Compared with the previous year, total loans fell by 6 114 383 UA. In 1973 there were only three new loans, amounting to 2 691 971 UA.

9.3 - The third category of operations financed is that of social housing construction projects in the iron and steel and mining sector. In this case loans are granted to industrial enterprises or organizations specializing in this field. These projects will be completed under programmes implemented over a number of years in the countries of the Community.

Loans in this category decreased by 1 906 453 UA compared with the previous year. In 1973 three new loans were granted, amounting to 769 309 UA, but it must be borne in mind that these projects are mainly financed by loans granted out of own funds, as described in the next section, "other loans".

10 - B. Other loans

This heading, which amounts to 90 293 620 UA, includes loans granted out of funds from three sources : from the special reserve to finance social housing (75 206 216 UA) and industrial structural reorganization (2 129 630 UA), from the levy to finance rehabilitation (373 495 UA) and technical research (2 227 957 UA), and the former ECSC pension fund to finance the construction or purchase of housing by officials of the Community.

10.1 - Loans granted out of the special reserve for the financing of social housing construction covered, on the one hand, seven normal programmes plus one special programme, four of which have been completed, and, on the other hand, three experimental building programmes, two of which have also been completed.

During 1973 a loan of 150 000 UA was disbursed in full in Belgium under the special (fifth) programme. Under the sixth programme another loan, amounting to 70 000 UA, was also disbursed in Belgium and a supplementary disbursement of 1 024 000 UA was made in Italy.

For the seventh programme (normal and experimental), the breakdown by country for the sixteen disbursements of the year is as follows :

| | | |
|---|---|---|
| - for the normal programme : | France | 339 834 UA |
| | Germany | 1 997 541 UA |
| | Italy | 75 200 UA |
| | Netherlands | 703 867 UA |
| - for the experimental programme : | Germany | 90 164 UA |
| | Netherlands | 33 779 UA |
| | France | 199 993 UA |

Table 2 gives a breakdown, by use and country, of sums disbursed and balances outstanding on loans granted out of the special reserve between 1 January and 31 December 1973. It will be noted that the new loans granted were intended exclusively for social housing, whereas, the granting of loans for industrial structural reorganization has now been replaced by the granting of interest payments.

10.2 - Loans for research and rehabilitation granted out of own funds raised by the levy totalled 2 601 452 UA at 31 December 1973. No new loans were granted or disbursed in these two sectors during the year in question. Assistance in the research and rehabilitation sector has for some years now been financed exclusively by subsidies (see notes on research and rehabilitation expenditure under nos. 28.2 and 28.3). The only changes to the total were the result of sheduled repayments in the course of the year.

Loans for technical research were in previous years granted exclusively under the second experimental construction programme for social housing. These loans were granted at a rate of interest considerably lower than those current on the market at the time, and were for a relatively long term (36 years).

Loans for rehabilitation concern two projects, outstanding from previous years, to finance the rehousing of displaced workers in France.

Table 3 shows the pattern of these loans granted out of the levy funds - their amounts, countries in which they were given and the security obtained by the ECSC.

10.3 - Loans to officials of the European Communities granted out of the former ECSC pension fund for the purpose of building or purchasing family housing totalled 10 356 322 UA. The increase as compared with the previous year (1 592 031 UA) is due to disbursements made in 1973 (2 176 857 UA), less repayments (584 826 UA).

Table 4 outlines operations from one year to the other under the two systems which have successively governed the granting of these loans.

11 - II. Cash and banks

Under this heading (269 899 953 UA) the ECSC has grouped all the cash assets it holds in current accounts (22 494 323 UA) and various fixed deposits (247 405 630 UA).

Table 2 : - LOANS GRANTED OUT OF THE SPECIAL RESERVE
- BREAKDOWN BY USE AND COUNTRY
- OPERATIONS IN 1973 AND SUMS DISBURSED AND OUTSTANDING AT 31.12.1973

| Use and country | Position at 31.12.1972 | | Operations in 1973 | | Position at 31.12.1973 | | Position at 31.12.1973 (new parties) | |
|---|---|---|---|---|---|---|---|---|
| | Sums disbursed | Sums outstanding | Sums loaned | Redemptions or repayments | Sums disbursed | Sums outstanding | Sums disbursed | Sums outstanding |
| SOCIAL HOUSING | | | | | | | | |
| Belgium | 4 043 500 | 2 603 665 | 220 000 | 334 357 | 4 263 500 | 2 489 308 | 4 381 160 | 2 558 006 |
| Germany | 52 592 940 | 42 442 216 | 2 087 705 | 1 507 041 | 54 680 645 | 43 022 880 | 62 156 781 | 48 905 124 |
| France | 24 308 171 | 18 076 017 | 539 827 | 1 176 692 | 24 847 998 | 17 439 152 | 24 847 998 | 17 439 152 |
| Italy | 7 624 000 | 5 800 678 | 1 099 200 | 456 250 | 8 723 200 | 6 443 628 | 7 492 716 | 5 534 698 |
| Luxembourg | 2 008 000 | 1 527 245 | - | 86 499 | 2 008 000 | 1 440 746 | 2 063 390 | 1 480 506 |
| Netherlands | 5 117 679 | 3 833 872 | 743 646 | 207 016 | 5 861 325 | 4 370 502 | 6 324 159 | 4 715 615 |
| Total social housing | 95 694 290 | 74 283 693 | 4 690 378 | 3 767 855 | 100 384 668 | 75 206 216 | 107 266 204 | 80 633 101 |
| STRUCTURAL REORGANIZATION | | | | | | | | |
| Belgium | 72 728 | 36 990 | | 13 657 | 72 728 | 23 333 | 62 469 | 20 042 |
| Germany | 1 290 911 | 652 800 | | 243 869 | 1 290 911 | 408 931 | 1 108 817 | 351 248 |
| France | 368 272 | 186 399 | | 69 554 | 368 272 | 116 845 | 316 324 | 100 363 |
| Italy | 1 029 818 | 435 387 | | 162 664 | 1 029 818 | 272 723 | 884 553 | 234 253 |
| Netherlands | 4 256 258 | 2 088 045 | | 780 247 | 4 256 258 | 1 307 798 | 3 655 875 | 1 123 321 |
| Total structural reorganization | 7 017 987 | 3 399 621 | - | 1 269 991 | 7 017 987 | 2 129 630 | 6 028 038 | 1 829 227 |
| Sum total | 102 712 277 | 77 683 314 | 4 690 378 | 5 037 846 | 107 402 655 | 77 335 846 | 113 294 242 | 82 462 328 |

Table 3 : - LOANS FOR TECHNICAL RESEARCH (second experimental building programme) AND REHABILITATION
- BREAKDOWN BY COUNTRY AND TYPE OF SECURITY OBTAINED
- OPERATIONS IN 1973 AND SUMS DISBURSED AND OUTSTANDING AT 31.12.1973

| Country | Total loans disbursed | Loan balances outstanding at 31.12.1972 | Repayments in 1973 | Loan balances outstanding at 31.12.1973 | Loan balances outstanding at 31.12.1973 (new parities) | Type of security obtained |
|---|---|---|---|---|---|---|
| TECHNICAL RESEARCH | | | | | | |
| Germany | 1 414 918 | 1 112 908 | 39 358 | 1 073 550 | 1 220 329 | Mortgage bonds |
| Belgium | 450 000 | 342 955 | 11 959 | 330 996 | 340 131 | Government guarantee |
| France | 596 631 | 445 176 | 15 376 | 429 800 | 429 800 | Surety |
| Italy | 225 000 | 167 024 | 5 825 | 161 199 | 138 460 | Surety |
| Luxembourg | 75 000 | 63 068 | 2 125 | 60 943 | 62 625 | Government guarantee |
| Netherlands | 239 337 | 177 665 | 6 196 | 171 469 | 185 009 | Surety |
| Total | 3 000 886 | 2 308 796 | 80 839 | 2 227 957 | 2 376 354 | |
| REHABILITATION | | | | | | |
| France | 529 816 | 394 762 | 21 267 | 373 495 | 373 495 | Government guarantee and surety |
| SUM TOTAL | 3 530 702 | 2 703 558 | 102 106 | 2 601 452 | 2 749 849 | |

Table 4 : - LOANS GRANTED OUT OF THE FORMER ECSC PENSION FUND
- BREAKDOWN BY SYSTEM
- SUMS DISBURSED AND OUTSTANDING BETWEEN 31.12.1972 AND 31.12.1973

| Loan system | Number of loans granted | Position at 31.12.1972 | | Operations in 1973 | | Position at 31.12.1973 | | Position at 31.12.73 (new parities) | |
|---|---|---|---|---|---|---|---|---|---|
| | | Sums disbursed | Sums outstanding | Sums disbursed | Repayments | Sums disbursed | Sums outstanding | Sums disbursed | Sums outstanding |
| Old system (up to 1968) | 277 | 2 535 780 | 1 737 498 | - | 164 833 | 2 535 780 | 1 572 665 | 2 605 760 | 1 616 066 |
| New system (from 1971) | 929 | 7 208 970 | 7 026 793 | 2 176 857 | 419 993 | 9 385 827 | 8 783 657 | 9 644 849 | 9 026 061 |
| Sum total | 1 206 | 9 744 750 | 8 764 291 | 2 176 857 | 584 826 | 11 921 607 | 10 356 322 | 12 250 609 | 10 642 127 |

The considerable increase in overall liquid assets as compared with the previous year (74 638 704 UA) is due in particular to the following factors : year-end collection of accession contributions due in 1973; considerably higher levy income on account of the enlargement of the Communities, together with a decrease in the expenditure financed by these levies; increase in borrowed funds accumulated in 1973 and not yet reallocated as loans at 31 December; much better yield on investments etc.

12 - III. Short and medium-term investments

This balance-sheet item (21 297 874 UA) which shows a decrease of 5 851 615 UA as compared with the position at 31 December 1972, comprises :

- 4 431 276 UA : a number of short and medium-term investments consisting essentially of securities pledged to the ECSC with bank guarantees and kept safe by those banks, and bonds and notes of less then 5 years, with staggered maturity dates.

- 16 866 598 UA : ECSC debenture bonds redeemed by the ECSC before maturity and which were previously shown under the heading "Portfolio".

The decrease is due largely to the transfer of securities to "Portfolio" which were last year mistakenly included under "Short and medium-term investments" *(1)*.

13 - IV. Portfolio

This item is shown on the balance sheet at its acquisition value 60 778 496 UA and is up by 6 273 742 UA compared with the value as at 31 December 1972. This change is explained partly by purchases and sales of securities in the course of the year, but primarily by the transfer of the above-mentioned securities.

In addition to initial, more diversified investments which were managed by banks, the portfolio is composed exclusively of bonds issued for the most part through the public sector and held for safekeeping by the banks which acted as intermediaries in the purchase of them.

The proportion of total ECSC funds accounted for by the portfolio fell from 19.7 to 17.3 % between 1972 and 1973.

14 - V. Real estate

The token value of 1 UA in this heading represents ECSC title deeds for three properties : two held in co-ownership with the other Executives prior to their merger and another building acquired in exclusive ownership in 1971 and rented to the European Communities. The latter property's residual value of 120 141 UA,shown in the balance sheet at 31 December 1972, was paid off in full during the year 1973.

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*(1) Cf 1972 Auditor's report, no. 134.*

15 - VI. Recoverable issuing costs

This amount (14 085 219 UA) represents costs incurred by the ECSC at the time it borrows funds, less the repayments it makes annually. They are costs such as taking-firm fees, bank fees, redemption charges (discount), printing costs for securities and prospectuses, first listing costs, legal consultants' fees in connection with these operations, etc. They exclude the regular costs of servicing the loans contracted by the ECSC (interest and fees).

The ECSC shows recoverable issuing costs on its balance sheet as assets. At 31 December 1973 they totalled 44 636 253 UA. Given that the issuing costs of loans contracted up to 1961 under the Act of Pledge (5 720 085 UA) have been written off in full and in view of the other cumulative amounts written off (24 830 949 UA) including 11 060 736 UA in 1973), the total still outstanding is 14 085 219 UA.

Issuing costs were for fourteen loans floated in 1973 and, partly, for one loan contracted in 1971. The breakdown by loans of these costs is as follows :

| | | Costs |
|---|---|---|
| Loans in DM | 40 983 607 UA | 717 213 UA |
| | 27 322 405 UA | 887 978 UA |
| Loans in BFr | 20 000 000 UA | 700 000 UA |
| Loans in FFr | 10 802 655 UA | 157 539 UA |
| | 36 008 851 UA | 810 199 UA |
| | | 90 022 UA |
| Loans in LFr | 6 000 000 UA | 270 000 UA |
| | 16 000 000 UA | 480 000 UA |
| | 16 000 000 UA | 600 000 UA |
| | 6 000 000 UA | 90 000 UA |
| | 4 000 000 UA | 40 000 UA |
| Loans in SFr | 19 588 159 UA | 991 352 UA |
| | 34 279 278 UA | 979 300 UA |
| | 12 242 599 UA | 61 213 UA |
| Loans in US $ | 27 631 688 UA | 690 792 UA |

16 - VII. Miscellaneous

This item (40 999 138 UA), which again shows an increase, is 44 % higher than the previous year and comprises, on the one hand, two categories of debtors (in respect of the levy and payments due as loan service), plus, on the other hand, the sum held in deposit to pay coupons and bonds which are due but not yet presented and redemption premiums to be paid.

16.1 - Debtors under the levy (2 810 848 UA) are sums due from the levy, payment of which has been deferred (1 042 946 UA) by bankrupt enterprises (104 939 UA) and sums due from enterprises in arrears (1 662 963 UA).

The following table shows the changes by country, from 31 December 1972 to 31 December 1973, in deferred levy payments for quantities of hard coal stocked in the year 1973.

Table 5 : - INCOME FROM THE LEVY

- CHANGES IN DEFERRED LEVY PAYMENTS FOR QUANTITIES OF HARD COAL STOCKED

| Country | Deferred payments at 31.12.1972 | Changes between 1.1.1973 and 31.12.1973 | | Deferred payments at 31.12.1973 |
|---|---|---|---|---|
| | | + | - | |
| Germany | 914 353 | 170 139 | 182 441 | 902 051 |
| Belgium | 689 | 1 109 | 1 567 | 231 |
| France | 150 144 | 3 335 | 72 283 | 81 196 |
| Netherlands | | 4 940 | 5 545 | 10 419 |
| United Kingdom | 11 024 | 138 487 | 89 438 | 49 049 |
| Community | 1 076 210 | 318 010 | 351 274 | 1 042 946 |

16.2 - Financial debtors (3 133 958 UA) showed an overall net increase of 2 147 473 UA, due chiefly to the new accounts treatment of redemption premiums. Sums still outstanding under this heading on the two loans involved (150 000 000 FFr, 5 %, 1964-1984 and 1 000 000 000 BFr, 7.75 %, 1973-1985) totalled 2 253 048 UA at 31 December 1973 and appear under both assets, as an ECSC debt to be paid off by the loans-borrowing service and under liabilities, as an addition to the total for borrowings.

The financial debtors also include two debts on loans whose beneficiaries have not made their annual repayments for several years (689 418 UA), sums payable on housing loans granted to officials (56 830 UA), overdue payments of coupons under portfolios held for the ECSC by a number of financial organizations (34 088 UA), advances given to the European Communities out of ECSC funds to service loans to officials (17 173 UA), sums owed by the Iron and Steel Scrap Compensation Office (33 590 UA), fines owed by enterprises under the iron and steel scrap compensation system (32 496) and under the levy (3 200 UA), an overdue loan payment (9 018 UA), an unpaid share (3 316 UA) of the rent for the property in Washington for part of 1972 and real estate advances still to be recovered (1 781 UA).

16.3 - The account heading "deposits for coupons and bonds due but not yet presented" (35 054 332 UA) is designed to release the liquid assets accumulated by the ECSC in the financial organizations responsible for servicing its coupons and redeemable securities, in order to cover expenditure on these two counts. The rise in this item of nearly 11 500 000 UA compared with the previous year is the result not only of due dates close to the end of the year but also of a large number of late presentations of coupons.

17 - VIII. Accrued Income

This heading (totalling 33 949 630 UA) groups interest and fees accrued but not yet due at 31 December 1973 (29 011 196 UA) together with sums declared for the levy (4 938 434 UA) for December 1973 but not yet paid (payment becomes due on the 25th of the first month following that of the production on which the amount payable is assessed).

17.1 - The former amount (29 011 196 UA), relating to the ECSC's investments, loans and guarantee operations, follows from the entering as receipts of interest, guarantee fees and assistance payments (under Articles 54 and 56 of the Treaty) which were accrued but not yet due on 31 December 1973).

17.2 - The second amount (4 938 434 UA) is not shown among the various accounts receivable because it is rather special in nature. Payment of this levy "debt" is in effect legally due after the date of the balance sheet, whilst the amount of this same debt is assessed on coal and steel production for the month of December 1973, the last month of the year.

## LIABILITIES

18 - I.A. Borrowings

Since inception the ECSC has contracted numerous loans both internationally and on various national markets to a nominal value of 1 490 637 409 UA. The balance outstanding at 31 December 1973, net of repayments was 1 145 131 940 UA for loans actually paid out.

Total initial borrowings and balances outstanding at 31 December 1973 are broken down by country of issue in Table 6. Except where the international market was used, they were paid for in the currency of these different countries.

During the year 1973, the ECSC collected the product of 14 loans in BFr, LFr, FFr, SFr, DM and US$ to a total value of 276 859 242 UA; the main characteristics of each of these loans are set out in Table 7. If the year's new collections and redemptions are included (50 325 148 UA), the loan total shown on the balance sheet is up by 226 534 094 UA as compared to the previous year.

19 - I.B. Oustanding redemption premiums (2 253 048 UA)

This item originates in the newly adopted accounts treatment, which implies the entering on the liabilities side of the total loan debt contracted by the ECSC, taking into account all the loan conditions, including those which, as in this case, stipulated that the redemption price of two loans would be higher than their issuing price.

Thus the total for heading I, including the two sub-headings A and B, i.e. 1 147 384 988 UA, represents the total debt including all obligations contracted, whatever the payment or maturity dates.

20 - II. Reserves

This heading contains :

20.1 - - the guarantee fund which had remained unchanged since 30 June 1956 at 100 000 000 UA and has now increased to 112 000 000 UA thanks to the allocation of part of the contribution paid in 1973 by the three new member countries.

Table 6 : - BORROWINGS CONTRACTED BY THE ECSC
- CURRENCY IN WHICH FLOATED
- INITIAL BORROWINGS AND BALANCES OUTSTANDING AT 31.12.1973

| Currency | Initial borrowing (in UA) | Balance outstanding at 31.12.1973 (in UA) | Balance outstanding at 31.12.1973 (New parity) |
|---|---|---|---|
| US $ (US dollar) | 373 027 788 | 205 717 917 | 188 253 837 |
| DM (Deutsche Mark) | 384 146 844 | 296 402 089 | 336 927 258 |
| Lit (Italian lira) | 184 000 000 | 169 600 000 | 145 676 433 |
| Fl (Dutch guilder) | 57 389 503 | 26 693 370 | 28 801 187 |
| FFr (French franc) | 127 831 421 | 119 391 847 | 119 391 847 |
| SFr (Swiss franc) | 122 741 853 | 102 348 131 | 108 509 142 |
| LFr (Luxembourg franc) | 96 100 000 | 88 539 386 | 90 982 821 |
| BFr (Belgian franc) | 75 400 000 | 69 039 200 | 70 944 485 |
| UA (unit of account) *(1)* | 20 000 000 | 17 400 000 | 17 400 000 |
| Ɛ (European unit of account) *(2)* | 50 000 000 | 50 000 000 | 50 000 000 |
| Total | 1 490 637 409 | 1 145 131 940 | 1 156 887 010 |

*(1) The value of 1 UA = DM 4.-; BFr 50.-; FFr 4.93706; Lit 625.-; LFr 50.-; Fl 3.62; SFr 4.37282; £ 0.357143; Dkr 6.90714 and US $ 1.-.*

*(2) The value of 1 Ɛ = DM 3.66; BFr 50.-; FFr 5.55419; Lit 625.-; LFr 50.- and Fl 3.62.*

Table 7 : - BORROWINGS
- INDIVIDUAL CHARACTERISTICS OF NEW LOANS
- FLOATED AND COLLECTED

| Nature of loan | Date floated | Amounts in currency of issue | | Amounts in UA | Interest per annum | Term (Years) |
|---|---|---|---|---|---|---|
| Private loan contracted in Luxembourg | 15. 1.1973 | $ | 30 000 000 | 27 631 688 | 7 % | 15 |
| Private loan contracted in Luxembourg | 15. 1.1973 | LFr | 300 000 000 | 6 000 000 | 6,75 % | 15 |
| Private loan floated on the international market | 30. 1.1973 | FFr | 60 000 000 | 10 802 655 | 7,5 % | 15 |
| Public loan floated in Switzerland | 9. 2.1973 | SFr | 80 000 000 | 19 588 159 | 6,25 % | 15 |
| Private loan floated on the international market | 2. 3.1973 | LFr | 800 000 000 | 16 000 000 | 7 % | 12 |
| Public loan floated in Germany | 2. 4.1973 | DM | 150 000 000 | 40 983 607 | 6,5 % | 15 |
| Public loan floated on the international market | 15. 6.1973 | FFr | 200 000 000 | 36 008 851 | 7 - 7,5 % | 7 - 18 |
| Private loan floated on the international market | 20. 6.1973 | LFr | 800 000 000 | 16 000 000 | 7 % | 15 |
| Private loan floated in Switzerland | 4.10.1973 | SFr | 140 000 000 | 34 279 278 | 6,75 - 7 % | 5 - 7 |
| Private loan floated in Luxembourg | 23.10.1973 | LFr | 300 000 000 | 6 000 000 | 8 % | 12 |
| Private loan contracted in the United Kingdom | 5.11.1973 | SFr | 50 000 000 | 12 242 599 | 7,25 % | 5 |
| Public loan floated in Germany | 6.11.1973 | DM | 100 000 000 | 27 322 405 | 7,75 % | 15 |
| Private loan contracted in Luxembourg | 7.11.1973 | LFr | 200 000 000 | 4 000 000 | 8 % | 12 |
| Public loan floated in Belgium | 5.12.1973 | BFr | 1 000 000 000 | 20 000 000 | 7,75 % | 12 |

This fund is intended to cover any part of the service on loans contracted by the ECSC which cannot be met out of income on the loans it grants and to cover the extension of its guarantee to loans contracted by enterprises directly.

20.2 - - the special reserve constituted out of receipts other than the levy (income on investments, fines and arrears interest and interest on loans granted out of own funds) which totalled 90 million UA at 31 December 1973. Except for the long-standing allocation to industrial structural reorganization, this reserve has been used exclusively for the granting of loans to finance social housing construction programmes since 1970, when sums earmarked for other purposes (assistance to structural reorganization loans, assistance to coking coal, etc.) were withdrawn from it and entered under adequate provisions.

21 - III. Provisions

This balance sheet item comprises two types of provisions :

21.1 - - financial assistance (135 491 115 UA) including :

- legally binding commitments for
  - . rehabilitation (99 010 726 UA)
  - . research (19 759 262 UA)
  - . interest reductions either on loans for structural reorganization granted under Article 56 of the Treaty (7 466 153 UA), or loans intended to finance investments under Article 54 of the Treaty (5 254 974 UA).
- maximum assistance decided (4 000 000 UA) corresponding to Community aid to coking coal for 1973.

21.2 - - other provisions (29 890 872 UA) including :

- a reserve constituted from the collection of levies in 1973 to cover research, rehabilitation and interest reduction commitments due to be subscribed during the first half of 1974 (18 366 633 UA)
- a provision to sundry risks amounting to 11 524 239 UA.

21.11 - The provision for the social rehabilitation of workers in the mining and steel industries (99 010 726 UA) shows a considerable increase (31 292 388 UA) as compared to the situation at 31 December 1972. New commitments approved and recorded during the year totalled 42 897 806 UA as against 15 387 650 UA in 1972, whilst actual expenditure on this count for the year was only 5 081 991 UA and loans no longer necessary were cancelled to a value of 6 523 427 UA.

New contracts entered into break down as follows : Germany 71.6 %, France 20.5 %, Belgium 6.4 % and the United Kingdom 1.5 %.

Table 8 shows details, by country and sector (coal and steel) of new assistance approved and amounts disbursed at 31 December 1973

Table 8 : - REHABILITATION ASSISTANCE
- MOVEMENTS IN 1973

| Country and sector | Number of beneficiaries | New allocations | Financial operations (cancellation of credits, disbursements and repayments) | Change in the provision between 31.12.1972 and 31.12.1973 |
|---|---|---|---|---|
| BELGIUM | | | | |
| Coal | 5 542 | 2 760 000 | 457 789 | + 2 302 211 |
| Steel | - | - | 13 223 | - 13 223 |
| GERMANY | | | | |
| Coal | 31 467 | 29 906 148 | 3 723 958 | + 26 182 190 |
| Steel | 3 967 | 797 814 | 1 876 688 | - 1 078 874 |
| FRANCE | | | | |
| Coal | 4 143 | 8 370 750 | 784 445 | + 7 586 305 |
| Steel | 338 | 408 700 | 395 591 | + 13 109 |
| ITALY | | | | |
| Coal | - | - | 56 683 | - 56 683 |
| Steel | - | - | 2 450 103 | - 2 450 103 |
| NETHERLANDS | | | | |
| Coal | - | - | 1 832 219 | - 1 832 219 |
| Steel | - | - | 14 719 | - 14 719 |
| UNITED KINGDOM | | | | |
| Steel | 1 048 | 654 394 | - | + 654 394 |
| TOTAL | 46 505 | 42 897 806 | 11 605 418 | + 31 292 388 |

Table 9 indicates, by type, country and sector (coal and steel) the components of sums remaining in the provision at 31 December 1973.

Examination of all operations by the ECSC from inception up to 31 December 1973 reveals the following position :

| | |
|---|---|
| - net allocation *(1)* to the provision | 214 500 174 UA |
| - less : total expenditure by ECSC | 115 489 448 UA |
| - amount of the provision at 31 December 1973 | 99 010 726 UA |

21.12 - The provision for technical research (19 759 262 UA) shows a net decrease of 6 437 752 UA as compared with the situation at 31 December 1972, resulting from expenditure for the year (11 670 438 UA) and the cancellation of credits still unused on completion of a number of research projects (359 845 UA). These two negative elements are partially offset by the allocation of 5 592 531 UA for new contracts in 1973; in the steel sector (2 851 364 UA), the coal sector (1 955 317 UA) and the social sector (785 850 UA).

Table 10 shows details, by sector, of new assistance approved in 1973 and amounts disbursed.

Table 11 gives a breadkwon by sector of the component items of the provision at 31 December 1973

Examination of all operations by the ECSC from inception up to 31 December 1973 reveals the following position :

| | |
|---|---|
| - net allocation *(1)* to the provision | 136 299 767 UA |
| - less : total expenditure by ECSC | 116 540 505 UA |
| - amount of the provision at 31 December 1973 | 19 759 262 UA |

21.13 - The provision for assistance to industrial structural reorganization (Article 56) (7 466 153 UA) is designed to reduce the interest on loans, whether they are granted in this field by the ECSC out of borrowings or by third parties with the same objectives in mind. Compared with the position at 31 December 1972 the net decrease of this provision during the year (3 036 761 UA) is due to the fact that the new allocation (404 253 UA) is less than total assistance paid out during the year (3 425 472 UA), including an adjustment for the month of December 1972 (-15 542 UA).

Examination of all operations by the ECSC since this policy of interest reductions on loans for industrial structural reorganization was introduced (30 June 1967), reveals the following position :

---

*(1) Total allocations, less total cancellations and transfers*

Table 9 : - COMMITMENTS AUTHORIZED, DISBURSEMENTS AND REHABILITATION PROVISION AT 31.12.1973

- BREAKDOWN BY COUNTRY, SECTOR AND TYPE OF ASSISTANCE *(1)*

| | Commitments authorized | Disbursements (less repayments) | Amounts still covered in the provision | Amounts still covered in the provision (new parities) |
|---|---|---|---|---|
| BELGIUM | | | | |
| Paragraph 23 | | | | |
| Coal | 5 281 142 | 5 281 142 | - | - |
| Article 56 | | | | |
| Steel | 2 241 969 | 1 391 182 | 850 787 | 874 267 |
| Coal | 16 510 924 | 8 789 344 | 7 721 580 | 7 934 673 |
| Article 95 | | | | |
| Special unemployment allocation | 5 184 572 | 5 184 572 | - | - |
| Financing of stocks | 969 804 | 969 804 | - | - |
| BELGIUM TOTAL | 30 188 411 | 21 616 044 | 8 572 367 | 8 808 940 |
| GERMANY | | | | |
| Paragraph 23 | | | | |
| Steel | 48 483 | 48 483 | - | - |
| Coal | 6 417 464 | 6 417 464 | - | - |
| Article 56 | | | | |
| Steel | 4 268 888 | 2 309 423 | 1 959 465 | 2 227 370 |
| Coal | 79 308 419 | 35 911 428 | 43 396 991 | 49 330 385 |
| GERMANY TOTAL | 90 043 254 | 44 686 798 | 45 356 456 | 51 557 755 |
| FRANCE | | | | |
| Paragraph 23 | | | | |
| Steel | 399 612 | 399 612 | - | - |
| Coal | 616 071 | 616 071 | - | - |
| Article 56 | | | | |
| Steel | 9 991 257 | 3 619 503 | 6 371 754 | 6 371 754 |
| Coal | 40 000 586 | 20 627 475 | 19 373 111 | 19 373 111 |
| Article 95 | | | | |
| Financing of stocks | 588 227 | 588 227 | - | - |
| FRANCE TOTAL | 51 595 753 | 25 850 888 | 25 744 865 | 25 744 865 |
| ITALY | | | | |
| Paragraph 23 | | | | |
| Steel | 6 466 743 | 6 466 743 | - | - |
| Coal | 1 923 580 | 1 923 580 | - | - |
| Article 56 | | | | |
| Steel | 2 920 750 | 2 585 235 | 335 515 | 288 188 |
| Coal | 615 429 | 103 317 | 512 112 | 439 874 |
| ITALY TOTAL | 11 926 502 | 11 078 875 | 847 627 | 728 062 |
| LUXEMBOURG | | | | |
| Article 56 | | | | |
| Steel | 12 648 | 12 648 | - | - |
| NETHERLANDS | | | | |
| Article 56 | | | | |
| Steel | 276 243 | 79 521 | 196 722 | 212 256 |
| Coal | 27 765 193 | 12 126 898 | 17 638 295 | 19 031 086 |
| Article 95 | | | | |
| Financing of stocks | 37 776 | 37 776 | - | - |
| NETHERLANDS TOTAL | 30 079 212 | 12 244 195 | 17 835 017 | 19 243 342 |
| UNITED KINGDOM | | | | |
| Article 56 | | | | |
| Steel | 654 493 | - | 654 394 | 532 907 |
| UNITED KINGDOM TOTAL | 654 394 | - | 654 394 | 532 907 |
| COMMUNITY | 214 500 174 | 115 489 448 (2) | 99 010 726 | 106 615 871 |

*(1) The "steel" sector also includes iron mines and steelworks coking plants. The "coal" sector also includes colliery coking plants.*
*(2) Of which 5 081 857 UA were disbursed in 1973.*

Table 10 : - TECHNICAL AND SOCIAL RESEARCH
- MOVEMENTS IN 1973

| Sector | New allocations | Financial operations (Cancellation of credits, payments and repayments) | Changes in the provision between 31.12.1972 and 31.12.1973 |
|---|---|---|---|
| Steel | 2 727 150 | 7 272 110 | - 4 544 960 |
| Coal | 1 800 074 | 2 087 237 | - 287 163 |
| Iron ore | - | 435 187 | - 435 187 |
| Social | 785 850 | 2 090 464 | - 1 304 614 |
| Social housing | - | - | - |
| Making available of research findings | 279 457 | 145 285 | + 134 172 |
| Total | 5 592 531 | 12 030 283 | - 6 437 752 |

Table 11 : - TECHNICAL, ECONOMIC AND SOCIAL RESEARCH
- OVERALL BREAKDOWN BY SECTOR OF FINANCIAL ASSISTANCE GRANTED, DISBURSED AND HELD IN THE PROVISION AT 31.12.1973

| Sector in which conducted | Total assistance granted | Total disbursed | Total still held in the provision | Total still held in the provision (new parities) |
|---|---|---|---|---|
| STEEL | | | | |
| - Completed projects | 13 313 921 | 13 313 291 | - | - |
| - Current projects | 40 291 582 | 31 467 953 | 8 823 629 | 8 834 835 |
| - Assistance to new projects granted in 1973 | 2 429 827 *(1)* | 716 747 | 1 713 080 | 2 027 849 |
| TOTAL STEEL | 56 034 700 | 45 497 991 | 10 536 709 | 10 862 684 |
| ORES | | | | |
| - Completed projects | 4 801 366 | 4 801 366 | - | - |
| - Current projects | 1 184 299 | 731 506 | 452 793 | 488 281 |
| TOTAL ORES | 5 985 665 | 5 532 872 | 452 793 | 488 281 |
| COAL | | | | |
| - Completed projects | 25 508 248 | 25 508 248 | - | - |
| - Current projects | 16 253 672 | 19 954 926 | 3 298 746 | 3 560 426 |
| - Assistance to new projects granted in 1973 | 1 797 403 *(1)* | - | 1 797 403 | 1 930 772 |
| TOTAL COAL | 43 559 323 | 38 463 174 | 5 096 149 | 5 491 198 |
| INDUSTRIAL SAFETY, HEALTH AND MEDICINE | | | | |
| - Current projects | 27 370 923 | 24 288 995 | 3 081 928 | 3 046 111 |
| - Sums granted in 1973 | 726 008 *(1)* | 415 395 | 310 613 | 405 533 |
| TOTAL INDUSTRIAL SAFETY, HEALTH AND MEDICINE | 28 096 931 | 24 704 390 | 3 392 541 | 3 451 644 |
| EXPERIMENTAL SOCIAL HOUSING CONSTRUCTION *(2)* | | | | |
| - First programme | 995 838 | 995 838 | - | - |
| - Second programme | 973 551 | 904 176 | 69 375 | 71 290 |
| TOTAL SOCIAL HOUSING | 1 969 389 | 1 900 014 | 69 375 | 71 290 |
| MAKING AVAILABLE RESEARCH FINDINGS | | | | |
| - In previous years | 374 311 | 335 087 | 39 224 | 39 224 |
| - In 1973 | 279 448 *(1)* | 106 977 | 172 471 | 173 780 |
| TOTAL FOR MAKING AVAILABLE RESEARCH FINDINGS | 653 759 | 442 064 | 211 695 | 213 004 |
| SUM TOTAL | 136 299 767 | 116 540 505 *(3)* | 19 759 262 | 20 578 101 |

*(1) Figures include both new commitments for the year (5 592 531 UA) and cancellation of credits extended in previous years (359 845 UA).*

*(2) Part 2 of this Report gives the details of overall ECSC assistance to social housing construction.*

*(3) Of which 11 670 438 UA were disbursed in 1973.*

| | |
|---|---|
| - allocation to the provision | 17 246 799 UA *(1)* |
| - less : total assistance disbursed | 9 780 646 UA |
| - amount of the provision at 31 December 1973 | 7 466 153 UA |

21.14 - The provision for assistance to investments (Article 54 (5 254 974 UA) is designed - under the same financial terms as for industrial structural reorganization - to reduce the interest on investment loans granted under Article 54 of the Treaty, subject to their fulfilment of certain requirements.

Compared with the previous year the decrease of 941 733 UA may be explained by the fact that the new allocation of 496 960 UA (286 885 UA) for assistance to be paid under loan agreements approved but not yet signed and 210 075 UA of assistance to be paid in cases where the loan agreements had been duly signed and the funds disbursed is less than the assistance disbursed during the year out of the provision in question (1 438 693 UA).

Examination of all operations by the ECSC since this policy was introduced in 1970 reveals the following provisions :

| | |
|---|---|
| - allocation to the provision | 7 678 879 UA *(2)* |
| - less : total assistance disbursed | 2 433 905 UA |
| - amount of the provision at 31 December 1973 | 5 254 974 UA |

21.15 - The provision for assistance to coke (4 000 000 UA) represents the maximum financial allocation approved for 1973. This will enable the ECSC to furnish sales assistance amounting to 0.266 UA per tonne, thus offsetting the purchase price discount granted to buyers of coking coal.

21.21 - Future commitments (18 366 633 UA) represent a new reserve showing the ECSC's intention to allocate, within the first six months of 1974, that part of levy resources which could not be allocated in 1973 for :

| | |
|---|---|
| assistance (Article 54) | 2 503 115 UA |
| assistance (Article 56) | 2 596 204 UA |
| technical research | 13 267 314 UA |

Sundry provisions (11 524 239 UA) include :

21.22 - - the provision for doubtful debts in respect of "borrowings" (1 845 411 UA) which concerns, as previously, the total of interest and principal due from three enterprises receiving loans granted out of borrowed funds.

21.23 - - the share retained of fees and income from guarantees given by the ECSC for loans contracted by enterprises of the Community (1 828 828 UA)

21.24 - - the provision for depreciation of the securities portfolio (1 350 000 UA). At 31 December 1973 this appears a mere eventuality, as the difference between

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*(1) Including 15 088 660 UA for interest reductions on ECSC loans (128 959 994 UA) and 2 158 139 UA for interest reductions on loans granted by third parties (21 180 145 UA).*

*(2) For loans totalling 56 164 000 UA.*

the acquisition price and market value for securities in the portfolio represents in fact an appreciation of 388 100 UA at this date

21.25 - - the provision for compensation of borrowing costs (6 000 000 UA) (an increase of 4 900 000 UA) constituted :

. partly in 1972 (at present 2 000 000 UA, an increase of 900 000 UA) in order to offset the probable loss, estimated at 3 % *(1)*, on the $ loan floated on the international market with a clause of reference to the LFr.

. partly - first allocation in 1973 of 4 000 000 UA - in order to meet any exchange risks which might affect the service of loans

21.26 - - the provision for doubtful debts under the levy (500 000 UA), unchanged since 31 December 1970, which is designed to cover any default by debtors under the levy.

22 - IV. Former pension fund (26 235 316 UA)

The increase as compared with the total for this fund at 31 December 1972 (25 859 895 UA) is due to the allocation of interest payments from beneficiaries of loans granted out of the fund.

23 - V. Miscellaneous (41 468 356 UA)

This heading includes the sum of 35 053 338 UA payable on coupons due and redeemable bonds which are due but not yet presented and, on the other hand, a variety of accounts in credit to a total of 6 415 018 UA. The first

23.1 - The first item (35 053 338 UA) represents the contra of deposits constituted by the ECSC with banks servicing its loans. The considerations outlined under the assets heading "Miscellaneous", No. 16.3 also apply to this item of the liabilities.

23.2 - The second item (6 415 018 UA) comprises mainly a provision for exchange differences on investments carrying a re-transfer obligation (6 250 636 UA). The balance breaks down into provisions for fines being recovered (35 656 UA), sums deducted for insurance on loans granted to officials to finance their personal housing (15 887 UA), banking errors (64 649 UA), coupons which have become void (29 UA), tax refund for direct borrowing France 2 to be paid (45 911 UA) and an overpayment on the Danish contribution to be refunded (2 210 UA).

24 - VI. Accrued Liabilities (31 753 290 UA)

This account, which includes the amount of interest and fees accrued but not due at 31 December 1973, increased by 9 356 411 UA compared with the previous year, owing to the floating of new loans. Just as accrued income includes the figure resulting from the entering as receipts of interest and guarantee fees due to the ECSC, these accrued liabilities accordingly include the figure resulting from the entering as exependiture of interest and agents' fees payable by the Institution.

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*(1) Cf. 1971 Report, No. 114*

25 - VII. Unallocated Balance

The sum of 3 015 660 UA shown under this heading represents all ECSC assets available at 31 December 1973 but not yet allocated. Compared with last year, this balance is up by 2 835 111 UA.

26 - THE SUSPENSE ACCOUNTS

The suspense accounts shown below the balance sheet at 31 December 1973 totalled 75 674 741 UA for assets and liabilities together.

26.1 - An amount of 15 000 000 UA represents the product of 3 borrowings for which taking-firm agreements were signed at the end of 1973 whilst the bonds were not due to be issued until 1974.

26.2 A second sum (22 199 454 UA) represents the total of commitments undertaken by the ECSC and the right of recourse open to it as a result of the securing of loans contracted by Community enterprises under Article 51, paragraphs 2 and 54 of the Treaty. In the present case, these were two loans granted to German enterprises. The security obtained by the ECSC in return was a mortgage on the beneficiairies' land and plant.

No new guarantees were given by the ECSC during 1973. Total loans secured by the ECSC decreased by the amount of scheduled repayments (1 937 914 UA).

26.3 A third amount (38 475 287 UA) represents part (2/3) of contributions which will be payable by the new Member States in 1974 and 1975.

## NOTES TO THE STATEMENT OF REVENUES AND EXPENDITURE
## (MANAGEMENT ACCOUNT)

### EXPENDITURE

27 - I. Service of Borrowings and Guarantees (79 566 780 UA)

27.1 - A. Expenditure for the Service of Borrowings (79 560 120 UA) comprise interest due on the ECSC's borrowings (66 615 310 UA), fees to custodians and agent banks (1 572 521 UA), miscellaneous expenditure (311 554 UA) and repayments of issuing costs for borrowings (11 060 735 UA).

Miscellaneous expenditure (311 554 UA compared with 421 559 UA in 1972) included:

27.11 - - exchange differences (89 315 UA) on two loans floated in Luxembourg, one of 20 000 000 UA in 1966 with reference to a rate fixed each year for the EMA unit (18 978 UA) *(1)*, and the other of $ 20 000 000 in 1971 with a clause of reference to the LFr (70 337 UA).

27.12 - - the premium on the 1973 repayment (101 275 UA) on a French borrowing (12 % over the nominal value)

27.13 - - the abandoning (75 348 UA), under the terms of an earlier agreement, negotiated in conjunction with all the creditors, of part of the annual repayment on a loan granted out of Dutch guilder borrowings to an industrial enterprise which proved unable to repay; at 31 December 1973 the accrued total of the claim abandoned by the Institution was 1 090 533 UA

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*(1) cf. 'Miscellaneous revenue' from loan service totalling receipts of 43 357 UA, no.*

27.14 - - the sum of 45 616 UA representing almost exclusively direct costs arising from printing, publication and stock exchange quotation.

27.2 - B. Expenditure incurred by the service of guarantees (6 660 UA) was exclusively for fees due in the course of 1973 to financial intermediaries responsible for supervizing the loan and guarantee dossiers.

28 - II. 'Budgetary' Expenditure (40 042 093 UA)

Under this heading we have placed the ECSC's share of the administrative expenditure of the Communities, expenditure on research, rehabilitation and assistance to coking coal, and that incurred by the granting of interest reductions on structural reorganization loans (Article 56 of the Treaty) and investment loans (Article 54 of the Treaty).

28.1 - A. Administrative Expenditure (18 000 000 UA) corresponds exactly to the ECSC's annual flat-rate contribution to the administrative budget of the Commission of the European Communities, as fixed when the treaty of merger of the Executives came into effect.

28.2 - B. Rehabilitation Expenditure (5 081 991 UA compared to 14 518 629 UA in 1972) is 65 % down on the previous year's expenditure. The percentage breakdown by country is as follows: Netherlands37 %, Germany 34 %, France 19 %, Belgium 9 % and Italy 1 %.

28.3 - C. Research Expenditure (11 670 438 UA compared to 11 638 790 UA in 1972) is up by 0.3 % on last year's expenditure. It breaks down as follows by sector of research:

| | | |
|---|---|---|
| - technical research, iron and steel | 7 409 974 UA | (compared with 5 305 869 UA in 1972) |
| - technical research, coal | 2 084 566 UA | (compared with 4 602 382 UA in 1972) |
| - research on industrial safety, health and medicine | 2 030 621 UA | (compared with 1 668 540 UA in 1972) |
| - expenditure on the dissemination of research findings | 145 277 UA | (compared with 61 999 UA in 1972) |

28.4 - D. Assistance granted under Article 56 (3 425 472 UA compared with 2 462 909 UA in 1972) was largely granted to reduce the interest on ECSC loans for industrial structural reorganization (2 634 948 UA) and the rest (790 524 UA) was allocated to enterprises to reduce the interest rate on loans obtained by these from other sources.

Assistance granted to reduce the interest on loans under Article 54 of the Treaty (1 438 693 UA against 850 337 UA in 1972) was used to finance investments fulfilling certain specific requirements in coal and steel enterprises.

This assistance enables the Institution to grant a temporary (5 year) reduction in the standard interest rate on loans granted out of its borrowed funds. The rate thus reduced was 4.5 % per annum up to 18 December 1973 and 5.25 %

per annum as from 19 December 1973, when the annual standard rate of interest on loans rose from 7.5 % to 8.25 %. In order to balance the profit and loss account of the loans service, the Institution draws the cost of this assistance from its own funds - so that it is charged to budgetary assistance - and transfers it to this service, which is thus credited with the full standard rate of interest. Assistance relating to loans granted by other organizations is drawn directly on own funds and disbursed to the beneficiaries.

28.5 - E. Community assistance to coking coal (425 500 UA against 1 700 800 UA in 1972) comprises the Community contribution earmarked from 1970 to 1972 on the basis of the Commission's decision no. 1/70. These disbursements relate to assistance for the years 1971 (52 500 UA) and 1972 (373 000 UA).

Examination of all such ECSC assistance operations since 1970 reveals the following position:

| Years | Estimated Disbursements UA | Actual Disbursements UA | Balance Outstanding UA |
|---|---|---|---|
| 1970 | 3 400 000 | 3 400 000 | - |
| 1971 | 2 550 000 | 2 550 000 | - |
| 1972 | 1 700 000 | 1 450 300 | 249 700 |
| Total | 7 650 000 | 7 400 300 | 249 700 |

Only those countries which export part of their coke production,i.e. Germany and Belgium, are entitled to receive this assistance.

29 - III. Other expenditure (456 107 UA againt 1 808 792 UA in 1972).

This other expenditure arises out of the ECSC's financial operations proper and comprises:

29.1 - - exchange differences resulting from the use of fixed exchange rates in the accounts whereas transfers from one currency to another are always based on the commercial rate 299 007 UA

29.2 - - the third and final repayment on the purchase price of the Washington property,thus bringing the book value of all ECSC real estate to 1 UA 125 768 UA

29.3 - - portfolio management costs 30 850 UA

29.4 - - sundry banking fees 482 UA

## REVENUES

30 - I. Service of loans and guarantees

30.1 - A. Revenue from the service of loans granted out of borrowed funds (73 239 700 UA) includes interest levied on loans granted by the ECSC (64 574 886 UA) interest credited as loan service (3 469 162 UA) and miscellaneous revenue (5 195 652).

30.11 - The first item (64 574 886 UA) includes all interest paid by debtors under loans granted out of borrowed funds. The rate of interest on these loans is, in principle, standard but may be changed by the Institution to keep up with any appreciable increase in the cost of borrowings. Thus the rate of 7.5 % per annum applied since 13 July 1972 rose to 8.25 % as from 19 December 1973.

30.12 - Interest credited as loan service (3 469 162 UA) includes interest calculated on the basis of the average yield on borrowed funds received but not yet loaned (3 187 914 UA) and the product, arrived at in the same way, of the balance of the service of borrowings and loans, i.e. the difference between interest received on loans and interest paid on borrowings (281 248 UA). Compared with 1972 this item increased by 12.6 % due to the higher total of funds (59 196 273 UA against 49 315 499 UA) which had not been disbursed to borrowers at the end of the year.

30.13 - Miscellaneous revenue (5 195 652 UA compared with 4 662 766 UA in 1972) includes:

- interest reductions on loans granted by the Institution under Articles 56 (2 634 948 UA) and 54 (1 438 693 UA) of the Treaty. The amount of this assistance offsets, in the service of borrowings and loans, the decrease in revenue arising from the temporary reduction of the standard rate of interest on these loans. It represents budgetary expenditure in the same way as that granted for loans from other sources, they are commented on under nos. 28.4.

- the profit (1 055 010 UA) realized by the Institution on redemptions of ECSC debenture bonds.

- an exchange difference of 44 327 UA from the servicing of two loans: one of 300 000 000 LFr floated in 1962 with the option of exchange (970 UA), and another of 20 000 000 UA going back to 1966 with reference to a rate fixed each year for the EMA unit (43 357 UA) *(1)*.

- miscellaneous revenue amounting to 22 674 UA (adjustments, tax refunds, coupons become void ...).

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*(1) Cf. 'Miscellaneous expenditure on loan service' totalling 18 987 UA, no. 27.11.*

30.2 - B. Guarantee fees are those received by the Institution in return for acting as surety for loans contracted by enterprises of the Community. Their total was lower than the previous year (112 800 UA compared with 121 949 UA) because the number of existing guaranteed commitments decreased.

31 - II. Income from the levy

Income from the levy in 1973 was 62 894 027 UA compared with 47 208 890 UA in 1972, an increase of 33 %. Since the rate remained the same as the previous year (0.29 %), this increase results exclusively, as is shown in Table 12, from the contribution of the new member countries.

Receipts from the levy cover all sums declared for 1973, including those due for December 1973 but not payable until 5 February 1974.

Table 12 gives a breakdown, by country and group of products, of levy amounts declared and recorded in 1973 together with the percentage of the whole accounted for by each of the countries for each group of products.

32 - III. Other revenue

This heading totals 38 787 508 UA and covers interest on bank deposits and portfolio (17 228 226 UA), interest on loans granted out of own funds (1 444 895 UA), increases on arrears (4 948 UA), the first instalment of accession contributions paid in by the new Member States (19 237 712 UA) and miscellaneous revenue (871 727 UA).

32.1 - Revenue from bank deposits and portfolio was 47 % up on the figure for 1972. The annual average yield (1) overall for funds managed by the ECSC was 6.7 % in 1973 compared with 5.4 % in 1972. These results show how far the Institution took advantage of the favourable trends in interest rates in 1973.

Table 13 shows a breakdown by currency of revenue generated in 1973 by the ECSC's investments. This includes income from bank accounts and portfolio securities, together with the product of redemptions and sales of ECSC bonds. In the case of revenues from bank accounts and investments maintained by the ECSC:

- the interest amounts shown include, as well as receipts during 1973 from which must be deducted the interest accrued at 31 December 1972, the accrued total pro rata at 31 December 1973 on fixed deposits and portfolio securities

- the revenues shown in Table 13 are gross. Costs incurred by the ECSC's banking operations and the constitution and management of its portfolio (particularly in respect of the buying and selling of securities) are calculated separately under the heading 'financial costs'.

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*(1) Based on the ratio between interest generated by funds not loaned and the arithmetical average for the financial assets of the ECSC during the year.*

Table 12 : - INCOME FROM THE LEVY

- BREAKDOWN BY GROUP OF PRODUCTS AND COUNTRY

- AMOUNTS DECLARED AND RECORDED IN THE ACCOUNTS IN 1973

| Country | Coal | | Steel | | Levy total per country | |
|---|---|---|---|---|---|---|
| | Figures | % | Figures | % | Figures | % |
| Belgium | 409 355 | 3.4 | 5 085 919 | 10.- | 5 495 274 | 8.7 |
| Denmark | - | - | 150 025 | 0.3 | 150 025 | 0.2 |
| Germany | 4 960 442 | 41.- | 16 996 926 | 33.5 | 21 957 368 | 34.9 |
| France | 1 188 979 | 9.9 | 8 309 677 | 16.4 | 9 498 656 | 15.1 |
| Ireland | 1 377 | - | 39 050 | 0.1 | 40 387 | 0.1 |
| Italy | 80 | - | 7 441 676 | 14.6 | 7 441 756 | 11.9 |
| Luxembourg | - | - | 1 798 405 | 3.5 | 1 798 405 | 2.9 |
| Netherlands | 84 524 | 0.7 | 1 939 875 | 3.8 | 2 024 399 | 3.2 |
| United Kingdom | 5 446 249 | 45.- | 9 041 508 | 17.8 | 14 487 757 | 23.- |
| Community Total | 12 090 966 | 100 % | 50 803 061 | 100 % | 62 894 027 | 100 % |

Table 13: - INTEREST YIELDS AND INCOME ON INVESTMENTS

- BREAKDOWN BY CURRENCY AND TYPE OF INCOME DURING 1973

| Currency | Bank interest (current accounts and fixed deposits) | | Income from portfolio securities various | | Total per currency | |
|---|---|---|---|---|---|---|
| | Figure | % | Figure | % | Figure | % |
| German Marks | 3 917 262 | 35.- | 3 972 890 | 65.7 | 7 890 152 | 45.8 |
| Belgian francs | 303 022 | 2.7 | 208 306 | 3.4 | 511 328 | 3.- |
| French francs | 2 125 188 | 19.- | 502 443 | 8.3 | 2 627 631 | 15.3 |
| Italian lire | 2 903 099 | 26.- | 303 705 | 5.- | 3 206 804 | 18.6 |
| Luxembourg francs | 197 764 | 1.8 | - | - | 197 764 | 1.1 |
| Dutch guilders | 445 662 | 4.- | 115 257 | 1.9 | 560 919 | 3.3 |
| Swiss francs | 81 232 | 0.7 | 655 | - | 81 887 | 0.5 |
| Pounds sterling | 562 040 | 5.- | - | - | 562 040 | 3.3 |
| Units of account | - 4 343 | - | 6 229 | 0.1 | 1 886 | - |
| US dollars | 633 299 | 5.7 | 940 185 | 15.6 | 1 573 484 | 9.1 |
| Danish kroner | 14 331 | 0.1 | - | - | 14 331 | - |
| Totals | 11 178 556 | 100.- | 6 049 670 | 100.- | 17 228 226 | 100.- |

32.2 - Interest from loans granted out of own funds (1 444 895 UA) is 7 % higher than the previous year.

This rise is due to the increase in total loans granted out of the special reserve and designed to finance the construction of social housing.

The product of those granted for technical research, rehabilitation and industrial structural reorganization decreased.

At the moment loans are made at a very low rate of interest (1 %) and for a long term.

32.3 - Increases for arrears (4 948 UA) concern 14 payments of amounts ranging from 0.07 UA to 1 795.24 UA.

32.4 The contributions from new Member States (19 327 712 UA) represent the first instalment - i.e. one third - of the accession contributions from the three new Member States.

32.5 - Miscellaneous revenue (871 727 UA) comes essentially from large-scale exchange differences (833 043 UA compared with 248 662 UA in 1972) but which must be compared with the item 'other expenditure' (299 007 UA, no. 29.1). These differences arise from the use of fixed exchange rates when recording transactions whilst transfers from one currency to another are made at the commercial rate. This item also includes the part (38 684 UA) actually transferred of the annual rent (42 000 UA) on the property in Washington due to the ECSC by the European Communities.

## 33 - EXCESS OF REVENUES OVER EXPENDITURE

As shown in Table 35 ('Management Account'), the excess of revenues over expenditure in 1973 totalled 54 969 054 UA (compared with 10 618 304 UA for 1972). This surplus was allocated to the various provisions, and the relevant notes are given in the analysis of the balance sheet liabilites.

Table 37 shows changes in the allocation of overall assets managed by the ECSC from 31 December 1972 to 31 December 1973. The figures give a synoptic picture of how the Institution's assets allocated to the provisions and reserves are broken down at 31 December 1973 and give details of the transfers affecting these provisions and reserves during 1973.

These movements show, in addition to the allocations of the year's receipts and payments, the transfers which resulted in the cancellation of certain previous provisions or reserves (negative figures in second column).

From this table it is apparent that the difference between revenues and expenditure for the period, i.e. the increase in ECSC assets (54 969 064 UA) was apportioned to the reserves and provisions as follows:

| | |
|---|---|
| Net increases | UA 76 769 552 |
| - in the guarantee fund | UA 12 000 000 |
| - in the special reserve | UA 3 000 000 |
| - in the provision for rehabilitation | UA 31 292 388 |
| - in the provision for assistance to coke | UA 4 000 000 |
| - in the provision for forthcoming commitments | UA 18 366 633 |
| - in the provision for compensation of borrowing costs | UA 4 900 000 |
| - in the former ECSC pension fund | UA 375 421 |
| - in the unallocated balance | UA 2 835 110 |
| Net decreases | UA 21 800 498 |
| - in the provision for research | UA 6 437 752 |
| - in the provision for assistance to loans (Article 56) | UA 3 036 761 |
| - in the provision for assistance to loans (Article 54) | UA 941 733 |
| - in the provision for loan service | UA 6 135 546 |
| - in the provision for doubtful debts, borrowings | UA 75 348 |
| - in the provision for compensation of the exchange loss on accession contributions | UA 2 473 358 |
| - in the provision for currency risks | UA 2 700 000 |
| | UA 54 969 054 |

The net result is thus an increase of 54 969 054 UA, representing the difference between the two middle columns of Table 37.

# PART TWO

# PART TWO

## REMARKS PROMPTED BY OUR 1973 AUDITING OPERATIONS

### INTRODUCTION

34 - In all sectors of the ECSC's financial activity which are subject to our supervision we carried out either full or sample checks during and at the end of the year of audit.

During the year we followed the financial activities of the European Coal and Steel Community closely, receiving and checking the documents and vouchers which were sent to us regularly. These operations enabled us to exchange opinion with the competent bodies in the financial and authorizing sectors which in turn enabled us to make the critical and analytical observations outlined in the following chapters.

At the end of the financial year and in accordance with normal auditing procedure, we checked the balances in the general ledger against the figures of the balance sheet and management account and we satisfied ourselves that all assets and liabilities items shown in the financial statement were true and correct. We had also satisfied ourselves, by the same method, of the correctness of the interim financial statement as at 30 June 1973.

We also checked that the ECSC's expenditures, revenues and other financial operations were in order, correctly charged and in accordance with the provisions of the Treaty and decisions by competent bodies and, in the absence of express provisions, with the normal rules of financial management.

In this part of the report we indicate, for all categories of operations analysed and commented on, the nature and extent of the checks carried out by us during and at the end of the year, together with the remarks prompted by these checks.

35 - This year, in deference to the wishes of the European Parliament, we have paid particular attention to the examination of expenditure for technical and social research. The chapter devoted to this summarizes the particular methods employed and the first conclusions to emerge from this large-scale undertaking - which cannot be limited to just one year.

## INCOME FROM THE LEVY

Extent of our audit

36 - For income from the levy, which is the ECSC's largest single source of revenue, we conducted :

- checks on the vouchers annexed to the day-to-day bank statements, ascertaining the correctness of bookkeeping entries for these funds. Since the documents are centralized at the accounting department, we were able to ensure that they tallied with the monthly returns submitted to the Levy Office;

- challenges of the balances owing from the individual enterprises, by comparing the figures kept by the levy department with those provided from the computer listings of the overall accounts department.

We also satisfied ourselves :

- that supervisory operations required under article 49 and 50 of the ECSC Treaty were in fact conducted and that on-the-spot inspection reports - of which we duly took note - had been compiled by the appropriate departments during 1973.

- that the Institution had taken due note of the auditors' findings in respect of corrections to incorrect or incomplete returns.

We gave particular attention to the position with regard to disputes between the ECSC and various enterprises concerning the levy and such solutions as were found.

37 - Remarks

37.1 - - The rate of the levy for 1973 remained at 0.29 % of the values taken as the assessment basis, as determined by a decision taken by the Institution (no. 2821/72/ECSC) on 22 December 1972 *(1)*.

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*(1) Official Journal of the European Communities no. L 297 dated 30.12.1972.*

- By the decision of 22 December 1972 (no. 2821/72/ ECSC) the average value of the products on which the levies are assessed and which had been in force since 1 January 1972 *(1)* was modified as follows from 1 January 1973.

| Products | Average value per tonne in UA |
|---|---|
| Brown coal briquettes and semi-coke derived from brown coal | 11.70 |
| Hard coal of all categories | 18.16 |
| Pig iron other than that used for making ingots | 70.63 |
| Basic Bessemer steel in ingots | 81.46 |
| Steel in ingots other than basic Bessemer steel | 98.03 |
| Finished products and end products | 158.36 |

This same decision consequently modifies the net final scale which takes into account a weighting of the different values, depending on the relative importance of the products of a particular category at national as well as at Community level.

From 1 January 1973 decision no. 2691/72 of 18 December 1972 *(2)* changed the way in which the average per tonne values of the products forming the assessment basis of the levy were adjusted.

Under decision no. 2/52 the High Authority, in order to adjust the scale, had to establish a 10 % change in the value of one of the products compared with its previous value. Henceforth the average value of each of the chargeable products will be recalculated annually. However, in order to avoid the inflationary development of constantly rising prices resulting in sharp increases in the levy amounts payable, the Institution will be able to limit changes made to the scale to 15 %, i.e. the result arising from application of the rate to the average value established per chargeable category.

37.2 - As from 1 January 1959 coal mining enterprises were authorized to defer, without arrears interest or penalty, payment of sums due under the levy in respect of a part of their production stocks not greater than that held on 31 December 1957. It was at this time that marketing difficulties had become widespread and had led, in all Community coalfields, to an exceptionally large stockpiling of coal, coke derived from hard coal and patent fuels.

The decisions of 29 December 1972 *(3)*, no. 2895/72/ECSC and no. 2854/72/ECSC, maintained this deferment system, at the same time adapting to the requirements of the enlarged Community the single method of determining permissible stocks and also providing arrangements for transition between the two procedures, the essential aim of decision no. 2854.

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*(1) Official Journal of the European Communities no. L 282 (decision no. 2733/71/ECSC of the 15.12.1971).*

*(2) Official Journal of the European Communities no. L 286 dated 23.12.1972.*

*(3) Official Journal of the European Communities no. L 299 dated 31.12.1972.*

The system which emerges from this provides, on the last point, that successive reductions of the stocks of enterprises still benefitting on 31 December 1972 from temporary deferments will have to be charged until the exhaustion of the stocks corresponding to these deferments, thus making the payments in respect of these stock reductions due.

From 1 January 1973 all coal stocks in excess of 3 % of the monthly production will be considered eligible for temporary deferment of payment of the levy. This flat-rate reference means equal treatment for enterprises in all nine countries and spares those in the new Member States the need to take as their basis a 1957 figure which would only have been a token one, if not impossible to determine exactly.

Table 14 traces, for the six categories of chargeable products, changes since 1952 in the rate of levy and the net scale per tonne.

37.3 - Compared with the previous year income from the levy rose by 33 % from 47 208 890 UA to 62 894 027 UA. The contribution of the three new Member States which acceded to the Community on 1 January 1973 is 14 678 169 UA and breaks down as follows :

| | |
|---|---|
| United Kingdom | 14 487 757 UA |
| Denmark | 150 025 UA |
| Ireland | 40 387 UA |

Income from the six original Member States was substantially the same as in 1972.

Since the coal crisis of 1958 the share of the steel industry in the total income from the levy has continued to increase (in 1973 it was 50 803 061 UA, of which 41 572 478 UA came from the Six, compared with 39 701 143 UA in 1972).

However, as the diagram in Table 15 shows, the proportion of total levy income accounted for by the coal and steel industries since the inception of the ECSC changed slightly in 1973. In fact, the share of the levy deriving from the coal sector increased for the first time since 1954, rising from 15.9 % in 1972 to 19.2 % in 1973. This reversal of the trend is, however, explained solely by the effects of the United Kingdom's accession. In this country, in fact, coal production yields a coal levy representing nearly 45 % of the total amount due from the coal and steel sector. Thus the levy declared by this country helps to absorb completely the effects of the steady decline in payments on coal by the six original Community countries and even to reverse this trend.

Within the steel industry, considerable shifts are also discernible as a result of changes affecting the products subject to the levy. Thus the contribution of Basic Bessemer ingots which, up to 1961-1962, had accounted for over 28 % of total income from the levy on steel, fell to their present share of some 5 % whilst that of other ingots produced by more modern methods, particularly the basic oxygen process, has increased over the same period.

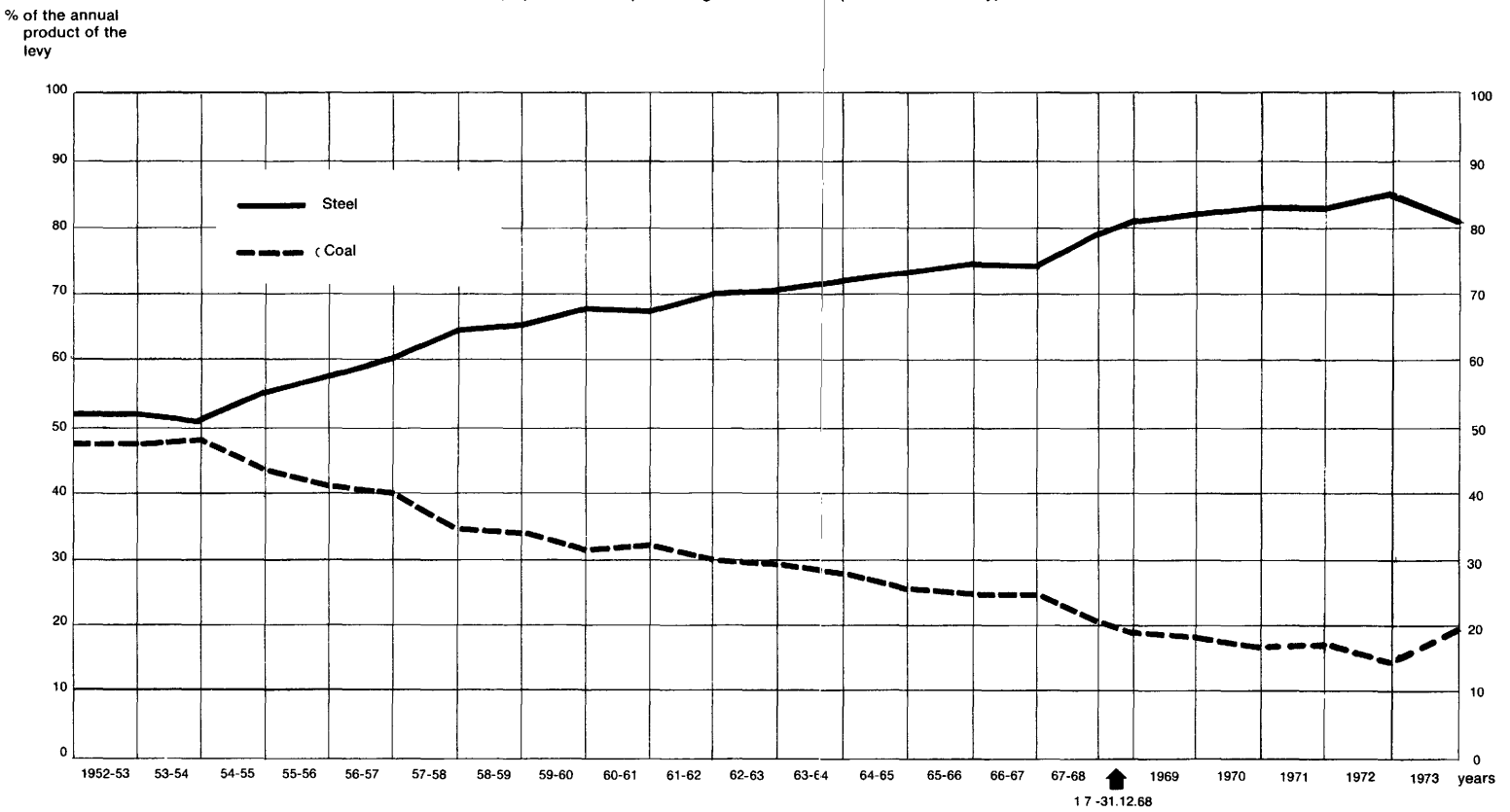
This change is due to the fact that in the main steel-producing countries of the Community, plant for the Basic Bessemer process has largely been replaced by plant for the basic oxygen process. This development could, in the fairly near future, make it unnecessary to keep the two categories for charging steel ingots ("Basic Bessemer" and "other than Basic Bessemer") in the levy statements of output.

Table 14: - RATE OF THE LEVY AND NET PER TONNE SCALE IN UA FROM 1952 TO 1973 FOR EACH CATEGORY OF CHARGEABLE PRODUCTS

| Period | Rate % | Brown-coal briquettes and semi-coke derived from brown-coal | Hard-coal | Pig-iron other than in ingots | Basic bessemer steel in ingots | Steel other than basic bessemer steel in ingots | Finished and end-products of iron and steel |
|---|---|---|---|---|---|---|---|
| 1.1.1953 | 0.30 | 0.0141 | 0.0372 | 0.1422 | 0.1398 | 0.1884 | 0.0735 |
| 1.3.1953 | 0.50 | 0.0235 | 0.0620 | 0.2370 | 0.2330 | 0.3140 | 0.1225 |
| 1.5.1953 | 0.70 | 0.0329 | 0.0868 | 0.3318 | 0.3262 | 0.4396 | 0.1715 |
| 1.7.1953 | 0.90 | 0.0423 | 0.1116 | 0.4266 | 0.4194 | 0.5652 | 0.2205 |
| 1.7.1955 | 0.70 | 0.0329 | 0.0868 | 0.3318 | 0.3262 | 0.4396 | 0.1715 |
| 1.1.1956 | 0.45 | 0.0212 | 0.0558 | 0.2133 | 0.2097 | 0.2826 | 0.1103 |
| 1.7.1957 | 0.35 | 0.0220 | 0.0448 | 0.1870 | 0.1738 | 0.2925 | 0.1003 |
| 1.7.1959 | 0.35 | 0.0277 | 0.0448 | 0.1870 | 0.1738 | 0.2925 | 0.1003 |
| 1.7.1961 | 0.30 | 0.0237 | 0.0384 | 0.1603 | 0.1490 | 0.2507 | 0.0860 |
| 1.7.1962 | 0.20 | 0.0158 | 0.0256 | 0.1068 | 0.0993 | 0.1672 | 0.0573 |
| 1.7.1964 | 0.20 | 0.0180 | 0.0256 | 0.1068 | 0.0993 | 0.1672 | 0.0573 |
| 1.7.1965 | 0.25 | 0.0225 | 0.0360 | 0.1071 | 0.1337 | 0.2117 | 0.0717 |
| 1.7.1966 | 0.25 | 0.0225 | 0.0360 | 0.1071 | 0.1337 | 0.2117 | 0.0717 |
| 1.7.1967 | 0.30 | 0.0297 | 0.0432 | 0.1286 | 0.1604 | 0.2540 | 0.0860 |
| 1.1.1972 | 0.29 | 0.0287 | 0.0548 | 0.1640 | 0.1814 | 0.2865 | 0.1043 |
| 1.1.1973 | 0.29 | 0.0339 | 0.0526 | 0.1617 | 0.1931 | 0.2667 | 0.1010 |

Table 15

**Changes by sector (coal-steel) in levy income from 1953 to 1973**
(expressed as a percentage of the annual product of the levy)



As for finished products, their share in the total levy income from steel has remained relatively constant since 1952.

If one wanted to collect all levy amounts in such a way as to cover all steel production equally, irrespective of the manufacturing processes involved, one would need to adapt the concept of a finished product as defined in Annex I to the Treaty, to keep pace with technical developments.

Thus, of all the semi-finished products only"hot-rolled coils"are considered as finished products - and thus subject to the levy - as soon as they leave the jurisdiction of the Treaty, i.e. as soon as they are traded. The same rule has not been observed for "blooms", "slabs" and "billets". Another omission is apparent for this latter group when they are to be used in tube manufacture. In fact, when they are obtained by the traditional process of rolling, they become finished rolled products and thus chargeable - whereas, if produced by the new "continuous casting" process, they remain non-rolled semi-finished products and so escape the levy.

Table 16 shows the changes in the proportions of total receipts from the levy on steel accounted for by the four categories of steel products from inception of the ECSC up to 1973. The contribution of each product is expressed as a percentage for each year of the annual product of the levy on steel.

If we examine the contribution of each of the countries to levy income from 1964 to 1972, it will be seen that the share of

- Germany has fallen from over 50 % to 44.6 %
- Italy has risen from 11.3 % to 15.7 %
- Belgium has risen from 8.8 % to 11.6 %
- France has fallen from 22.3 % to 20.1 %
- Netherlands has risen from 4.2 % to 4.5 %
- Luxembourg has risen from 3.2 % to 3.5 %.

This trend has persisted further in these countries as may be seen from Table 17 which shows, for each Member Country and group of products, changes between 1972 and 1973 in the breakdown of levy income declared. This table clearly reveals the percentage differences between the two years by country and group of products.

The accession of the three new countries from 1 January 1973 resulted in a new breakdown of levy payments among the Member Countries, which appears for 1973 as follows :

| | |
|---|---|
| - Germany | 34.9 % |
| - United Kingdom | 23.0 % |
| - France | 15.1 % |
| - Italy | 11.9 % |
| - Belgium | 8.7 % |
| - Netherlands | 3.2 % |
| - Luxembourg | 2.9 % |
| - Denmark | 0.2 % |
| - Ireland | 0.1 % |
| | 100 % |

Table 16

**Changes in levy income for the four categories of steel products from 1953 to 1973**
(expressed as a percentage of the annual product of the levy on steel)

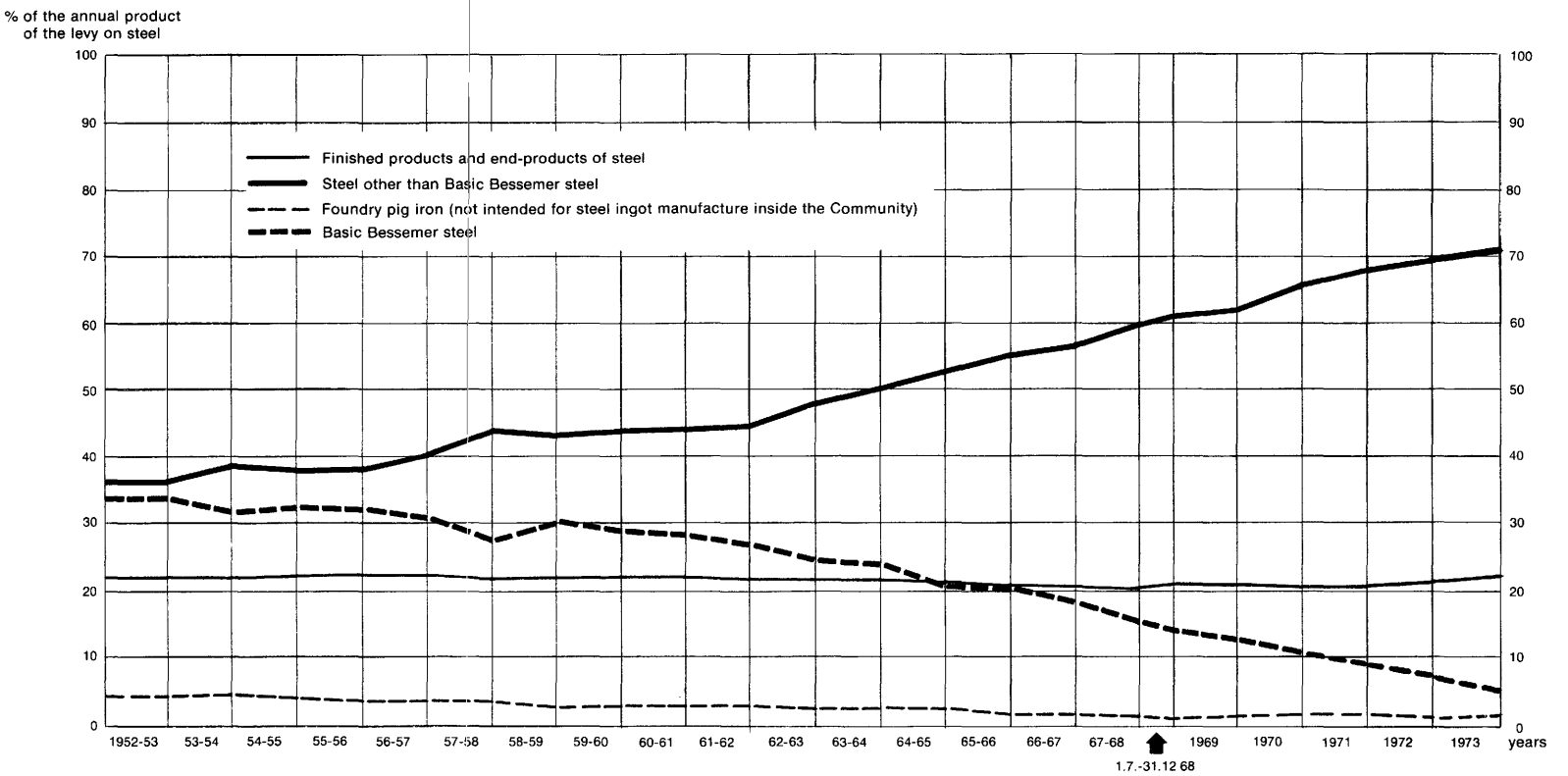


Table 17: - INCOME FROM THE LEVY

- BREAKDOWN BY GROUP OF PRODUCTS AND COUNTRY OF SUMS DECLARED AND RECORDED IN THE ACCOUNTS FOR 1972 AND 1973

| Country | Coal | | | Steel | | | Levy total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1972 | 1973 | Change % | 1972 | 1973 | Change % | 1972 | 1973 | Change % |
| Germany | 5 417 687 | 4 960 442 | - 8.4 | 15 627 263 | 16 996 926 | + 8.8 | 21 044 950 | 21 957 368 | + 4.3 |
| Belgium | 506 586 | 409 355 | - 19.2 | 4 946 942 | 5 085 919 | + 2.8 | 5 433 528 | 5 495 274 | + 0.8 |
| France | 1 434 431 | 1 188 979 | - 17.1 | 8 066 571 | 8 309 677 | + 3.- | 9 501 002 | 9 498 656 | - |
| Italy | 7 163 | 80 | - 98.9 | 7 410 274 | 7 441 676 | + 0.4 | 7 417 437 | 7 441 756 | + 0.3 |
| Luxembourg | - | - | - | 1 657 919 | 1 798 405 | + 8.5 | 1 657 919 | 1 798 405 | + 8.5 |
| Netherlands | 141 880 | 84 524 | - 40.4 | 1 992 174 | 1 939 875 | - 2.6 | 2 134 054 | 2 024 399 | - 5.1 |
| The Six | 7 507 747 | 6 643 380 | - 11.5 | 39 701 143 | 41 572 478 | + 4.7 | 47 208 890 | 48 215 858 | + 2.1 |
| Denmark | - | - | - | - | 150 025 | - | - | 150 025 | - |
| Ireland | - | 1 337 | - | - | 39 050 | - | - | 40 387 | - |
| United Kingdom | - | 5 446 249 | - | - | 9 041 508 | - | - | 14 487 757 | - |
| New Member States 1973 | - | 5 447 586 | - | - | 9 230 583 | - | - | 14 678 169 | - |
| The Nine | 7 507 747 | 12 090 966 | + 61.- | 39 701 143 | 50 803 061 | + 28.- | 47 208 890 | 62 894 027 | + 33.2 |

37.4 - Allocation of income from the levy must be in accordance with the explicit terms and restrictions of the Paris Treaty (Article 50) and used to cover :

- the administrative expenditure envisaged in Article 78
- assistance to rehabilitation provided for in Article 56
- assistance to technical and economic research provided for in Article 55, paragraph 2
- only after first drawing on the reserve fund, any deficit in the service on borrowings and loans and any extension of the Institution's guarantee to loans contracted by enterprises directly.

Since the ECSC was established, the funds raised by the levy (excluding all other revenues such as interest on levy income invested) have totalled some 733 million UA. Of this sum, 100 million UA are tied up in a guarantee fund *(1)* on which the ECSC's credit-raising capacity on money markets is based. 214 million UA have been channelled into the rehabilitation of workers and 136 million into research. Operating expenses were covered out of the balance *(2)*. The Institution has thus financed its other initiatives (loans to investments, structural reorganization and social housing, interest reductions on loans for structural reorganization and investments, assistance to coking coal, etc.) out of resources other than levy income (borrowings, interest on investments).

37.5 - We found that late payments are largely due to chance factors (amounts received in consequence of stock reductions in Germany, payments made but delayed as a result of bank strikes in France, etc.).

Other delays do not extend beyond the current year and are in every case attributable to liquidity problems experienced by small enterprises which produce and declare relatively small tonnages. Thus, strict application of the procedures laid down, involving, in the first place, formal notice, would in this particular case create timing difficulties both for the decision to be taken by the Institutions and the expenditure this procedure would entail when compared with the size of the amounts due.

- As regards our auditing operations during the year and at the year-end, we found that the Institution had arrears interest of 4 948 UA in 1973 but did not need to serve formal notice, as provided for under Article 36 of the Treaty (a procedure last used in 1970).

Sums demanded as increases on arrears are recorded by the Institution separately from the accounts and then entered among revenues as and when received.

We also checked that the total product of the levy was correctly collected.

37.6 - We noted that the survey of enterprises subject to the levy had been up-dated and supplemented, on the accession of the new members, by relevant data for the enterprises subject in those countries, particularly Great Britain, whose coal and steel industry is a sizable one. This survey was made easier by the fact that the large steel industry is centred in the important British Steel

*(1) This was 112 million UA on 31.12.1973 as a result of the allocation of 12 million UA collected in accession contributions.*

*(2) This expenditure totalled 305.5 million UA on 31.12.1973.*

Corporation, whereas it was less easy for the smaller industries, whether they were affiliated to the British Independent Steel Producers' Association or not. The same was true for the large collieries coming under the National Coal Board (NCB) and for the small independent collieries. By comparing the NCB's annual overall statistics with the levy returns received it will be possible to discover and investigate possible gaps in the list of enterprises surveyed. This will be dealt with next year.

Together with the responsible officials of the levy office we compared the tonnages declared and paid on under the levy in 1972 with the production figures collected for the same year by the Statistical Office of the European Communities. This comparison - which clearly can only be made after an interval of one year - covered five categories of chargeable products which lent themselves to comparison using the necessary correctives. For these five categories (hard coal, brown coal briquettes, pig iron, steel in ingots and finished products), and taking into account in-plant consumption, production by non-chargeable enterprises or non-chargeable finished products, we arrived at production tonnages declared and paid on for 1972 which were in general higher than those named in the official statistics.

A summary of these findings is given in Table 18.

37.7 - We acquainted ourselves with the inspection reports compiled after on-the-spot inspections by officials of the Inspectorate.

In 1973 the levy office carried out particularly thorough checks, on the one hand of enterprises showing some reticence in their levy returns and, on the other hand, on those which had not been inspected for some time. On account of its size this programme will have to be continued in 1974.

During the year twenty-one inspections were carried out on enterprises subject to the levy (four in Germany, four in France, two in Belgium and eleven in Italy). Twenty-three inspection reports - of which seven held particular interest for us - were drawn up in 1973 and cover seven inspections made in 1972 and sixteen in 1973; most of the reports apply to tonnages declared in 1971 and 1972.

Subsequent to these inspections eleven enterprises submitted returns additional to those sent in initially. Examination of the eleven other cases called for no special comment (the returns were found to tally with the actual production). One other case was classified as not requiring further action because, on the one hand, of the impossibility of obtaining the information required to calculate the adjustment needed and, on the other hand, because of the triflingly small amount of the repayment to which the adjustment would have applied.

Our analysis of the reports we studied prompted a few comments which have been referred to the appropriate authorities.

- A certain number of supplementary returns were made because the initial returns had omitted to give production of ingot "seconds".

- A few supplementary returns were also made after the inspection had revealed that the enterprise was not declaring its continuous-cast front scrap, whereas ingot crop ends are declared.

Table 18: - OVERALL COMPARISON OF FIVE CATEGORIES OF PRODUCTION DECLARED AND PAID ON UNDER THE LEVY WITH THE FIGURES OF THE STATISTICAL OFFICE OF THE EUROPEAN COMMUNITIES FOR 1972 (tonnages)

| Category of chargeable products | Production according to SOEC statistics (in thousand tonnes) | Production declared and paid on under the ECSC levy (in thousand tonnes) | Remarks |
|---|---|---|---|
| Coal | 143 034<br>- 17 164 (12 % for in-plant consumption)<br>125 870 | 125 430<br>+ 9 803 (for stocks of hard coal granted 'temporary deferment of payment'<br>135 233 | Our figure 9 363 000 tonnes higher for production declared for the levy, not counting non-chargeable declarations for:<br>- production by enterprises falling below the monthly declarable minimum of 100 UA<br>- 18 % flat-rate reductions on production by enterprises which do not have a washing plant of their own |
| Brown coal briquettes | 6 751<br>- 203 (3 % for in-plant consumption)<br>6 548 | 6 548 | |
| (Foundry) pig iron | 4 160 broken down into:<br>a) phosphorus 400<br>b) non-phosphorus 2 703<br>c) spiegel and ferro-manganese 814<br>d) special pig irons 243 | 3 971 | Our figure 189 000 tonnes lower for production declared for the levy since<br>a) ferro-manganese containing more than 30 % manganese is not subject to the levy<br>b) the majority of special pig irons are special alloyed pig irons not subject to the levy |
| Steel in ingots | 111 815 including:<br>16 048 basic Bessemer steels<br>other steels 97 099<br>- 1 332 (liquid steels for casting)<br>95 767 | 112 041<br>basic Bessemer steels 16 186<br>other steels<br>95 855 | Our figure 226 000 tonnes higher for production declared for the levy |
| Finshed products | 82 308<br>- 88 (for cold-rolled sheets over 3 mm)<br>82 220 | 82 312 | Our figure 92 000 tonnes higher for production declared for the levy |

- A certain number of small and medium-size enterprises claim they do not have (or at the time of the inspections no longer had) the accounting and technical documents whereby rolling-mill and continuous casting production subject to the ECSC levy could be checked.

As in the cas of checks on prices (High Authority decision no. 14-64 of 8.7.1964), it should be made compulsory to provide these documents to assist the general accounting operations. In effect, the inspection departments no longer have a sufficiently accurante frame of reference since the adoption of new manufacturing techniques in which the amount of energy consumed is no longer constantly proportional to the volume of production.

Finally, we noted that some inspection reports are too condensed or imprecise, and some even hypothetical. Consequently they are not as useful as they should be to the departments which have to make decisions on the basis of them. Necessary steps should be taken by the Institution to see that appropriate instructions and means are made available to inspectors to help them in their task and to prevent these difficult cases, which are fortunately few and far between.

## EXPENDITURE FOR REHABILITATION

38 - Extent of our audit

In this sector, our audit was concerned with checking :

- the correctness of all payments made during 1973 for rehabilitation, ensuring that the vouchers existed and that entries were made correctly in the accounts and in accordance with the official decisions taken

- new decisions for assistance earmarked in 1973 and the entering of their total value in the provision.

We checked operations principally with the departments of the Directorate - General for Financial Control, using the vouchers (various decisions and documents) and computer listings of accounting records for credits approved, disbursements and repayments for each category of assistance.

This year we have also begun to receive details of decisions to grant assistance as and when these are taken, from the Directorate-General for Budgets, which we consult on any problems connected with disputes - though no such problems arose in 1973.

Finally, we exchanged views with the departments of the Directorate-General for Social Affairs, which authorizes this expenditure, to satisfy ourselves that the mechanisms governing the ECSC's financial assistance to rehabilitation had been efficiently checked. This year, we also cooperated with officials of this Directorate-General in auditing a regional organization which acts as a clearing house for assistance to rehabilitation.

39 - Remarks

39.1 - The number of new commitments subscribed by the Community for rehabilitation in 1973 was very high: from 15.4 million UA in 1972, they rose to 42.9 million UA in 1973. These commitments were subscribed primarily for the coal sector and were principally towards Germany (nearly 31 million UA), followed by France (nearly 8.8 million UA), Belgium (2.8 million UA) and the United Kingdom (0.65 million UA).

The provision for rehabilitation shown on the balance sheet at 31 December 1973 (99 010 726 UA) represents a net amount, arrived at by deducting assistance already disbursed, any repayments made and commitments cancelled for any reason from the amount of engagements current at the beginning of the year plus those specifically approved in 1973.

Tables 8 and 9 in the first part of this report show details, by type, country and sector, both of new assistance granted during the year and of sums still held in the provision at 31 December 1972.

Assistance disbursed during the year totalled 5 081 991 UA and cancellations of previous commitments for assistance no longer required totalled 6 523 427 UA. The latter are calculated in an annual review of assistance estimates undertaken jointly by the Directorate-General for Social Affairs and the departments responsible in each country. We wholeheartedly approve of this method since it is designed to make balance sheet estimates as realistic as possible. We simply noted that a provision for assistance of 512 111.87 UA to an Italian enterprise, dating from 1965, is still included in the provision pending a solution, which talks now in progress will doubtless bring about in the near future.

Loans or advances granted to re-house redundant workers or for the deferred financing of hard coal stocks, though concerned with rehabilitation, are no longer covered by these remarks and tables.

Our examinations at the Directorate-General for Financial Control give rise to no comments. They enabled us to establish that the dossiers and books were properly kept.

39.2 - All expenditure subjected to our audit related exclusively to Article 56, paragraph 2 of the ECSC Treaty.

Disbursements were well down on the preceding year, decreasing from 14 518 629 UA in 1972 to 5 081 991 UA in 1973. There are two reasons for this.

Firstly, Germany has adopted a new procedure for the presentation of its applications for advances, which involves postponing the request for payment until the beneficiary has reached the end of the allowance period (18 months). Secondly, the Institution had to suspend payment of advances to France to finance pre-retirement expenditure: the Institution refused to comply with requests for coverage of the total cost of this assistance and confined itself to covering the part corresponding to the tideover allowance, feeling quite rightly that it could not finance a pension scheme under Article 56, which aims simply to facilitate the 'Rehabilitation of workers'.

This dispute should be solved as quickly as possible, if a sizeable difference between 'actual' and 'cancellable' commitments is to be avoided.

39.3 - Exchanges of views with the Directorate-General for Social Affairs and our presence at an audit carried out in Germany at a regional disbursements office give rise to a number of remarks.

In 1973 there were two on-the-spot audits at regional offices in Germany which draw up and disburse the assitance amounts. In 1972 measures were taken to simplify checking procedures and the auditing of wages and various allowances paid to rehabilitated workers in Germany is now carried out when payments reach one million DM. Officials from the Directorale-General for Social Affairs ascertain, primarily by random checks, that the wages and allowances in question were in fact paid and carry out systematic checks of the documents on the basis of which flat-rate allowances were granted and checks on the management of new offices.

When they detect certain anomalies (e.g. unjustified changes in the reference wage on which calculation of the allowances is based, refund of travel expenses disproportionate to the actual distances or period authorized, etc.), the officials take the opportunity offered by their visits to discuss, analyse and, where necessary, correct these anomalies, using reference lists with the data they need to recalculate the assistance amount in each individual case.

With the German system it may be observed that, although the federal structure of the departments concerned allows efficient cross-checking at various levels (checks by the government, the Audit Office, the audit bodies of each state and the regional payment offices) administrative decentralization, added to the fact that operations are not computerized, remains a source of copying errors necessitating frequent adjustments which cause the Commission's departments some difficulty.

In 1973 German estimates of medium-term rehabilitation expenditure were outpaced by the accelerating rate of closures and the Institution thus had to subscribe new commitments during the year in order to cover the surplus requirements.

39.4 - In Belgium an annual audit is conducted of a semi-public organization (ONEM) from copies of payment statements sent each month to the Institution. This organization pays out all the ECSC's assistance to rehabilitation and computerizes its accounts centrally, except for resettlement allowances and the reimbursement of training expenses: from time to time, checks are also made on the vocational training files at the ONEM's regional offices. Thus certain differing interpretations of workers' allowances or traval costs were avoided and the financial assistance given by the ECSC and calculated from data supplied per worker, was organized in a way similar to that in other countries, where it is based on overall monthly expenditure.

39.5 - In the Netherlands audits are carried out at least once a year of an office (AZL) which, with the assistance of a computer centre, calculates, centralizes, pays out and records rehabilitation assistance to workers. This office, which is situated in the coal mining region, is technically speaking well equipped for cross-checking. Thus in 1973 is carried out a retrospective check of allowances paid from 1965 till the end of June 1967: the discrepancy revealed did not exceed Fl 4 000 for all large-scale operations in this period. A large proportion of rehabilitation assistance was for reimbursement of vocational training expenses in the numerous industries establishing themselves in the area affected by the third and final phase of the coal mine closure plan. In view of the variety of cases submitted for Community financing the Institution has drawn up a checking procedure to examine the various individual cases for which applications have been put forward.

39.6 - In France computerized recording of payments and accounting operations for certain types of assistance has recently been successfully introduced. Every three or six months the competent central government department sends the Commission computer listings (except for training and certain other allowances) from local employment exchanges. It is here, and in the collieries, that the Institution's annual audits take place, on the basis of information obtained from analysis of the documents received. In 1973 the Institution held inspections in three local labour exchanges, more by way of information than as a formal audit owing to the recent switch to computers.

39.7 - In Italy rehabilitation assistance for redundant workers in the iron and steel industry, iron mines and, indirectly, the coal industry is still governed by the 1965 agreement. This provides for the payment of tideover, re-employment and resettlement allowances and, in certain rare cases, the financing of vocational training, for a period of up to 15 months. In 1973 no application was made for Community financing.

39.8 - The agreement negotiated with the United Kingdom for assistance under Article 56, paragraph 2, for workers in the iron and steel industry, was formally concluded in 1973 and three requests for credit have already been made. The Institution also drew up an agreement concerning assistance for workers in the coal industry but at the end of the year this had not yet been signed. In addition, with the aid of the bodies concerned, the Institution made provision for the requisite administrative checking procedures: a large computer centre belonging to the English coal industry was instructed to process all ECSC rehabilitation assistance.

39.9 - In our contacts with the Directorate-General for Social Affairs we are chiefly concerned with securing more automatic information about its planning of on-the-spot checks, about the outcome of missions to national organizations and all documentation on individual agreements or directives relating to the granting of assistance.

## EXPENDITURE FOR TECHNICAL AND SOCIAL RESEARCH

40 - Extent of our audit

In the sector of technical research (steel, coal, iron ore) and social research (industrial health, safety and medicine) financed by the ECSC, we checked:

- that the amounts of all disbursements during the year were correct, that they were correctly recorded in the accounts and that they were in accordance with the agreements governing them

- the existence and validity of research agreements, and that the amounts legally pledged under them tallied with the sums held in the corresponding balance sheet provisions

- the inspection reports complied by the budget officials either during projects (interim reports) or on their completion (final reports)

- the progress of current research work conducted by the technical directorates (coal, steel, industrial health, safety and medicine, social housing construction) attached to three directorates-general (Energy, Industrial Affairs and Social Affairs).

We conducted this part of our audit primarily at the Directorate-General for Budgets, which is responsible for preparing estimates of research expenditure, keeping the books for commitments and payments under each project and holding financial inspections of beneficiairies of subsidies together with officials of the authorizing technical departments.

In order to comply with the European Parliament's wish to see 'the Auditor make a special effort with regard to audits in the research field and to make particular reference to this in his report for the financial year 1973' (1), we have implemented two new methods of examination, the first based on documentary evidence and the second on on-the-spot checks. We have thus:

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(1) *Item II of the Resolution on the ECSC Auditor's reports for the financial years 1971 and 1972, Official Journal of the European Communities, No C2, 9 January 1974.*

- asked the Institution to keep a properly updated register of all current research projects showing the successive stages reached in the contractually agreed procedures;

- conducted on-the-spot investigations of some forty research projects, chosen with a view to providing a sufficiently representative picture of the various sectors and countries involved.

41 - Remarks

Assistance to research decided on by the ECSC from its inception up to the end of the year under review totalled over 136 million UA, including more than 654 000 UA allocated to the dissemination of the findings of research projects. In decreasing order of size, the ECSC gave assistance to the steel sector (56 034 700 UA), the coal sector (43 559 323 UA) and the social sector (28 096 931 UA), plus subsidies for two experimental social housing construction programmes (1 969 389 UA) and the iron ore sector (5 985 665 UA).

Of all the funds thus earmarked for research, approximately 86% had been disbursed (more than 116.5 million UA).

Table 19 shows the subsidies granted and paid up to 31 December 1973 for research projects as a whole and for each project individually.

The sums still covered in the provision at 31 December 1973 are thus shown in this table by project and by sector and correspond to those shown in the balance sheet. They represent the value of research agreements duly signed, less costs and any credits cancelled or repaid. By sector of research, entries in the provision at 31 December 1973 break down as follows:

- Steel 10 627 734 UA
- Coal 5 216 819 UA
- Iron ore 452 793 UA
- Social 3 461 916 UA, which comprises 3 392 541 UA for industrial safety, health and medicine
  and 69 375 UA for the second experimental social housing programme.

The new commitments undertaken in 1973 (5 592 531 UA) only amount to a third of those in the previous year while disbursements (11 670 438 UA), remained almost the same (+ 0.3%).

The explanation for the considerable drop in new commitments is to be found in the reasons behind the Institution's decision to form a new reserve aimed at indicating its intention to complete, during the first half of 1974, the preliminaries on research agreements amounting to an estimated total of 13 267 314 UA. This amount which is listed against 'anticipated commitments' under sundry provisions will be cancelled if the commitment is not finalized by 30 June 1974. There was thus some considerable delay this year in the final allocation of the part of the levy resources the Institution had earmarked for research projects. In financial terms this had the effect of increasing the 'unallocated balance' at 31 December 1973.

Table 19: - TECHNICAL, ECONOMIC AND SOCIAL RESEARCH

- BREAKDOWN - BY SECTOR AND PROJECT - OF FINANCIAL ASSISTANCE GRANTED, DISBURSED BEFORE AND DURING THE YEAR AND REMAINING IN THE PROVISION AT 31.12.1973

| Description of research | Sums allocated | Disbursements in previous years | Disbursements during 1973 | Total disbursements at 31.12.1973 | Sums still covered in the provisions at 31.12.1973 | Sums still covered in the provisons at 31.12.1973(new parities) |
|---|---|---|---|---|---|---|
| STEEL | | | | | | |
| 1) Projects completed at 31.12.1973 | 13 313 291 | 13 107 514 | 205 777 | 13 313 291 | - | - |
| 2) Projectscurrent at 31.12.1973 | | | | | | |
| - Flame radiation IV & V | 1 003 150 | 648 343 | 198 619 | 846 962 | 156 188 | 168 522 |
| - Technical literature from eastern Europe | 200 000 | 106 437 | 42 097 | 148 534 | 51 466 | 51 466 |
| - Calculation and construction method | 226 557 | - | - | - | 226 557 | 257 533 |
| - Low shaft blast furnace VI | 1 296 000 | 1 033 800 | - | 1 033 800 | 262 200 | 269 436 |
| - Automation of reversing mills | 1 973 950 | 1 622 800 | - | 1 622 800 | 351 150 | 351 150 |
| - Electronic surveillance in steel | 199 150 | - | - | - | 199 150 | 162 181 |
| - Gas analysis in steel and pig iron | 568 554 | 424 497 | 19 795 | 444 292 | 124 262 | 124 262 |
| - Electric arcs | 85 247 | - | - | - | 85 247 | 69 422 |
| - Steel ingot structure | 64 607 | 57 965 | - | 57 965 | 6 642 | 6 739 |
| - Collective programme on steel measurements | 2 253 901 | 2 112 595 | 40 556 | 2 153 151 | 100 750 | 104 417 |
| - Continuous pig refining | 4 323 832 | 2 866 844 | 473 642 | 3 340 486 | 983 346 | 1 010 620 |
| - Acceleration of refining in the electric furnace | 275 800 | 248 000 | - | 248 000 | 27 800 | 23 879 |
| - Collective programme on steel properties and uses | 1 734 445 | 1 505 120 | 121 281 | 1 626 401 | 108 044 | 118 915 |
| - Collective programme on metal physics | 132 813 | 123 840 | 4 750 | 128 590 | 4 223 | 4 223 |
| - Purofer direct reduction | 4 664 827 | 2 649 799 | 1 813 525 | 4 463 324 | 201 503 | 229 053 |
| - Reversing mill for medium and heavy plate | 732 442 | 686 987 | 32 081 | 719 068 | 13 374 | 15 203 |
| - Fire behaviour of metal structures | 684 940 | 619 034 | - | 619 034 | 65 906 | 67 318 |
| - Collective programme on BF automation | 855 725 | 821 359 | - 7 558 | 813 801 | 41 924 | 47 655 |
| - Ausforming | 502 878 | 452 076 | 18 073 | 470 149 | 32 729 | 35 668 |
| - Cold forming | 172 085 | 130 742 | - | 130 742 | 41 343 | 42 607 |
| - Structure of agglomerates | 177 215 | 128 120 | 40 095 | 168 215 | 9 000 | 9 248 |
| - Green pellets | 124 287 | 118 000 | - | 118 000 | 6 287 | 6 461 |
| - Cast iron | 46 850 | 42 137 | - | 42 137 | 4 713 | 5 048 |
| - Gamma-ray inspection | 121 125 | 107 572 | 3 241 | 110 813 | 10 312 | 9 410 |
| - Rotovert | 250 000 | 224 000 | - | 224 000 | 26 000 | 22 332 |
| - Thermomechanical treatment | 145 000 | 129 600 | - | 129 600 | 15 400 | 13 228 |
| - High energy forming | 90 000 | 70 800 | - | 70 800 | 19 200 | 17 706 |
| - Weldability | 523 009 | 465 938 | 14 122 | 480 060 | 42 949 | 44 523 |
| - Corrosion | 424 960 | 366 574 | 8 102 | 374 676 | 50 284 | 47 641 |
| - Drawability | 149 434 | 132 622 | 3 801 | 136 423 | 13 011 | 12 751 |
| - Machinability | 59 437 | 45 848 | 6 901 | 52 749 | 6 688 | 6 858 |
| - Fatigue and standard construction | 265 054 | 212 842 | 9 689 | 222 531 | 42 523 | 43 003 |
| - Brittle fracture | 183 004 | 148 210 | 1 692 | 149 902 | 33 102 | 30 072 |
| - Steel for high-temperature uses | 149 080 | 133 428 | 3 373 | 136 801 | 12 279 | 11 963 |
| - Steel for heat treatment | 135 753 | 113 227 | 7 822 | 121 049 | 14 704 | 14 775 |
| - Metal physics | 192 000 | 107 200 | 38 680 | 145 880 | 46 120 | 47 393 |
| - Casting and solidifying of steel | 671 988 | 556 223 | 63 388 | 619 611 | 52 377 | 55 790 |
| - Slab turning | 112 000 | 27 323 | - | 27 323 | 84 677 | 96 255 |
| - Measurement techniques II | 1 022 250 | 509 344 | 82 892 | 592 236 | 430 014 | 454 180 |
| - Wide strip hot rolling mill | 1 721 204 | 1 052 220 | 132 118 | 1 184 338 | 536 866 | 575 633 |
| - Cooling of wire rod | 163 934 | 70 219 | 77 322 | 147 541 | 16 393 | 18 635 |
| - S.E.P. III - drawability | 146 400 | 93 502 | 898 | 94 400 | 52 000 | 46 814 |
| - S.E.P. III - weldability | 108 000 | 61 250 | 2 300 | 63 550 | 44 450 | 44 516 |
| - S.E.P. III - corrosion | 55 800 | 28 462 | 3 400 | 31 862 | 23 938 | 25 886 |
| - S.E.P. III - electrical sheet | 28 800 | 25 920 | - | 25 920 | 2 880 | 2 474 |
| - S.E.P. III - fracture mechanics | 504 000 | 358 059 | 64 079 | 422 138 | 81 862 | 77 488 |

Table 19 (contd. 1)

| Description of research | Sums allocated | Disbursements in previous years | Disbursements during 1973 | Total disbursements at 31.12.1973 | Sums still covered in the provisions at 31.12.1973 | Sums still covered in the provisions at 31.12.1973 (new parities) |
|---|---|---|---|---|---|---|
| STEEL (contd.) | | | | | | |
| - S.E.P. III - creep | 183 600 | 115 775 | 49 105 | 164 880 | 18 720 | 18 952 |
| - S.E.P. III - fatigure and standard construction | 88 819 | 58 602 | 12 430 | 71 032 | 17 787 | 19 254 |
| - Continuous electric steelmaking plant | 963 035 | 579 449 | 205 784 | 785 233 | 177 802 | 192 488 |
| - Hot compacting of iron ore | 390 000 | - | - | - | 390 000 | 400 763 |
| - Automation of oxygen steelmaking plant | 336 960 | 111 560 | 28 740 | 140 300 | 196 660 | 202 087 |
| - Documentation for architects | 61 475 | 21 858 | 19 672 | 41 530 | 19 945 | 22 672 |
| - Measurement techniques III | 1 075 742 | 359 069 | 115 360 | 474 429 | 601 313 | 623 631 |
| - Metal physics - thermomechanical treatment | 54 000 | 48 612 | - | 48 612 | 5 388 | 5 388 |
| - Metal physics - quantitative metallography | 231 000 | 130 216 | 47 619 | 177 835 | 53 165 | 49 157 |
| - Metal physics - metallography atlas | 81 000 | 39 595 | 8 940 | 48 535 | 32 465 | 35 056 |
| - Metal physics - structural mechanisms | 126 000 | 78 874 | 9 860 | 88 734 | 37 266 | 38 112 |
| - Dispersoids | 384 000 | 182 136 | 60 310 | 242 446 | 141 554 | 139 153 |
| - BF automation | 559 672 | 202 896 | 229 569 | 432 465 | 127 207 | 111 510 |
| - Surface defects, semis | 618 000 | 409 836 | - | 409 836 | 208 164 | 236 625 |
| - Automation of cold tandem rolling mill | 655 902 | 279 235 | 48 907 | 328 142 | 327 760 | 372 572 |
| - BF gas injection | 1 416 817 | 870 000 | 405 000 | 1 275 000 | 141 817 | 145 730 |
| - Water-cooled steel supports | 95 082 | 29 235 | 22 132 | 51 367 | 43 715 | 49 693 |
| - Industrialisation of building constructions | 786 000 | 248 612 | 175 662 | 424 274 | 361 726 | 372 747 |
| - Measurement of heat transfer | 27 000 | 10 000 | - | 10 000 | 17 000 | 17 469 |
| - Physical metallurgy - quantitative analysis | 43 751 | 18 545 | 8 822 | 27 367 | 16 384 | 16 384 |
| - Physical metallurgy - order - disorder | 57 000 | 27 322 | 24 590 | 51 912 | 5 088 | 5 783 |
| - Physical metallurgy - grain boundaries | 141 120 | 64 000 | 20 320 | 84 320 | 56 800 | 48 788 |
| - Physical metallurgy - vacancies, iron | 55 680 | 27 200 | - | 27 200 | 28 480 | 24 463 |
| - Physical metallurgy - Auger spectrometry | 72 000 | 25 060 | 13 740 | 38 800 | 33 200 | 34 116 |
| - Physical metallurgy - precipitation phenomena | 120 000 | 39 126 | 42 278 | 81 404 | 38 596 | 41 648 |
| - Counterdeflection of the rolls | 105 866 | - | 57 254 | 57 254 | 48 612 | 48 612 |
| - Element transfer | 58 334 | - | 34 028 | 34 028 | 24 306 | 24 306 |
| - Radiant arch-roof furnace | 64 816 | - | 34 929 | 34 929 | 29 887 | 29 887 |
| - Management of enterprises | 600 000 | - | 248 908 | 248 908 | 351 092 | 358 338 |
| - Ladle steels | 642 000 | - | 322 395 | 322 395 | 319 605 | 318 396 |
| - MF prereduction, fluidization | 102 148 | - | 50 106 | 50 106 | 52 042 | 48 588 |
| - Drawability | 450 000 | - | 362 184 | 362 184 | 87 816 | 84 101 |
| - Sampling mechanisms | 58 200 | - | 20 000 | 20 000 | 38 200 | 39 254 |
| - Management of pits - slabbing mills | 269 558 | - | 94 013 | 94 013 | 175 545 | 177 587 |
| - Cold forming | 360 000 | - | 126 430 | 126 430 | 233 570 | 233 080 |
| - Calculator process control | 587 543 | - | 163 167 | 163 167 | 424 376 | 452 155 |
| - Thermomechanical treatment | 447 960 | - | 149 827 | 149 827 | 298 133 | 314 064 |
| - BF tuyeres | 31 148 | - | 17 213 | 17 213 | 13 935 | 15 840 |
| - Structural mechanisms | 156 000 | - | 46 126 | 46 126 | 109 874 | 111 118 |
| - Creep in welded joints | 420 000 | - | 100 781 | 100 781 | 319 219 | 325 903 |
| - Cold forming of steels | 113 213 | - | 35 936 | 35 936 | 77 277 | 80 753 |
| - Cast iron | 109 481 | - | 36 096 | 36 096 | 73 385 | 76 109 |
| Total steel | 56 034 700 | 38 523 205 | 6 974 786 | 45 497 991 | 10 536 709 | 10 862 684 |
| COAL | | | | | | |
| 1) Projects completed at 31.12.1973 | 25 508 248 | 25 457 297 | 50 951 | 25 508 248 | | |
| 2) Projects current at 31.12.1973 | | | | | | |
| - Firedamp and dust | 330 000 | 297 000 | - | 297 000 | 33 000 | 33 911 |
| - Outbursts of firedamp | 324 080 | 175 003 | 116 669 | 291 672 | 32 408 | 32 408 |

Table 19 (contd. 2)

| Description of research | Sums allocated | Disbursements in previous years | Disbursements during 1973 | Total disbursements at 31.12.1973 | Sums still covered in the provisions at 31.12.1973 | Sums still covered in the provisions at 31.12.1973(new parities |
|---|---|---|---|---|---|---|
| COAL (contd.) | | | | | | |
| - Control of firedamp outbursts | 559 082 | 178 361 | 140 458 | 318 819 | 240 263 | 255 064 |
| - Coking blend | 212 845 | 192 467 | - | 192 467 | 20 378 | 20 378 |
| - Technical literature from eastern Europe II | 100 000 | 30 277 | 12 202 | 42 479 | 57 521 | 57 521 |
| - Production and efficiency of workings | 449 819 | - | - | - | 449 819 | 455 614 |
| - Coke manufacture | 840 210 | - | - | - | 840 210 | 905 716 |
| - Physics and chemistry of hard coal II | 397 827 | 360 495 | - | 360 495 | 37 332 | 37 332 |
| - Physics and chemistry of hard coal III | 159 116 | 148 035 | - | 148 035 | 11 081 | 11 956 |
| - Cold shotfiring | 96 690 | 50 276 | - | 50 276 | 46 414 | 52 760 |
| - Hydromechanical winning | 316 257 | 283 470 | - | 283 470 | 32 787 | 37 270 |
| - Remote control II | 78 800 | 70 920 | - | 70 920 | 7 880 | 8 097 |
| - Automated plough | 96 981 | 87 172 | - | 87 172 | 9 809 | 11 150 |
| - Mechanised sinking and driving operations | 80 000 | 24 420 | 44 760 | 69 180 | 10 820 | 11 119 |
| - Ventilation improvements | 240 656 | 123 497 | 84 153 | 207 650 | 33 006 | 37 518 |
| - Special cokes | 462 352 | 416 153 | 8 822 | 424 975 | 37 377 | 42 487 |
| - Remote control and monitoring | 428 505 | 366 840 | - 78 110 | 288 730 | 139 775 | 139 775 |
| - Rock mechanics | 1 595 391 | 1 425 044 | 150 847 | 1 575 891 | 19 500 | 20 038 |
| - Roadway drivage | 1 618 510 | 1 326 387 | 97 276 | 1 423 663 | 194 847 | 207 969 |
| - Physical and chemical valorization of coal and coke | 510 045 | - | - | - | 510 045 | 569 442 |
| - Thick seams | 655 738 | 460 929 | 34 699 | 495 628 | 160 110 | 182 000 |
| - Winning operations | 854 938 | 508 921 | - | 508 921 | 346 017 | 349 599 |
| - Telecommunications, automation | 301 000 | 213 320 | 33 920 | 247 240 | 53 760 | 55 244 |
| - Coking of coal | 882 772 | 702 718 | 114 727 | 817 445 | 65 327 | 74 260 |
| - Coke oven yields | 715 574 | 245 902 | 223 770 | 469 672 | 245 902 | 279 522 |
| - Valorization of coal | 1 613 938 | 1 148 018 | 118 063 | 1 266 081 | 347 857 | 362 477 |
| - Pan trains | 983 465 | 697 550 | 31 508 | 729 058 | 254 407 | 284 293 |
| - High-output face | 499 218 | 382 262 | 38 315 | 420 577 | 78 641 | 86 292 |
| - Formed coke | 321 379 | 218 574 | 70 577 | 289 151 | 32 228 | 32 228 |
| - Coal-getting equipment | 214 754 | 102 459 | 54 918 | 157 377 | 57 377 | 65 222 |
| - Deformation of mine workings | 1 200 010 | 438 939 | 587 954 | 1 026 893 | 173 117 | 184 698 |
| - Sintering and coking of coal | 684 426 | 245 902 | 79 781 | 325 683 | 358 743 | 407 792 |
| - Rope and cable reliability | 226 697 | - | 68 306 | 68 306 | 158 391 | 180 046 |
| Total coal | 43 559 323 | 36 378 608 | 2 084 566 | 38 463 174 | 5 096 149 | 5 491 198 |
| IRON ORE | | | | | | |
| 1) Projects completed at 31.12.1973 | 4 801 366 | 4 801 366 | - | 4 801 366 | - | |
| 2) Projects current at 31.12.1973 | | | | | | |
| - Iron mining technique | 575 787 | 296 319 | 167 254 | 463 573 | 112 214 | 112 214 |
| - Iron ore mining, Bassin Est, France | 144 035 | - | 63 015 | 63 015 | 81 020 | 81 020 |
| - Iron ore winning, semi-hard | 136 612 | - | 54 645 | 54 645 | 81 967 | 93 174 |
| - Difficult mining | 327 865 | - | 150 273 | 150 273 | 177 592 | 201 873 |
| Total iron ore | 5 985 665 | 5 097 685 | 435 187 | 5 532 872 | 452 793 | 488 281 |
| INDUSTRIAL SAFETY, HEALTH AND MEDICINE | | | | | | |
| - Atmospheric pollution control, brown fumes I | 1 000 000 | 1 000 000 | - | 1 000 000 | | |
| - Atmospheric pollution control, brown fumes II | 1 024 874 | 1 024 874 | - | 1 024 874 | | |
| - Elimination of fluorine in gases | 65 152 | 65 152 | - | 65 152 | | |

Table 19 (contd. 3)

| Description of research | Sums allocated | Disbursements in previous years | Disbursements during 1973 | Total disbursements at 31.12.1973 | Sums still covered in the provisions at 31.12.1973 | Sums still covered in the provisions at 31.12.1973 (new parities |
|---|---|---|---|---|---|---|
| INDUSTRIAL SAFETY, HEALTH AND MEDICINE (contd.) | | | | | | |
| - Ventilation in underground workings | 116 022 | 116 022 | - | 116 022 | | |
| - Rescue by means of boreholes | 68 552 | 58 312 | 10 240 | 68 552 | | |
| - Stone-dust barriers | 242 757 | 218 354 | | 218 354 | 24 403 | 26 606 |
| - Fires and combustion in mines | 487 635 | 220 210 | 64 456 | 284 666 | 202 969 | 210 068 |
| - Industrial safety and medicine | 2 940 640 | 2 926 879 | 6 000 | 2 932 879 | 7 761 | 8 081 |
| - Physiopathology and clinical studies I | 2 964 256 | 2 654 798 | 145 250 | 2 800 048 | 164 208 | 162 260 |
| - Traumatology | 1 202 950 | 1 024 491 | 34 958 | 1 059 449 | 143 501 | 142 164 |
| - Human factors - ergonomics | 3 028 344 | 2 055 497 | 558 663 | 2 614 160 | 414 184 | 417 447 |
| - Burns therapy and rehabilitation | 554 246 | 416 689 | 44 297 | 460 986 | 93 260 | 94 013 |
| - Physiopathology and clinical studies II | 2 161 393 | 558 880 | 609 398 | 1 168 278 | 993 115 | 994 622 |
| - Dust in mines | 5 234 404 | 4 715 241 | 154 687 | 4 869 928 | 364 476 | 388 690 |
| - Steelworks dust | 2 955 524 | 1 568 288 | 402 672 | 1 970 960 | 984 564 | 1 007 591 |
| - Industrial health and medicine I | 1 194 884 | 1 194 884 | - | 1 194 884 | - | |
| - Industrial health and medicine II | 2 855 298 | 2 855 198 | - | 2 855 198 | 100 | 103 |
| Total industrial safety, health and medicine | 28 096 931 | 22 673 769 | 2 030 621 | 24 704 390 | 3 392 541 | 3 451 645 |
| SOCIAL HOUSING | | | | | | |
| - First experimental programme | 995 838 | 995 838 | - | 995 838 | | |
| - Second experimental programme | 973 551 | 904 176 | - | 904 176 | 69 375 | 71 290 |
| Total social housing | 1 969 389 | 1 900 014 | - | 1 900 014 | 69 375 | 71 290 |
| MAKING AVAILABLE OF RESEARCH FINDINGS | | | | | | |
| - Steel | 291 277 | 114 929 | 85 323 | 200 252 | 91 025 | 91 025 |
| - Coal | 362 249 | 181 624 | 59 955 | 241 579 | 120 670 | 121 978 |
| - Rescue by means of drilling | 129 | 129 | | 129 | - | |
| - Fires and combustion in mines | 104 | 104 | | 104 | - | |
| Total, making available of research findings | 653 759 | 296 786 | 145 278 | 442 064 | 211 695 | 213 003 |
| SUM TOTAL | 136 299 767 | 104 870 067 | 11 670 438 | 116 540 505 | 19 759 262 | 20 578 101 |

42 - In the coal sector, our audit showed that eight new contracts were signed in 1973 (compared with 14 in 1972) to a total value of 1 800 074 UA (not counting credits for related costs). These new contracts come under the revised medium-term coal mining research programme for the years 1970 to 1974 *(1)*. A commitment of 155 243 UA was added to finance the related costs (publication and dissemination of reports and experts' travel expenses).

We noted that in all cases the signing date was two to eighteen months later than the date on which work was scheduled to start.

Of the total expenditure for the year (2 144 521 UA), 59 955 UA were listed as related costs for making research findings available.

42.1 - From the data recorded in the register, we find that:

- five research projects came to an end in 1973 and were closed and balanced after final on-the-spot checks by the Institution's inspectors, although no summary statement of expenditure (final financial report) was submitted by the beneficiaries;

- twelve research projects which, under the terms of their contracts, were due for completion between 30 June 1971 and 30 June 1973 were still awaiting final scientific reports or financial closures - sometimes both - at 31 December 1973, although both these stages should be completed not more than six months following the end of projects.

42.2 - An analysis of the closing reports issued by officials of the Directorate-General for Budgets and our participation in on-the-spot checks revealed some peculiarities in this area.

42.21 - Frequently, when equipment purchased for one research project is re-used in another project conducted at a later date by the same beneficiary, the purchase price of the equipment is again listed in the account for the second project and its residual value is calculated once both projects are closed.

42.22 - Calculation of the residual value of the equipment used invariably leads to discussions between the beneficiary and the inspectors, depending mainly on its nature and use. Despite the divergencies which often occur, a number of general standards emerge:

a) laboratory apparatus and precision equipment are usually considered to have been fully depreciated after a period of 5 years, although this may vary depending on whether items are used on the surface or in the mine;

b) annual depreciation is calculated in full years from the investment year, whatever the month or date of acquisition.

c) depending on their nature (piping, chains etc.) or their technical importance in the installation, some types of equipment may be treated either as inventory items to be written off or as operating costs;

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*(1) Cf. Official Journal of the European Communities No C 74, 10 July 1972.*

d) electronic equipment is usually considered as fully depreciated at the end of three years (i.e. 33% per annum);

e) overall, the residual value of all the equipment used is usually 15 to 20% of the initial cost.

42.23 - A research project on 'cold shotfiring' had been entrusted to a Dutch institute which, for technical reasons, entrusted the second phase to a German firm. firm. After experiencing difficulties arising mainly from the reorganization of the German collieries and the unsuitability of the original equipment, this second firm was not able to carry out the tests required for the project's completion until over thirty months after the scheduled completion date. The project was thus extended beyond the deadline originally specified in the contract without any formal consent being received from the Committee of Experts or the Institution, despite the necessity of obtaining a rider to cover such an extension and to resolve the legal problems arising from the change in the beneficiary and the transfer or purchase of equipment. The final account drawn up on this completed project is thus subject to an appropriate decision from the Institution.

42.24 - A number of research projects closed in 1972 and 1973 have not yet been cleared, as the accounts have been blocked by the Institution's own financial inspection services, which disagree with the residual value of equipment shown in the final statement. This internal situation is delaying the final liquidation of several research projects, including in particular payment of the 10% balance to the beneficiary.

43 - In the steel sector, 15 new contracts were signed in 1973 to a value of 2 727 150 UA. A further credit of 124 214 UA was contracted to finance the dissemination of findings and related costs.

Of total expenditure for the year (7 060 109 UA), 85 323 UA were for related costs.

43.1 - Information taken from the register shows that:

- nineteen research projects came to an end in 1973 and were closed and balanced after a final on-the-spot examination by the Institution's inspectors, although for seven of these the beneficiary did not submit the summary statement of expenditure (final financial report) specified in the contract;

- thirty research projects which, under the terms of their contracts, were due for completion between 30 September 1966 and 30 June 1973 were still awaiting final scientific reports or final financial reports - sometimes both - at 31 December 1973, although both these stages should be completed not more than six months following the end of projects. Two projects which were scheduled for completion on 30 September 1966 have still not been closed.

43.2 - An analysis of the closing reports issued by officials of the Directorate-General for Budgets in 1973 and our own on-the-spot controls revealed some peculiarities in this area.

a) The figure for the residual value of equipment is sometimes higher than the amount calculated by means of the depreciation rate originally agreed to by the parties. This shows the usefulness of the discussions held during the final inspection period.

b) Though final expenditure is not usually in excess of the comprehensive initial estimate on which contracts between parties are based, in some cases transfers of accounts between the various categories provided for (e.g. materials and equipment, staff, operating costs and miscellaneous expenses) are so numerous as to considerably reduce the significance of the agreed financial breakdown, particularly as the files consulted do not provide any reasons for the extensive changes made. The reasonable flexibility tolerated in the management of research contracts should not have the effect of preventing those responsible for external inspection from commenting of modifications to those contracts, the terms of which must after all continue to form the main basis of the agreement.

c) In the final reckoning, approval of the figure given for the residual value of the equipment is sometimes withheld, with the result that payment of the balance is blocked. In cases where the beneficiary already owns equipment used in a research project, the extent of depreciation (cost price spread over the normal life of the equipment) is used in charging its utilization cost to the research project on a pro rata basis.

d) As regards the cost of staff to be charged to research projects, inspection is usually based on random checks in which the details given in the half-yearly reports are compared with those in the research institute's accounts.

e) Beneficiaries disseminating findings at their own expense did so far more promptly than the Institution, although to this end the latter relies on documentation specially prepared on its request by the Institutes involved.

44 - No new contracts were signed in the iron ore sector in 1973 and only one project, for which a considerable sum had been advanced two years before the actual starting date, was closed.

From the register, it was found that two projects which were due to be completed by 30 June 1968 were still awaiting final technical reports or final closures although both these stages should be completed not more than six months after work has come to an end.

45 - In the sector of industrial safety, health and medicine, provisions for 1973 totalled 3 392 541 UA *(1)*, comprising credits pledged in contracts signed under the following general programmes:

| | |
|---|---|
| - industrial health and medicine | (2nd programme 2 856 000 UA) |
| - mine fires and underground combustion | (487 635 UA) |
| - occupational safety | (3 067 000 UA) |
| - physiopathology | (1st programme 3 000 000 UA) |
| - physiopathology | (2nd programme 2 500 000 UA) |

*(1) Net of cancellations of credits for projects completed (59 842 UA).*

| | |
|---|---|
| - traumatology | (1 800 000 UA) |
| - human factors - ergonomics | (3 200 000 UA) |
| - burns | (1 500 000 UA) |
| - dust in mines | (6 000 000 UA) |
| - dust in the steel industry | (4 000 000 UA) |
| - health in mines | (3rd programme 4 500 000 UA) |

No contract had yet been signed at 31 December 1973 for the last-listed programme (4 500 000 UA), which was approved on 28 July 1971. It is intended in particular to study new problems of dust and other environmental factors caused by technical progress in production methods and by the gradual concentration of working areas in collieries.

45.1 - Our examination of new commitments and expenditure and of some 30 inspection reports from the Institution's officials, and our involvement in four on-the-spot inspections covering about a dozen projects lead us to make a few specific comments.

a) As in other sectors, the register showed that either the final technical report or the final financial report, sometimes both, had not been issued for a large number of projects (over 50) which had been completed for over 6 months. In addition, the final balance (10%) on over 20 projects had been paid to the beneficiary after on-the-spot inspections and closures by the competent departments, although the financial report or the technical report had not been received.

b) Furthermore, at the beginning of 1973 the internal financial control department and the Directorates-General for Budgets and Social Affairs agreed not to issue riders for time extensions when the extension was less than 6 months beyond the original deadline.

c) In several cases, the internal financial control department complained that equipment purchased for medical research projects was often passed on to universities or research institutes. Reference was made to the terms of application of 9 May 1963 which appeared in Official Journal No 70 and again in Official Journal No C 99 of 31 July 1970. On 11 July 1972 the Institution issued an unpublished decision, C/1601/72, whereby the ECSC may only surrender to universities the ownership of research equipment purchased with levy resources. Moreover, owing to lack of precision in the agreements, difficulties are encountered in dividing expenditure between 'recurrent costs' and 'material costs'. It was found that 'recurrent costs' which we feel should be restricted purely to expenses, included the acquisition of movable assets such as film cameras and accessories, projectors, freezers etc.

d) Some difficulties are encountered in establishing the dividing line between expenditure to be charged to ECSC research (staff and operating costs, general expenses and recurrent costs) in some social research projects of a technical type (measurement of gases in mines or of pollution from steelworks) where experiments are carried out on existing installations used mainly for other work (converters, furnaces, etc.). It is not always easy to apportion expenditure between the project itself and other work in progress at the enterprise, and this often depends on the number of men assigned to the project by those in charge of operation stations. It is difficult to trace the documents stating the criteria used for projects completed several years before the financial closure.

e) Though the maximum amount of ECSC assistance is never exceeded in the final settlement of a research project, the same cannot be said of the various items making up this total. Despite the fact that contracts provide for transfers from one item to another only to a maximum of 10%, it was found that in numerous instances the files consulted did not contain any justification (where applicable, the Institution's prior agreement) for changes considerably exceeding this limit. In such cases, unless special provision has been made, the contractual ceiling takes on the appearance of an outright endowment.

f) In numerous instances, total expenditure on a project far exceeds the original estimate. However, in cases where Community assistance is calculated as a percentage of the total estimate, an examination of expenditure in each category is found to be of importance when drawing up the final statement giving the actual cost of the project and the share to be covered by the ECSC. Thus, certain items of expenditure are sometimes calculated as a percentage of another item (recurrent costs may be x% of staff costs). We have noticed that if the item on which these calculations are based (in this case staff costs) includes expenses which the agreement classifies as expenses to be calculated on a proportional basis, the Community assistance granted may be higher than the expenditure actually incurred (in this case there is duplication of secretarial expenses as these are included both under staff costs and as the percentage allowed under recurrent costs).

Lastly, calculation of the ECSC's share of expenditure in final statements was variously interpreted in a number of contracts giving a percentage for the entire project side by side with special rates for the various categories of expenditure (material, recurrent costs, staff) with specified limits. The Institution usually bases its calculations on the most favourable result for the beneficiary (overall percentage, addition of individual rates or addition of specified limits). This is particularly true of statements for contracts prior to 1970.

g) Three medical research projects were closed on the basis of a settlement made, after several years' delay, between the university involved and the person who was primarily responsible for the project, following confusion about the source of the funds received to finance the research. As personal advances made by the research scientist had been mistakenly listed as instalments received from the ECSC, it was agreed that the balance due on the project should be credited directly to the scientist's own account.

h) In some projects, changes in the method of financing and extensions of the deadline for closure occurred after the original completion date and were approved by means of a rider. In other cases, the Directorate-General for Budgets decided not to undertake any final on-the-spot checks, either because an interim check made shortly before the closure deadline had proved satisfactory or because at the time of the last on-the-spot check, the total cost had already exceeded the value of the contract.

46 - In such a vast and complex field, one can hardly hope to arrive at any final and comprehensive conclusions very quickly, particularly as the introduction of new methods of checking - which in any event tends to be progressive - has taken some time.

46.1 - In this connection, it is essential to have an adequate supply of information, which, in order to be effective, must be regular and automatic as well as sufficiently complete and meaningful. The implementation of communications of this type (decisions, contracts, registers, etc.), which began as soon as the parliamentary budget committee had completed its work based on our last report, has now been completed, but usable results have been available only since the end of the first quarter of 1974. In this respect, much still remains to be - and is being - done.

Our participation in on-the-spot checks also took place at the end of the year and at the beginning of 1974. They were mainly concerned with fairly old contracts and thus do not always give a clear picture of all the problems which are now being encountered. However, this detachment provides us with an opportunity to comment on the various systems and procedures which have succeeded each other in the area.

Our reflections on the various stages involved in the management of research projects should therefore be seen as a first attempt at formulating conclusions, though these will later have to be clarified or expanded.

46.2 - In the first stage, some particularly long delays - up to 3 years - were incurred between the receipt of applications and the signing of contracts.

In its study of general objectives for each year, the Community establishes research programmes or directives providing the beneficiaries or departments with guidelines for the selection policy to be followed or applied in the various sectors.

The technical guarantees required by the Institution do of course involve fairly lengthy procedures (Committee of Experts, Advisory Board, joint decisions) and the Community's financial commitment cannot be established until this work has been completed. However, delays of two to three years can hardly be ascribed solely to the complexity of this scrutiny. Nor are such delays compatible with good financial management which should be based on high standards of optimum efficiency. Moreover, as these delays are reflected in the time taken to finalize contracts, the Institution has even agreed to allow subsidized projects to start before (up to 24 months) the two parties have signed the necessary contract. Furthermore, it is recognized that research projects, being focused on current requirements, should be completed as soon as possible, and it follows that the procedures adopted should go forward correspondingly quickly.

46.3 - Financially speaking, the contract, which contains the terms of the Institution's decision and the agreement signed by the beneficiary, is the instrument which lays down the detailed conditions and criteria for Community participation forming the only legal basis on which external checking can rest. In spite of the long time required for completing them, contracts were formerly drafted in a fairly complex style, leading to repetition and even to contradictions between clauses. In this respect the present system is far better in that the contracts now contain standardized appendices dealing with the same aspects of each agreement, with the result that it is now easier to distinguish the particularities in a given contract from material common to an entire research sector.

However, the way in which the financial clauses are drawn up still continues to cause frequent problems, particularly as far as financial controls are concerned, owing to the absence of properly defined criteria (e.g. equipment

depreciation rates, definition of the various categories of expenditure, calculation of general expenses in research projects). Considerable progress could be made by defining in advance what proportion of the costs is to be assumed - to the extent that this is compatible with the desire to treat all enterprises on an equal basis - in order to minimize discussions on questions which are awkward to evaluate at the time of the final statement.

46.4 - As regards management, we have noticed a distinct difference between arrangements made in the field of technical research projects and for social research.

In the first case, regular meetings (usually two each year) held by the Executive Committee for the project at the place where the work is being carried out allow those responsible for management to follow systematically the execution of agreements, the results progressively achieved and the possibility of resolving difficulties, including those affecting finances.

The more widely dispersed nature of social research projects and the limited means available to the competent departments means that on-the-spot contacts of this type and at working party level are far more infrequent. This state of affairs naturally reduces the Community's practical involvement in projects.

From the financial point of view, changes in the detailed estimates - these sometimes go far beyond minor routine alterations - should be substantiated in each and every case if Community aid is not to be transformed into an outright endowment. Far too often we have found that the files examined do not give the grounds for them. Without repudiating the flexibility underlying the management of funds earmarked for research - a desire expressed in a communication from the High Authority in 1963 *(1)* requiring beneficiaries merely to provide 'information' on changes affecting the details of the ECSC's estimated subsidy - we cannot do less than call for an assurance, at the internal level of the Institution, that this change was only accepted without reservation after its causes had been examined.

46.5 - The contracts specify that half-yearly reports are to be submitted to the Commission by the beneficiaries, and that once research work has been completed the entire project should form the subject of a final scientific and technical report and of a final financial report.

The interim reports are a means of following the progress of projects and are also used as a basis for paying instalments. They thus concern the management phase which has just been described and this means that there should be perfect coordination between the managing departments (the technical divisions) and those more closely concerned with financial operations (Directorate-General for Budgets).

The reports compiled at the end of the project serve first and foremost as a final justification of the work done, and from the financial point of view, as a final statement of all costs incurred and basis for calculating the Community's share, which usually includes payment of the remaining 10% balance.

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*(1) Official Journal No 70, 9 May 1963.*

Under the existing system of work organization, these two reports usually lead to closure of the accounts on the project. The register drawn up at our request shows the shortcomings involved and these are resumed by sector in the chapter immediately preceding these conclusions. If the Institution still feels that it is absolutely necessary to impose this obligation on beneficiaries by contract - there is some reason to believe that duplication may exist with the quarterly reports - this matter calls for urgent attention in order that numerous files may be closed and the results made known. In this connection, we are particularly surprised at the absence of technical and scientific reports, as we believe these to be essential for the widest dissemination of findings, which, as the basic objective of the Community's participation, represents the ultimate evidence that the funds allocated have been properly used.

46.6 - Preparation of the final statement involves an on-the-spot examination by the departments of the Directorate-General for Budgets together with officials from the technical divisions. Our involvement in this work leads us to conclude that the random checking of the relevant papers - which the beneficiary retains for at least 5 years after projects are completed - is handled correctly and that the discussions on the relationship between the financial estimates and technical or scientific data are particularly searching in so far as the technicians present have followed the management of the project under study. The difficulties are basically related to:

- the delay in arranging certain checks, as the persons responsible for making them are not always available, although invitations to do so are sent out by the Directorate-General for Budgets as soon as the final financial report is received,

- the inordinate time lag between the conclusion of the operation and its checking, which causes beneficiaries to waste a lot of time trying to locate documents in their archives and results in an incomplete picture of long-forgotten facts,

- finally, in certain cases, the absence of the technician responsible for the project, with the result that the on-the-spot checks were made without adequate participation at all hierarchical levels.

We feel that the periodic committee or management group meetings could be used to arrive at optimum working conditions which would save time for both the departments involved and the beneficiaries, increase the depth and selectivity of checking and involve researchers, technicians and budgetary officials more closely in the project.

46.7 - Finally, we are particularly concerned about the use of funds earmarked for the dissemination of findings. While on the one hand no adequate system exists for ensuring that they are properly allocated, on the other hand the serious deficiencies in the production of final technical or scientific reports mean that users are deprived of the specialized documentation the compilation and wide distribution of which are mandatory under the terms of Community participation. It is pointed out here that the progress of projects is followed by committees or groups representing the sectors involved: although this is undeniably a useful practice, it is hard to understand why in some cases a small minority of users are allowed privileged access to the results achieved during the course of the project; nor can the information days, which are still held on a very casual basis, be regarded as an adequate general solution.

At a time when a new approach to cooperation is being implemented by the Directorate-General for the Dissemination of Information, we feel it appropriate to confine ourselves to the aforegoing comments, in the hope that the new system now under study will give due consideration to the necessity of:

- ensuring that the information disseminated is sufficiently concise to ensure rapid and inexpensive distribution,

- arranging for dissemination to be properly coordinated with similar action on the part of the contracting parties,

- issuing comprehensive final reports as soon as work is completed, if only as reference documents.

46.8 - In closing this chapter, we would merely add that the situation varies from sector to sector. It is certainly more satisfactory in the area of mining, but less so in that of iron and steel, while the most deficient sector is social research. We have found no improvement in the means made available to the Directorate for Industrial Safety and Medicine, in spite of the comment made in last year's report *(1)* and repeated in the general conclusions *(2)*, where we drew the Institution's special attention to this matter.

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*(1) Auditor's Report for the year 1972, No 88.*
*(2) Auditor's Report for the year 1972, No 149.*

## EXPENDITURE INCURRED BY THE GRANTING OF REDUCED-INTEREST LOANS FOR STRUCTURAL REORGANIZATION (art. 56) AND INDUSTRIAL INVESTMENTS (art. 54)

47 - Extent of our audit

In respect of interest reductions on loans granted for structural reorganization (article 56) and industrial investment in the coal and steel sectors (article 54), our audit was required to check:

- the existence of official decisions relating to the granting of the loan, the procedure governing its payment and the amount of the interest reduction granted

- the calculation of the reduction as up-dated during its five-year period and the fact that it is covered adequately in the provision

- the correctness of transfers out of the provision to the miscellaneous revenue account of the loans service as and when interest on the loans granted falls due.

These checks were carried out with the Directorate-General for 'Credit and Investments'.

48 - Remarks

Since 1971 the Institution sets aside for interest-reduction assistance the amount of reductions it grants on loans given under Articles 54 and 56 of the Treaty or on loans granted by other bodies for the same purposes, as soon as the beneficiaries are notified of the decision to give assistance and thus before actual signature of the loan agreement whereby the two parties are contractually committed. This practice differs from that followed in constituting other provisions (research and rehabilitation) where the definitive legal commitment, i.e. the signature of the contract or a commitment by the two parties, determines any allocation.

New reductions for the year were down by 6 116 970 UA compared to 1972.

48.1 - The provision for interest reductions on loans for industrial structural reorganization (Article 56) totalled 7 466 153 UA at 31 December 1973. New commitments approved during the year totalled 404 252 UA for three loans. Reductions disbursed during the year totalled 3 425 472 UA, including, for the first time, interest reductions amounting to 790 523 UA on four loans totalling 21 180 147 UA granted by other bodies for the same purposes of industrial structural reorganization as those provided for in Article 56. In the case of these four loans the reductions are paid out every year directly to the beneficiary enterprises without going through the ECSC's loans service.

48.2 - The provision for interest reductions on loans for the financing of industrial investments in the coal and steel sectors (Commission decision of 18 June 1970 under Article 54) totalled 5 254 974 UA at 31 December 1973. New commitments approved in the course of the year totalled 496 885 UA and relate to four loans of which three have already been signed (210 000). For the fourth an offer of assistance was made by the Institution but had not been accepted by the beneficiary at 31 December 1973. Total disbursements were 1 438 693 UA and all related to loans granted by the ECSC.

48.3 - The considerable decrease (6 116 970 UA) in interest reductions approved in 1973 should be viewed in the light of the new balance sheet item 'Future Commitments', which includes a reserve for these operations of 5 099 319 UA (2 596 204 UA for reductions under Article 56 and 2 503 115 UA for those coming under Article 54), as explained in the notes to the liabilities side of the balance sheet, no. 21.21.

The act of freezing part of the levy income for 1973 so as to grant reductions in the first six months of 1973 proves that, at the end of the year, the Institution must have had a fairly precise idea of what it could do in this field, which suggests that this unusual decision *(1)* to carry revenue forward is due to delays in investigations or procedure. Any other motive would reflect a simple desire to constitute nothing more than an emergency fund.

48.4 - Moreover, it is hard to see any difference here between future commitments and reductions, for which, though they have only been offered - as long as the relevant loan contracts remain unsigned -, provision has been made as for definitive financial assistance.

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*(1) Commission Decision of 21 December 1973.*

## FINANCIAL ASSISTANCE TO COKING COAL AND COKE

49 - Extent of our audit

We examined the machinery of financial assistance to coking coal and steel industry blast furnace coke in ther Member Countries under decision no. 1/70, which lapsed on 31 December 1972. Our audit checked:

- the accounting entries and correctness of Community assistance payments with regard to the financial provisions of decision no. 1/70

- that the elements used to determine the financial assistance given by the ECSC were correctly recorded, i.e.:

  . quarterly information from enterprises concerning their purchases of coking coal or coke from non-Community countries for delivery to blast furnaces in the steel industry

  . quarterly statements from Member Countries of assistance to sales (by enterprise, coalfield and country of destination), which indicate, inter alia, the elements used to determine the basis of assessment for sales assistance

- that the declarations made by coke suppliers were consistent with those made by the users.

These checks were carried out chiefly by examining documents forwarded to us by the Directorate-General for Budgets and those supplied by the Directorate-General for Energy which manages the assistance machinery for the ECSC. No financial transactions were carried out under the new machinery scheduled to take effect from 1 January 1973.

50 - Remarks

The machinery provided for in decision no. 1/70 was for three years (1970 to 1972) and ceased to have effect on 31 December 1972. However, the resulting statements and payments do not always relate to one financial year. Thus disbursements in 1973 concern periods in the financial years 1971 and 1972. At 31 December 1973 all statements had been made out, although not all the accounts had been settled, at least as far as 1972 is concerned.

For the three years this statement is as follows:

| Years | Countries | Tonnage (in tonnes) | | ECSC contribution |
|---|---|---|---|---|
| | | declared | reduced | |
| 1970 | Germany | 17 813 561 | 16 897 210 | 3 379 442 |
| | Belgium | 108 364 | 102 790 | 20 558 |
| 1970 | Community | 17 921 925 | 17 000 000 | 3 400 000 |
| 1971 | Germany | 17 160 406 | 17 000 000 | 2 550 000 |
| 1971 | Germany | 15 988 814 | 15 988 814 | 1 598 881 |

For 1970 and 1971 the tonnage declared was fixed at an annual maximum of 17 millions, in accordance with Article 8, paragraph 2 of decision no. 1/70. For this reason a corrective coefficient of 0.9485588 for 1970 and 0.9906525 *(1)* for 1971 was applied to both the production taken into account for each of the supplier countries and, consequently, the Community's financial contribution.

However, an accelerated financing procedure has been introduced whereby contributions by Member States of the ECSC are paid and broken down into provisional quarterly statements which are followed, after checking, by the final statement.

Although the Community contribution itself was not affected, it was noted that the conversion into FL of the debt expressed in UA had been calculated, as a result of bilateral agreements, on a slightly different basis (1 UA = 3.522768 FL) from the one generally employed (1 UA = 3.62 FL).

From 1 January 1970 to 31 December 1973 total disbursements by the Institution were 7 400 300 UA, including 425 500 UA in 1973. As the overall Community assistance planned was 7 650 000 UA, this would leave payments totalling 249 700 UA and relating exclusively to the year 1972 still to be made. However, the above statement shows that, if account is taken of the ECSC contribution corresponding to the tonnages declared, the balance due would amount to 148 581 UA. The Institution was therefore wrong not to make any provision to meet this obligation, inevitable at 31 December 1973 and which will have to be discharged in 1974.

The provision of 4 000 000 UA represents the maximum amount of Community aid decided in 1973 for the new system of financial assistance to coking coal, which came into effect on 1 January 1973 *(2)* for a six-year period, and under which no payment was made in 1973.

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*(1) Arrived at from the following ratios:*

$$\frac{17\ 000\ 000}{17\ 921\ 925} \text{ for 1970 and } \frac{17\ 000\ 000}{17\ 160\ 406} \text{ for 1971}$$

*(2) See Annex I to this Report, no. 96.*

## ADMINISTRATIVE EXPENDITURE

51 - Extent of our audit

Administrative expenditure is a fixed sum of 18 000 000 UA, the ECSC's annual contribution to the administrative operating costs of the Commission of the European Communities, under Article 20, paragraph 2 of the treaty of merger of the Executives. As an integral part of the budget of the single Executive, external auditing responsibility for this expenditure belongs exclusively to the Audit Board of the Commission of the European Communities.

Our own task is simply to check that the amount of this annual contribution paid to the administrative budget of the European Communities is correct and disbursed in the required manner.

52 - Remarks

52.1 - The remark we made in our last report *(1)* about administrative expenditure (entertainment costs) incurred during the conclusion of certain borrowings and charged under the ECSC's financial costs, when it ought to be charged to the joint administrative budget, needs to be reiterated, as no action has yet been taken in response to our remarks.

We can only stress once again that, in our opinion, the agreement made in the treaty of merger of the Executives precludes any modification of the charging regulations adopted by the ECSC on the apportionment of its recurring costs (budget estimates of administrative expenditure) and its operating expenditure, because this was the method adopted for the flat rate assessment of administrative expenses in the single budget of the Institutions after the merger.

52.2 - Finally, we can only repeat our opinion on the system adopted for transferring the fixed sum of 18 000 000 UA. In our view it would only be fair for this operation to transfer the appropriate part of the levies received in such a way as to entail no exchange losses for the ECSC.

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*(1) 1972 Auditor's Report, No 101*

## BORROWING, LENDING AND GUARANTEE OPERATIONS

53 - Extent of our audit

53.1 - With regard to borrowings, our audit covered the whole process entailed by the floating of ECSC loans, in particular :

- private and public loan agreements
- operations following each issue : transfer of funds, analysis of the issuing costs, payment of coupons,redemptions, calculations of interest paid and due
- accounts of operations relating to borrowings
- borrowing operations with reference to the terms of the agreements governing them.

53.2 - With regard to loans granted out of borrowed or own funds, our audit covered the ECSC's entire credit operations, more particularly :

- loan agreements
- related operations : transfer of funds loaned, calculation of interest paid and due, checking that due dates and repayment schedules were respected, fees to national agents
- guarantees obtained
- allocation of loans with reference to the terms of the Treaty (depending on the origin of the funds and proposed use of the loans)
- loan operations with reference to the terms of the agreements governing them
- accounts of operations relating to loans
- any disputes.

53.3 - With regard to the servicing of all borrowings and the corresponding loans, our audit concentrated on the operating account for borrowings contracted and loans granted out of these borrowings.

53.4 - With regard to guarantee operations, we checked that fees received by the Institution for its guarantee activities were correct, as well as the expenditure incurred by remuneration of agent banks in the various countries for their assistance and operations connected with supervision of dossiers. We also examined commitments still due from companies for which the Institution had previously stood security and ensured, more especially, that amounts still guaranteed under the repayments schedule for loans contracted by enterprises were correct.

54 - Remarks

54.1 - Borrowings

Table 20 shows the main characteristics of each loan contracted by the ECSC from its inception to 31 December 1973, with the initial amounts borrowed and the balance outstanding at the end of the 1973 financial year.

As can be seen, the ECSC has contracted 86 loans on the international market and various national markets since its inception, to an equivalent value of 1 490.64 million UA. At 31 December 1973 this total had been reduced to 1 145.13 million UA after deducting repayments.

With the fourteen borrowings *(1)* to an equivalent value of 276.9 million UA which were contracted and collected during 1973 the Institution had available to it borrowed funds totalling 326.2 million UA. These comprised the proceeds of new loans floated during the year (276.9 million UA) and loans floated before 1973 but not yet reloaned at the beginning of the year (49.3 million UA).

54.11 - Two other borrowings were made, one under a firm contract, the other under a credit release ratified in December 1973. However, they are both held on the balance sheet in the suspense account as the securities were only issued and the proceeds collected or made available to the ECSC at the beginning of 1974.

Briefly, the main features of these two operations are as follows :

- 500 million LF (10 million UA): 15-year debenture loan contracted from a consortium of Luxembourg banks and floated at 98.5 % on the Luxembourg market, 7¼% interest per annum.
- 250 million LF (5 million UA): 8-year private loan contracted from a Luxembourg bank, 7½% interest per annum.

54.12 - Over the year the Institution thus handled a total of some 290 million UA, a record for any one year since its inception (230 million UA in 1972) despite the general upward trend in interest rates apart from a slight decline towards

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*(1) cf. Part One, No. 18.*

Table 20: - ECSC BORROWINGS

- CHARACTERISTICS, INITIAL AMOUNTS AND BALANCES OUTSTANDING FOR EACH BORROWING AT 31.12.1973

| Floated maturing in | Initial amount | Description of loan | Balances outstanding at 31.12.1973 | Balances outstanding at 31.12.1973 (new parities) |
|---|---|---|---|---|
| in $ | | | | |
| 1954/1979 (1) | 92 105 626 | 3.875 % private loan | 33 250 131 | 30 427 417 |
| 1957/1975 (1) | 23 026 407 | 5.5 % debenture loan | 3 776 330 | 3 455 745 |
| 1957/1962 (1) | 9 210 563 | 5 % bearer bonds and private loan | - | - |
| 1958/1978 (1) | 32 236 969 | 5 % debenture loan | 11 052 675 | 10 114 377 |
| 1958/1963 (1) | 13 815 844 | 4.5 % bearer bonds | - | - |
| 1960/1980 (1) | 23 026 407 | 5.375 % debenture loan | 10 868 464 | 9 945 804 |
| 1960/1965 (1) | 9 210 563 | 4.75 % to 5 % bearer bonds | - | - |
| 1962/1982 | 23 026 407 | 5.25 % debenture loan | 13 907 950 | 12 727 257 |
| 1964/1984 | 27 631 688 | 5.25 % debenture loan | 20 263 238 | 18 543 024 |
| 1966/1986 | 13 815 844 | 6.5 % debenture loan | 11 973 732 | 10 957 241 |
| 1966/1986 | 18 421 125 | 6.5 % debenture loan | 15 934 273 | 14 581 560 |
| 1967/1987 | 23 026 407 | 6.5 % debenture loan | 21 460 611 | 19 638 748 |
| 1967/1987 | 18 421 125 | 6.625 % debenture loan | 17 177 700 | 15 719 427 |
| 1971/1986 | 18 421 125 | 7.75 % debenture loan | 18 421 125 | 16 857 295 |
| 1973/1988 | 27 631 688 | 7 % private loan | 27 631 688 | 25 285 942 |
| | 373 027 788 | | 205 717 917 | 188 253 837 |
| en DM | | | | |
| 1956/1981 (1) | 13 661 202 | 3.75 % private loan | 4 739 235 | 5 387 200 |
| 1957/1977 (1) | 813 511 | 4.25 % private loan | 214 767 | 244 130 |
| 1964/1976 | 27 322 404 | 5.75 % private loan | 9 289 618 | 10 559 728 |
| 1964/1979 | 27 322 404 | 5.5 % debenture loan | 13 715 847 | 15 591 127 |
| 1964/1976 | 8 196 721 | 5.75 % private loan | 2 459 016 | 2 795 222 |
| 1965/1983 | 40 983 607 | 5.5 % debenture loan | 31 557 377 | 35 872 016 |
| 1965/1970 | 6 284 153 | 5.5 % private loan | - | - |
| 1967/1972 | 8 196 722 | 6.75 % private loan | - | - |
| 1968/1978 | 32 786 885 | 6.5, 6.75 and 6.875 % private loan | 20 491 803 | 23 293 517 |
| 1968/1981 | 16 393 443 | 6.25 % private loan | 13 114 754 | 14 907 851 |
| 1969/1984 | 10 928 962 | 6.25 % private loan | 10 928 962 | 12 423 209 |
| 1969/1982 | 13 661 202 | 6.5 % private loan | 12 295 082 | 13 976 110 |
| 1969/1984 | 13 661 202 | 6.75 % private loan | 13 661 202 | 15 529 011 |
| 1971/1986 | 27 322 404 | 7.5 % debenture loan | 27 322 404 | 31 058 023 |
| 1972/1987 | 27 322 404 | 6.5 % debenture loan | 27 322 404 | 31 058 023 |
| 1972/1988 | 40 983 607 | 7 % debenture loan | 40 983 607 | 46 587 034 |
| 1973/1988 | 40 983 607 | 6.5 % debenture loan | 40 983 607 | 46 587 034 |
| 1973/1988 | 27 322 404 | 7.75 % debenture loan | 27 322 404 | 31 058 023 |
| | 384 146 844 | | 296 402 089 | 336 927 258 |
| Carry forward | 757 174 632 | | 502 120 006 | 525 181 095 |

*(1) These loans were concluded under the 1954 Act of Pledge between the ECSC and the Bank for International Settlements.*

Table 20 (contd. 1)

| Floated maturing in | Initial amount | Description of loan | Balances outstanding at 31.12.1973 | Balances outstanding at 31.12.1973 (new parities) |
|---|---|---|---|---|
| Carried forward | 757 174 632 | | 502 120 006 | 525 181 095 |
| in Lit | | | | |
| 1963/1983 | 24 000 000 | 5.5 % debenture loan | 16 000 000 | 13 743 060 |
| 1966/1986 | 24 000 000 | 6 % debenture loan | 20 800 000 | 17 865 978 |
| 1966/1986 | 24 000 000 | 6 % private loan | 20 800 000 | 17 865 977 |
| 1968/1988 | 24 000 000 | 6 % deventure loan | 24 000 000 | 20 614 590 |
| 1968/1988 | 24 000 000 | 6 % debenture loan | 24 000 000 | 20 614 589 |
| 1972/1987 | 32 000 000 | 7 % debenture loan | 32 000 000 | 27 486 119 |
| 1972/1987 | 32 000 000 | 7 % private loan | 32 000 000 | 27 486 120 |
| | 184 000 000 | | 169 600 000 | 145 676 433 |
| in NFl | | | | |
| 1961/1981 *(1)* | 13 812 155 | 4.5 % debenture loan | 7 334 254 | 7 913 397 |
| 1961/1966 | 2 762 431 | 4.5 % private loan | - | - |
| 1962/1987 | 1 657 459 | 4.75 % private loan | 928 177 | 1 001 469 |
| 1962/1982 | 6 906 077 | 4.75 % private loan | 4 171 271 | 4 500 651 |
| 1962/1967 | 5 524 862 | 4.5 % private loan | - | - |
| 1963/1968 | 2 762 431 | 4.5 % private loan | - | - |
| 1963/1993 | 483 425 | 4.625 % private loan | 323 204 | 348 726 |
| 1964/1984 | 6 906 077 | 5.75 % debenture loan | 5 082 873 | 5 484 237 |
| 1965/1985 | 11 049 725 | 5.75 % debenture loan | 8 853 591 | 9 552 707 |
| 1967/1972 | 5 524 862 | 6.375 % private loan | - | - |
| | 57 389 503 | | 26 693 370 | 28 801 187 |
| in FFr | | | | |
| 1964/1984 | 27 006 638 | 5 % debenture loan | 18 567 064 | 18 567 064 |
| 1971/1989 | 27 006 638 | 8.5 % debenture loan | 27 006 638 | 27 006 638 |
| 1972/1987 | 27 006 639 | 7.25 % debenture loan | 27 006 639 | 27 006 639 |
| 1973/1988 | 10 802 655 | 7.5 % private loan | 10 802 655 | 10 802 655 |
| 1973/1980 | 9 002 213 | 7 % debenture loan | 9 002 213 | 9 002 213 |
| 1973/1991 | 27 006 638 | 7.5 % debenture loan | 27 006 638 | 27 006 638 |
| | 127 831 421 | | 119 391 847 | 119 391 847 |
| in SFr | | | | |
| 1956/1974 *(1)* | 12 242 600 | 4.25 % debenture loan | 1 224 260 | 1 297 956 |
| 1961/1966 | 2 203 668 | 5.25 % private loan | - | - |
| 1961/1966 | 560 711 | 4.5 % private loan | - | - |
| 1962/1980 | 14 691 119 | 4.5 % debenture loan | 8 080 116 | 8 566 511 |
| 1969/1987 | 14 691 119 | 5.5 % debenture loan | 14 691 119 | 15 575 475 |
| 1972/1984 | 12 242 599 | 7.25 % private loan | 12 242 599 | 12 979 562 |
| 1973/1988 | 19 588 159 | 6.25 % debenture loan | 19 588 159 | 20 767 300 |
| 1973/1978 | 15 915 379 | 6.75 % private loan | 15 915 379 | 16 873 431 |
| 1973/1980 | 18 363 900 | 7 % private loan | 18 363 900 | 19 469 344 |
| 1973/1978 | 12 242 599 | 7.25 % private loan | 12 242 599 | 12 979 563 |
| | 122 741 853 | | 102 348 131 | 108 509 142 |
| Carry forward | 1 249 137 409 | | 920 153 354 | 927 559 704 |

*(1) These loans were concluded under the 1954 Act of Pledge between the ECSC and the Bank for International Settlements.*

Table 20 (contd. 2)

| Floated maturing in | Initial amount | Description of loan | Balances outstanding at 31.12.1973 | Balances outstanding at 31.12.1973 (new parities) |
|---|---|---|---|---|
| Carried forward | 1 249 137 409 | | 920 153 354 | 927 559 704 |
| in LFr | | | | |
| 1957/1982 *(1)* | 100 000 | 3.5 % private loan | - | - |
| 1957/1982 *(1)* | 2 000 000 | 5.375 % private loan | 1 126 759 | 1 157 854 |
| 1961/1986 *(1)* | 2 000 000 | 5.25 % private loan | 1 475 448 | 1 516 166 |
| 1961/1986 | 2 000 000 | 5 % private loan | 1 465 324 | 1 505 763 |
| 1962/1977 | 6 000 000 | 4.75 % debenture loan | 2 400 000 | 2 466 233 |
| 1962/1987 | 5 000 000 | 5.125 % private loan | 3 871 855 | 3 978 707 |
| 1964/1984 | 3 000 000 | 5.375 % private loan | 2 200 000 | 2 260 714 |
| 1971/1979 | 3 000 000 | 6.5 % debenture loan | 3 000 000 | 3 082 791 |
| 1971/1986 | 5 000 000 | 7 % debenture loan | 5 000 000 | 5 137 988 |
| 1971/1983 | 6 000 000 | 7.75 % private loan | 6 000 000 | 6 165 583 |
| 1972/1984 | 6 000 000 | 6.75 % private loan | 6 000 000 | 6 165 583 |
| 1972/1987 | 8 000 000 | 6.75 % debenture loan | 8 000 000 | 8 220 777 |
| 1973/1988 | 6 000 000 | 6.75 % private loan | 6 000 000 | 6 165 583 |
| 1973/1985 | 16 000 000 | 7 % private loan | 16 000 000 | 16 441 554 |
| 1973/1988 | 16 000 000 | 7 % private loan | 16 000 000 | 16 441 554 |
| 1973/1985 | 6 000 000 | 8 % private loan | 6 000 000 | 6 165 583 |
| 1973/1985 | 4 000 000 | 8 % private loan | 4 000 000 | 4 110 388 |
| | 96 100 000 | | 88 539 386 | 90 982 821 |
| in UA | | | | |
| 1966/1986 | 20 000 000 | 5.75 % debenture loan | 17 400 000 | 17 400 000 |
| in BFr | | | | |
| 1957/1982 *(1)* | 4 000 000 | 3.5 % private loan | 1 872 000 | 1 923 662 |
| 1957/1982 *(1)* | 400 000 | 3.5 % private loan | 187 200 | 192 366 |
| 1962/1982 | 6 000 000 | 5.25 % private loan | 3 780 000 | 3 884 317 |
| 1963/1983 | 6 000 000 | 5.5 % private loan | 4 200 000 | 4 315 908 |
| 1968/1983 | 15 000 000 | 6.75 % debenture loan | 15 000 000 | 15 413 957 |
| 1970/1990 | 10 000 000 | 8.75 % private loan | 10 000 000 | 10 275 972 |
| 1971/1986 | 14 000 000 | 7.75 % debenture loan | 14 000 000 | 14 386 360 |
| 1973/1985 | 20 000 000 | 7.75 % debenture loan | 20 000 000 | 20 551 943 |
| | 75 400 000 | | 69 039 200 | 70 944 485 |
| in £ | | | | |
| 1970/1990 | 50 000 000 | 8 % debenture loan | 50 000 000 | 50 000 000 |
| SUM TOTALS | 1 490 637 409 | | 1 145 131 940 | 1 156 887 010 |

*(1) These loans were concluded under the 1954 Act of Pledge between the ECSC and the Bank for International Settlements.*

the end of the year. The Institution drew both on the resources of national markets (Switzerland, Luxembourg, Germany, Belgium) as well as on the international market and was thus able to honour many of the numerous applications for sizeable loans.

Our audit of loans floated in 1973 requires no particular comments or observations on our part.

54.13 - We commented on the conclusion and outcome of the first instalment of the $ US 20 million loan floated in 1971 at 7 3/4% annual interest and with a clause of reference to the LF in our reports for 1971 *(1)* and 1972 *(2)* respectively. The devaluation of the US $ in 1973 only served to accentuate the negative result recorded for the first instalment in 1972.

In accordance with the contractual provisions for calculating the interest due in US $ based on a fixed LF conversion rate, this year the ECSC nad to pay its creditors US $ 2 097 430 in interest, compared to US $ 1 550 000 had there been no clause of reference. This represented an additional payment of US $ 547 430. Conversely, in accordance with the same contractual provisions, the US $ amount collected as interest on loans was US $ 2 121 046 instead of US $ 1 650 000. The clause of reference thus brought in an additional amount of US $ 471 046. However, compensation is not complete and the guarantee operation results in an additional charge of US $ 76 394.

54.14 - The passage of time and the success of ECSC loans - floated under attractive conditions during a difficult period as in 1973 - justify our earlier reservations concerning the parallelism to be observed between the borrowing and corresponding lending conditions so as to safeguard the Community against the exchange risks involved in the present monetary situation.

54.15 - In concluding our examination of the management of borrowings, we should pause to consider an amount of 11 063 733 UA which was repaid under 'issuing costs' in 1973 and corresponded to 44 % of the total remaining to be repaid at the end of 1973.

Issuing costs represent an increase in the costs of borrowings in the same way as repayment premiums. In any balanced system of management, calculation of the rate at which funds are to be loaned - the assets side of borrowings - must not only take account of the rate of interest on the borrowed funds but also of the issuing costs initially incurred as repayment premiums due at maturity. In the case of non-profit-making organizations, such as the ECSC, this is the only justification for differences in the rates of interest paid by debtors and to creditors. Consequently, it is from the annuities on the loans granted that the Institution obtains the wherewithal for servicing its total debt on borrowings, liquidated in part at the time of issue (issuing costs) or to be paid out at the time of repayment (premiums). If the balance sheet is to be properly presented, the annual servicing of borrowings and loans should reflect this spread.

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*(1) ECSC Auditor's Report for 1971, No. 114.*

*(2) ECSC AUditor's Report for 1972, No. 110.*

While the Institution has taken various stands in this connection, the Auditor has defended this approach in his annual reports ever since its inception.

In 1966 *(1)* he obtained satisfaction as the Institution reintroduced in the assets the costs remaining to be collected at 30 June 1966, the date of its balance sheet. After explaining how 'this solution would have the advantage of better representing the actual state of affairs and allowing the accounting department to supervise the recovery of costs', the Auditor concluded his comment by formulating the following rule: 'the recoverable issuing costs' item should in future be increased by all costs of this kind assumed by the High Authority and reduced by the amounts actually recovered'.

Despite this request, year after year the Institution has started almost immediately to write off the issuing costs in a manner which does not correspond to the real situation. Thus, the Auditor's Report for 1969 states that at 31 December 1969 the ECSC had already written off all issuing costs on borrowings contracted under the Act of Pledge *(2)*.

In 1971 we found that the rate of writing off had been valued at 10%, while in 1972 it rose to 13%, without any objective justification.

These equivocations, supplemented by this year's allocation, deprive the statement of assets of any meaning and render the 1966 decision virtually inoperative. Furthermore, we are unable to follow the recovery of costs from the accounts, and comparison of the various balance sheets becomes distinctly distorted. For our part, we can only see one solution to this situation, namely to return to the rule advocated by the Auditor in 1966.

54.2 - Loans

A. Loans out of borrowed funds

54.21 - Compared with the previous year, loans granted out of borrowed funds in 1973 (268 000 000 UA) were up by almost 48%.

54.22 - As regards the uses made of loans out of borrowed funds, it is apparent from Table 1 that of the 267 982 371 UA disbursed in 1973, the greater part was accounted for by loans to finance industrial investments under Article 54 of the ECSC Treaty (98.7% of the total), followed by loans for industrial redevelopment and structural reorganization (1%) and worker housing (0.3%). The reason for such a low percentage here (0.3%) is that worker housing was financed mainly out of own funds (cf. 10.1).

Industrial loans under Article 54 of the Treaty were made to coal and steel investments within the general objectives of the Community. As stated in the notes to the statement of revenues (28.4), the interest rate of 7½% per annum prevailing since July 1972 remained unchanged until 19 December 1973, when it was raised to 8¼%. The former rate was maintained despite a general rise in

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*(1) Report for 1965-1966, No. 62.*

*(2) Auditor's Report for 1969.*

long-term interest rates and naturally encouraged applications from companies needing to make investments.

Under the Institution's decision of 18 June 1970, all or part of certain industrial loans have been subject to a reduced rate of interest for the first five years. This reduced rate, established at three per cent below the normal rate, was thus 4½% per annum until 18 December 1973 and 5¼% per annum after this date. Loans of this kind were granted with a view to financing an environmental projection project and to setting up a vocational training centre.

Since 1967 the ECSC has granted loans for industrial redevelopment and structural reorganization under Article 56 of the Treaty which are also eligible for the interest reduction described above (3% below the normal rate for the first five years). In 1973 interest at a reduced rate was charged on three loans totalling 2 691 971 UA granted out of the ECSC's own borrowed funds and a reduction in interest was also made on four loans totalling 21 180 144 UA granted for redevelopment and structural reorganization to Community enterprises by other bodies.

Three loans for the construction of social housing totalling 770 000 UA were granted in 1973, under the first phase of the seventh programme, in Belgium, France and Italy.

In 1973 a second phase was decided on, with the possibility of obtaining 40 million UA on the money markets.

54.23 - In order to guarantee loans granted out of borrowed funds, the ECSC makes use of a variety of securities. These are listed by country in Table 21. It will be seen that first mortgages, followed by the guarantee of Member States, financial establishments and industrial groupings provide the security for the greater part of the loans granted.

54.24 - As regards disputes the situation has remained unchanged since 1968.

It will be recalled that under the regulation concerning the rationalization plan agreed on in 1968 between the ECSC and an enterprise receiving an industrial loan, the Institution took over a sum of 75 348 UA in 1973, representing 24.5% of the repayment instalment and interest due in 1973. This brought the cumulative loss on this loan to 1 090 533 UA at 31 December 1973. Two other debtors who defaulted in 1968 also still appear under sundry debtors for a total amount of 689 418 UA. Recovery of one of these loans (35 758 UA) appears unlikely. The Institution still hopes to be able to collect the other (653 660 UA), which was secured by a mortgage.

Loans still outstanding from defaulting debtors represented only 0.07% of all loans granted out of borrowed funds at 31 December 1973.

Loans

B. Loans granted out of non-borrowed funds

54.25 - At 31 December 1973 these loans totalled 90 293 620 UA.

Table 21: - LOANS GRANTED OUT OF BORROWED FUNDS
- BREAKDOWN BY COUNTRY AND TYPE OF SECURITY OBTAINED
- BALANCES OUTSTANDING AT 31.12.1973 (new parities)

| Type of security | Belgium | Denmark | Germany | France | Italy | Luxembourg | Netherlands | Total |
|---|---|---|---|---|---|---|---|---|
| 1. Government guarantees and negative clauses | 2 182 488 | | | 7 176 993 | | | | 9 359 481 |
| 2. Guarantees of Member States | 64 837 553 | | 54 532 824 | 83 780 052 | 27 390 621 | 1 145 281 | | 231 686 331 |
| 3. Indemnity bonds of financial establishments | 18 450 405 | | 66 824 371 | 81 458 992 | 38 050 079 | | 5 261 727 | 210 045 574 |
| 4. Indemnity bonds of financial establishments and mortgages | | | 22 629 709 | | | | 2 649 571 | 25 279 280 |
| 5. First mortgages | 11 542 | 7 809 738 | 307 438 148 | 472 623 | 2 918 252 | | 10 319 777 | 328 970 080 |
| 6. Second mortgages | | | 20 079 004 | | | | 10 810 736 | 30 889 740 |
| 7. Indemnity bonds of industrial groups and negative clauses | 3 042 742 | | | 9 161 279 | 456 411 | | | 12 660 432 |
| 8. Indemnity bonds of industrial groups | 3 380 795 | | 7 583 667 | 25 845 824 | 63 113 634 | | 1 316 033 | 101 239 953 |
| 9. Negative clauses and miscellaneous | 1 327 809 | | 10 078 874 | 4 069 012 | 151 659 | 2 273 447 | 7 861 575 | 25 762 376 |
| 10. Registered mortgage bonds | | | 5 387 200 | | | | 462 345 | 5 849 545 |
| 11. Bank guarantees | | | 13 973 861 | 84 056 608 | | | 13 777 208 | 111 807 677 |
| Total per country and for the Community | 93 233 334 | 7 809 738 | 508 527 658 | 296 021 383 | 132 080 656 | 3 418 728 | 52 458 972 | 1 093 550 469 |

54.26 - It will be seen from the notes to the assets side of the balance sheet (No. 10) that the sum of 75 206 216 UA, or 83% of the total, was given to finance social housing construction programmes. Loans granted out of the special reserve were 4 690 378 UA in 1973.

Since the methods used to finance this form of activity are so varied, a special section has been devoted to them in order to give a better overall picture.

54.27 - Since 1966-1967 loans for the structural reorganization of industry (outstanding earlier loans granted out of the special reserve still totalled 2 129 630 UA at the end of 1973) have generally been given with interest reductions, out of borrowed funds, while since 1959 and 1966 respectively loans for the social readaptation of workers (total now outstanding 373 495 UA) and research (total now outstanding 2 227 957 UA) have been financed exclusively by outright grants. Management in all these cases concerns past actions and does not call for any comment.

As regards guarantees, Table 22 shows the various types of security required by the Institution for loans granted out of the special reserve (social housing and former industrial redevelopment and structural reorganization activities).

54.28 - Although they only represent approximately 11% of the total, the loans granted out of the former ECSC Pension Fund (10 356 322 UA) for the construction of housing for employees of the EEC Institutions have nonetheless reached their ceiling, as in accordance with a 1970 decision on the allocation of the former pension fund, such loans may only be granted to a maximum of 40% of the fund, (i.e. approximately 10.5 million UA).

Inspections carried out by us at the Directorate-General for Personnel and Administration, where the records on the recipients of housing loans are kept, have shed light on some aspects of the problems involved.

The official documents filed in support of applications are not always sufficiently formal (no copies or certification of marriage contracts; in some cases copies of notaries' deeds, sales agreements and mortgage contracts are not authenticated or merely appear as illegible photocopies; insufficient evidence concerning the termination of works, etc.).

In the absence of a marriage contract, differences in national legislation on marriage settlements can result in very different treatment, depending on the nature of the applicable ordinary law (for example, where the wife of an official is recognized as having a separate estate, she may, on the strength of a statement by her, assume responsibility for financial charges on aggregate borrowings, where these charge exceed the statutory ceiling, at 30% of the husband's earnings.

In one case, the entire payment was made before work was completed.

The obvious inference is that greater attention should be paid to the statutory methods of evaluating the financial burden actually assured and hence the financial risk for the Community.

This is all the more important at a time when extremely selective choices should be made, owing to the exhaustion of covering funds.

Table 22: - LOANS GRANTED OUT OF THE SPECIAL RESERVE
- BREAKDOWN BY COUNTRY AND TYPE OF SECURITY OBTAINED
- BALANCES OUTSTANDING AT 31 DECEMBER 1973

| Country | Government guarantee | Registered mortgage bond | Mortgage | Indemnity bonds and other guarantees | No guarantee | Total (old parities) | Total (new parities) |
|---|---|---|---|---|---|---|---|
| Germany | 1 501 847 | 24 887 135 | - | 13 160 996 | 3 881 835 | 43 431 813 | 49 256 373 |
| Belgium | 2 512 640 | - | - | - | - | 2 512 640 | 2 578 047 |
| France | 1 122 036 | - | 857 713 | 13 162 215 | 2 414 033 | 17 555 997 | 17 539 515 |
| Italy | - | - | 71 440 | 6 644 910 | - | 6 716 350 | 5 768 950 |
| Luxembourg | 1 440 746 | - | - | - | - | 1 440 746 | 1 480 507 |
| Netherlands | - | 1 522 498 | 194 544 | 3 961 258 | - | 5 678 300 | 5 838 936 |
| Total | 6 577 269 | 26 409 633 | 1 123 697 | 36 929 379 | 6 295 868 | 77 335 846 | 82 462 328 |

54.3 - Guarantee operations

Under Article 51, paragraph 2, and Article 54 of the Treaty, the ECSC may extend its guarantee to loans contracted by coal and steel enterprises with non-Community bodies. Of the three operations guaranteed before 1966 - there have been none since then - two are still current, representing a total net commitment guaranteed at 31 December 1973 of 22 199 454 UA.

## MANAGEMENT AND INVESTMENT OF FUNDS

55 - Extent of our audit

In this field, where operations are numerous and speedy, the objective of our auditing activities is continually to ensure that the requirements of good investment management, i.e. yield, security and liquidity, are respected. To this end we systematically examine the Institutions investments, principally with regard to the dates of fixed deposits and the various operations (e.g. arbitrage) connected with portfolio assets. We thus examine systematically all revenues other than levy income: interest, income on bank accounts and investments and related costs, interest on loans granted out of own funds, fines and interest on arrears and miscellaenous revenue; for each account we check that the revenue amounts were correct, that their dates were duly respected and that they were correctly charged. We also verify that the conditions governing loans granted out of the ECSC's own funds were properly observed.

Our audit is based on examination of the accounting vouchers, contracts and bank agreements on which the Institution's entitlement to its various revenues is founded.

56 - Remarks

56.1 - Table 32 in Annex III shows the average annual return on liquid assets for the last four financial years. This grew from 6 % in 1970 to 6.7 % in 1973. This rate is based on the ratio between such returns and the arithmetical average of the assets which yield them. The average liquid assets were 230 million UA for 1970 and 248 million UA for 1973.

At 31 December 1973 the ECSC held liquid assets of 351 976 323 UA which are shown on the balance sheets assets under the headings 'cash and banks' (269 899 953 UA), 'short and medium-term investments' (21 297 874 UA) and 'portfolio' (60 778 496 UA).

The greater part of these funds (291 197 827 UA) is held at banks in current accounts at sight and at notice, in fixed deposits with a term of less than one year or in the form of other short and medium-term investments. Some term deposits bearing a low rate of interest have however been held for an extremely long period for no apparent reason. The rest (60 778 496 UA) are held

in portfolio in the form of first-rate bonds issued by national and government authorities and official and semi-official bodies. At 31 December 1973 the securities portfolio comprised bonds in varying currencies held at banks in five different counties.

By way of illustration, Table 23 shows a breakdown by country and currency of all liquid assets at the date of the balance sheet. This breakdown is clearly subject to frequent changes, particularly when interest rates are fluctuating as at present.

Table 24 gives a breakdown of available funds by currency and interest rate for investments at sight and at notice (except for short and medium-term investments and the portfolio). This two-fold breakdown is clearly shown as a percentage of these liquid assets available at sight and at notice as a whole.

It will be seen from these tables that the biggest share of liquid assets (33.5 %) is accounted for by DM invested with German financial establishments. In decreasing order of size, there follow investments in FFr (12.9 %), in Lire (12.8 %), in US $ (11 %), in BFr (8.4 %) in £ (7.6 %), in SFr (5.5 %), in LFr (4.5 %) and in NFl (3.7 %). Furthermore, 26 % of the bank accounts at sight and at notice yielded interest at a rate of 9 to 10 % per annum compared with 1.64 % in 1972. On the other hand 0.17 % of this capital was invested at 5 to 6 % at the end of 1973 compared with 47 % in 1972.

56.2 - It is interesting to compare the changes between 1972 and 1973 in both the size of investments and their interest rates, for each currency.

| | Investments as % of whole | | | % interest yield | | |
|---|---|---|---|---|---|---|
| Currency | 1972 | 1973 | Difference | 1972 between | 1973 between | Difference |
| DM | 43 | 33.5 | - 9.5 | 5 & 6 | 12 & 13 | + 7 |
| Lit. | 17.1 | 12.8 | - 4.3 | 12 & 14 | 6 & 7 | - 6 |
| FFr | 13.6 | 12.9 | - 0.7 | 5 & 6 | 8 & 9 | + 3 |
| $ | 12.5 | 11 | - 1.5 | 5 & 6 | 9 & 10 | + 4 |
| NFl | 4.4 | 3.7 | - 0.7 | 2 & 4 | 9 & 10 | + 7 |
| BFr | 4 | 8.4 | + 4.4 | 5 & 6 | 9 & 10 | + 4 |
| SFr | 2.4 | 5.5 | + 3.1 | 2 & 4 | 6 & 7 | + 4 |
| LFr | 2.0 | 4.5 | + 2.5 | 4 & 5 | 9 & 10 | + 5 |
| £ sterling | - | 7.6 | + 7.6 | 5 & 6 | 15 & 17 | + 10 |

Investments in BFr thus increased most, while those in DM fell off the most sharply. At the same time interest rates on investments in the various currencies all increased in 1973 except for the Lire which decreased by 6 points. Rates which rose most markedly were on investments in £, DM and NFl.

Table 23: - BREAKDOWN BY COUNTRY AND CURRENCY OF FUNDS HELD BY THE ECSC AT 31 DECEMBER 1973 (in million units of account, new parities)

| Country | CURRENCY | | | | | | | | | | | Total per country | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | DKr | £ Irl | DM | BFr | FFr | Lit | LFr | NFl | £ | SFr | $ | | |
| Denmark | 350 | | | | | | | | | | | 350 | 0.10 |
| Ireland | | 51 | | | | | | | | | | 51 | 0.01 |
| Germany | | | 117 909 | | 360 | 1 374 | | 26 | | | 20 646 | 140 315 | 39.83 |
| Belgium | | | | 24 470 | 990 | 8 452 | 3 | 422 | | | 173 | 34 510 | 9.80 |
| France | | | | | 32 017 | | | | | 649 | 1 280 | 33 946 | 9.63 |
| Italy | | | | | | 25 360 | | | | 208 | | 25 568 | 7.26 |
| Luxembourg | | | | 5 019 | 8 012 | 7 002 | 15 823 | 1 043 | 126 | 3 024 | 6 001 | 46 050 | 13.07 |
| Netherlands | | | | | | | | 11 605 | | | 3 325 | 14 930 | 4.24 |
| United Kingdom | | | | | 1 800 | 2 748 | | | 26 703 | 12 980 | 557 | 44 788 | 12.71 |
| Switzerland | | | | | 2 341 | | | | | 2 573 | | 4 914 | 1.39 |
| USA | | | | | | | | | | | 6 901 | 6 901 | 1.96 |
| Total per currency | 350 | 51 | 117 909 | 29 489 | 45 520 | 44 936 | 15 826 | 13 096 | 26 829 | 19 434 | 38 883 | 352 323 | 100 |
| % | 0.10 | 0.01 | 33.47 | 8.37 | 12.92 | 12.75 | 4.49 | 3.72 | 7.61 | 5.52 | 11.04 | 100 | |

Table 24: - BREAKDOWN OF INVESTMENTS HELD WITH BANKS IN CURRENT ACCOUNTS AND FIXED DEPOSITS AT 31 DECEMBER 1973, BY CURRENCY AND RATE OF INTEREST (in thousand units of account, new parities)

| Rate of interest % | Currency | | | | | | | | | | | Total | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | DKr | £ Irl | DM | BFr | FFr | Lit | LFr | NFl | £ | SFr | $ | | |
| Current accounts | | | | | | | | | | | | | |
| 0 - 0.5 | 33 | 51 | 219 | 73 | 976 | 1 569 | 255 | 86 | 1 262 | 101 | 1 679 | 6 304 | 2.38 |
| 0.5 - 1.5 | | | 598 | 379 | 7 | 659 | | 585 | | 20 | | 2 248 | 0.85 |
| 1.5 - 3 | | | 1 301 | 232 | 1 | 5 200 | 397 | | | | | 7 131 | 2.69 |
| 3 - 4 | | | | | 204 | | 1 | | | | | 205 | 0.08 |
| 4 - 6 | | | | | 20 | 1 586 | | | | | | 1 606 | 0.61 |
| 6 - 7.5 | | | | | 1 110 | | | | | 2 440 | | 3 550 | 1.33 |
| Total current accounts | 33 | 51 | 2 118 | 684 | 2 318 | 9 014 | 653 | 671 | 1 262 | 2 561 | 1 679 | 21 044 | 7.94 |
| Fixed deposits | | | | | | | | | | | | | |
| 1 - 2 | | | | | | | | | | | 34 | 34 | 0.01 |
| 3 - 4 | | | | | 3 745 | | | | | 208 | | 3 953 | 1.49 |
| 4 - 5 | | | | 1 418 | 360 | | 822 | | | | | 2 600 | 0.98 |
| 5 - 6 | | | | | | | | | | 454 | | 454 | 0.17 |
| 6 - 7 | | | | | | 9 483 | | | | 15 291 | | 24 774 | 9.33 |
| 7 - 8 | 66 | | 3 106 | 617 | 4 231 | 2 920 | | 894 | | 908 | 84 | 12 826 | 4.83 |
| 8 - 9 | | | | 4 038 | 11 468 | 1 031 | 1 099 | | 126 | | 253 | 18 015 | 6.79 |
| 9 - 10 | 251 | | 1 087 | 19 730 | 4 688 | 3 435 | 11 818 | 5 961 | | | 22 071 | 69 041 | 26.01 |
| 10 - 11 | | | 18 014 | 241 | 7 653 | 7 559 | 1 439 | 1 639 | | | | 36 545 | 13.77 |
| 11 - 12 | | | 621 | | 3 287 | 1 848 | | | | | | 5 756 | 2.17 |
| 12 - 13 | | | 37 114 | | | | | | 5 375 | | | 42 489 | 16.01 |
| 13 - 14 | | | 1 242 | | | | | | 976 | | | 2 218 | 0.84 |
| 14 - 15 | | | | | | | | | 684 | | | 684 | 0.26 |
| 15 - 17 | | | | | | 5 704 | | 849 | 18 405 | | | 24 958 | 9.40 |
| Total fixed deposits | 317 | - | 61 184 | 26 044 | 35 432 | 31 980 | 15 178 | 9 343 | 25 566 | 16 861 | 22 442 | 244 347 | 92.06 |
| SUM TOTAL | 350 | 51 | 63 302 | 26 728 | 37 750 | 40 994 | 15 831 | 10 014 | 26 828 | 19 422 | 24 121 | 265 391 | 100 |
| % of SUM TOTAL | 0.13 | 0.02 | 23.85 | 10.07 | 14.22 | 15.45 | 5.97 | 3.77 | 10.11 | 7.32 | 9.09 | 100 | |

The general rise in interest on short- and medium-term investments combined with the increase in capital invested explains why returns as a whole were 47 % higher in 1973 than in the previous year (see no. 32.1). Table 13 gives details of these returns.

In order to assist us in our audit, we regularly received monthly computer print-out statements for the ECSC's entire liquid assets (with dates and movements for all accounts, by currency and country) and for the securities portfolio, market prices, nominal values and interest due dates.

56.3 - At 31 December 1973 the coupons overdue on securities held for the ECSC by financial organizations amounted to 34 088 UA (compared with 39 634 UA at 31 December 1972). Apart from an amount of 247.53 UA still due from four years ago, the amount still unpaid consisted almost entirely of a number of amounts due in 1973 and this shows that the situation has been almost completely corrected.

56.4 - During the year, transfer operations of liquid assets held at banks from one currency to another entailed both exchange losses and gains. In effect, these operations, required by short-term monetary conditions or the need to cover an exchange risk for a certain term, need to be assessed in the light of their final outcome which is often not known until the following year when the operation has been finalized. An overall analysis showed that one of the transfers made in 1972 finally resulted in an effective loss of 43 961.09 UA (and, in addition, led to interest of $ 25 500 being charged for delays).

Information received from the Institution indicates that in future the Institution will record all the details of operations of this type during the year in which they were made in order to be able to assess them immediately.

56.5 - Turning to another aspect of this observation, we are again prompted to mention the cost to the ECSC of demands made by national authorities, using their special anti-speculation laws as an argument. This year again, the consequences were borne by the Institution which was thus deprived of the privileged treatment provided for by the Treaty *(1)*. Furthermore, for the same reasons, the Institution was unable to gain access to a money market.

56.6 - We were pleased to note that the Institution had followed our suggestions both by improving the classification of items which, owing to their nature, ought to be and have now been included under liquid assets (portfolio and other short and medium-term investments) and improving the distinction in the accounts between income on liquid assets and income on the portfolio.

56.7 - Control of funds required in relation to existing liquidities is an important task as it is the only means of preventing the high charges on overdrafts incurred during periods when money is expensive, particularly when extremely large capital amounts have to be covered (in one case 50 million BFr for one day, in another 1.7 million FFr for eight days).

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*(1) ECSC Auditor's Report for 1972, no. 133.*

Simultaneously, some funds remain temporarily invested at rates (1/8 %) which cannot be contrasted with the market possibilities.

56.8 - The ECSC portfolio is handled by a bank which always takes approximately one month to credit payments to the Institution's account, irrespective of whether the sums involved result from the sale of securities, interest instalments or coupons due. In view of the loss of income caused by this delay, the Institution should take firm measures either to put an end to this practice or to obtain compensation in the form of normal investment interest.

It can be seen that some of the income obtained from the portfolio consists of appreciable profits resulting from the sale and repurchase of given securities. This practice can hardly be justified as a management requirement, nor, when it occurs repeatedly, can it be reconciled with the Community's non profit-making character.

56.9 - In regard to the property investment in Washington, in 1973 income in the form of rent due from the Commission of the European Communities was paid both for the current year and for 1972. However, though the annual rent is set at 42 000 UA, the Commission credited the ECSC with US $ 42 000, which, in view of the new parity rate between the dollar and the unit of account, represents a deficiency of 6 631 UA for the rent over the two years; yet under sundry debtors, the Commission is listed as owing only 3 316 UA or half its actual debt. This situation will be corrected in 1974. The most important point is that the Commission should respect its own undertaking with the ECSC.

## FINANCING OF SOCIAL HOUSING CONSTRUCTION

57 - Extent of our Audit

ECSC assistance in this sphere currently takes the form of loans granted out of own funds and borrowed funds and it is our responsibility:

- to analyse the characteristics of each loan on the basis of an information sheet drawn up by the financial departments on payment of the first instalment and which summarizes the financial characteristics of the loan contract.

- to supervize operations relating to the loans, by ensuring
  - . that loan operations are conducted in accordance with the terms of the relevant loan contract
  - . that funds loaned are duly disbursed
  - . that interest paid and due is correctly calculated
  - . that payment dates and the repayment schedule are respected
  - . that fees to national agents are duly paid

- to check the guarantees obtained

- to check the correct recording of loan operations in the accounts

- to check that the loan contract terms and any termination clauses applied have been upheld throughout the whole financing period.

Remarks

58 - From its inception up to 31 December 1973 the ECSC has helped finance the implementation of seven standard programmes for the construction of social housing and three experimental programmes. The latter are designed to solve the pressing problem of housing for staff of ECSC industries and to help ease current housing problems in general.

The normal programmes are financed from loans granted out of the special reserve (67%) and borrowed funds (33%). The first of the three experimental programmes was financed entirely by subsidies for technical research, the second by both subsidies and loans and the third exclusively by loans.

Under the seven standard programmes and three experimental programmes currently being financed, 116 479 dwellings had been completed by 31 December 1973 out of the 125 501 financed. The total cost of this housing is 1.276 thousand million UA, financed both by the ECSC and other sources of funds raised by the ECSC. Of this amount, the ECSC paid 103.92 million UA, out of own funds and 47.66 million UA out of borrowed funds.

Table 25 shows the amounts of assitance granted to the seven programmes financed, grouped according to the nature and origin of the funds disbursed.

During 1973 loans were disbursed partly out of the special reserve and borrowed funds under the fifth special programme (150 000 UA), the sixth programme (1 094 000 UA) and the seventh programme, for both the normal and experimental instalments (4 215 687 UA).

The breakdown for these loans is as follows: German 2 087 705 UA, Italy 1 174 000 UA, France 753 936 UA, Netherlands 743 646 UA and Belgium 700 000 UA.

59 - The seventh programme, approved in 1969 and now under way, comprises a normal programme of housing for staff of ECSC industries (Article 54 of the Treaty) and an experimental programme designed to apply the research aims provided for in Article 55 of the Treaty to housing construction.

This programme is scheduled to run from 1 January 1970 to 31 December 1974 and is being realized in two phases, the first from 1970 to 1972, with an allocation of 13 million UA to be covered out of the special reserve for 1971 and 1972, and the second over the years 1973 and 1974, with an allocation of 20 million UA to be covered out of the special reserve for 1973 and 1974 and the former pension fund (half and half).

The loans are granted by the ECSC out of its own funds at 1% interest per annum and for a period which may not exceed the term provided for in Article 97 of the Treaty (for 1973, a maximum of 28 years). This Community assistance provides only part of the financing, which is completed by loans from credit institutions, beneficiary enterprises and developers.

The normal programme concerns both the construction of new housing, chiefly for migrant workers and steel workers in coastal areas, and the provision of sleeping accommodation in migrant worker and bachelor hostels; the central aim of the experimental programme is to modernise existing accommodation.

The first instalment (13 million UA) was eventually allocated as follows: 11.6 million UA for the normal programme and 1.4 million UA for the experimental programme.

The second instalment (20 million UA) was earmarked exclusively for the normal programme and is being used to the same ends as the preceding instalment: accommodation for migrant workers, modernization of existing accomodation, housing as part of plans to restructure and expand production and accommodation for steel workers in coastal areas.

Total loan operations legally contracted (77 335 846 UA) and those for which no sums have yet been disbursed under the programmes in progress

Tabel 25: - ECSC ASSISTANCE TO SOCIAL HOUSING CONSTRUCTION

- BREAKDOWN BY PROGRAMME AND TYPE OF ASSISTANCE

Position at 31 December 1973

| | Outright subsidies | Amounts disbursed (including repayments effected) | | | |
|---|---|---|---|---|---|
| | | Loans drawn from borrowed funds | Loans drawn from the special reserve | Loans drawn from levy income, granted as technical and economic research | Loans drawn from levy income, granted as readaptation assistance |
| - Social housing construction | | | | | |
| - 1st programme | | 18 974 713 | | | |
| - 2nd programme | | 2 921 056 | 14 269 166 | | |
| - 3rd programme | | 3 657 459 | 11 455 399 | | |
| - 4th programme | | 13 120 000 | 18 899 636 | | |
| - 5th programme (normal and special) | | 6 863 425 | 26 727 813 | | |
| - 6th programme | | 431 000 | 19 577 999 | | |
| - 7th programme (normal and experimental) | | 1 693 309 | 9 089 450 | | |
| - Housing for workers readapted | | | | | 529 816 |
| - Experimental social housing construction | | | | | |
| - 1st programme | 995 838 | | | | |
| - 2nd programme | 904 176 | | 365 205 | 3 000 886 | |
| T o t a l s | 1 900 014 | 47 660 962 | 100 384 668 | 3 000 886 | 529 816 |

(25 216 910 UA) *(1)*, are 102 552 756 UA. This amount is to be covered up to 92 552 756 UA, since there are 10 million UA on the second instalment of the 7th programme still to be covered in 1974.

At 31 December 1973 the special reserve, the whole of which was designed to guarantee these operations, totalled 90 million UA. However, in its decision of 22 December 1972 *(2)* the Commission made provision for the allocation of 60% of the former pension fund - i.e. the part hitherto uncommitted - *(3)* as extra security on social housing commitments. As the amount of the pension fund in question was 25 509 351 UA in 1967, it in fact provides additional cover of 15 305 610 UA.

60 - To assess the total aid given by the ECSC to social housing construction at 31 December 1973, we must take into consideration:

| | |
|---|---|
| - subsidies (research expenditure) | 1 900 014 UA |
| - loans paid to borrowers | |
| - out of borrowed funds | 47 600 962 UA |
| - out of own funds | 103 915 370 UA |
| which together amount to the considerable figure of | 153 476 346 UA. |

Table 26 shows details of progress achieved in the seven construction programmes financed by the ECSC at 31 December 1973, as revealed in the dossiers kept by the authorizing departments.

61 - As a result of remarks made in our last Report *(4)*, the Institution was able to obtain the premature repayment of part of a loan granted in 1969 corresponding to the part of the building project not completed. On the other hand, a similar dispute relating to a loan granted in May 1967 has not yet been resolved. This remainder of 10 656 UA is still held by a regional bank which had received it from the bank responsible for organizing the overall financing. Even though this bank was able to lend this sum, without previously informing and obtaining the consent of the ECSC, the fact remains that it holds a Community asset of the same value which must either be refunded or allocated in accordance with the regulations provided. The Institution ought to take action in this matter without delay.

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*(1) This amount represents loans not yet disbursed, broken down by programme as follows:*
*403 000 UA for the fifth; 743 361 UA for the sixth; 24 070 549 UA for the seventh.*

*(2) Since this is a matter of financial guarantee, the wording of the decision ought to have included the stipulation in question, which is only stated explicitly in the notes to the draft decision.*

*(3) The 40% of the pension fund existing at the time of the merger of the Executives (25 509 351 UA) and the interest added to it since guarantee the building loans granted to staff of the European Communities.*

*(4) 1972 Auditor's Report - no. 141.*

Table 26: - PROGRESS ACHIEVED IN SOCIAL HOUSING CONSTRUCTION PROJECTS AT 31 DECEMBER 1973

- BREAKDOWN BY COUNTRY
(normal and experimental programmes)

| Country | Number of dwellings financed | comprising dwellings | | |
|---|---|---|---|---|
| | | in preparation | under construction | completed |
| Germany | 83 272 | 2 361 | 2 935 | 77 976 |
| Belgium | 7 189 | - | 486 | 6 703 |
| France | 23 228 | 335 | 1 465 | 21 428 |
| Italy | 6 175 | 104 | 605 | 5 466 |
| Luxembourg | 858 | 22 | - | 836 |
| Netherlands | 4 779 | 124 | 585 | 4 070 |
| Total for the six countries | 125 501 | 2 946 | 6 076 | 116 479 |

62 - On inspection of loan contracts for which sums had been disbursed under the 7th programme, we noted that a contract dated 21 November 1972 of 2 000 000 FL had been concluded to finance the construction or purchase of housing for steelworkers. However, both the programme itself and the decisions of the Institution explicitly confine Community financial assistance to projects involving the construction of new buildings or the modernization of existing dwellings, both of which help to improve the housing market or the material wellbeing of workers. As this is the first case of its kind which has come to our attention, we would stress the need for the content of programmes and decisions to be strictly adhered to by those responsible for undertaking commitments which are binding on the Institution.

63 - Finally, we are concerned to note that no systematic check is made of the use made of sums loaned. For our next report we should like to have detailed information which the Institution should collect, without delay, from organizations receiving Community assistance.

## GENERAL CONCLUSIONS

64 - As a preface to these conclusions and in order to put them into clearer perspective, it will be useful to begin with a summary of the main features of the ECSC's financial activities in 1973.

The main event of the year was, without doubt, the coming into force, on 1 January, of the Treaty of Accession of three new member countries to the European Community, this being reflected on the ECSC's financial situation by an increase in own funds, greater recourse to money markets and an enlarged field of activity.

The balance sheet totalled 1 600 million UA, against 1 300 million UA on 31 December 1972.

64.1 - The volume of new borrowings, which had already reached the figure of 185 million UA in 1972, rose to almost 277 million UA, bringing the total since the establishment of the ECSC to approximately 1 500 million UA. Loans from borrowed funds amounting to some 268 million UA (against 151) were granted for the purposes laid down in the Treaty, mainly for industrial investments, and redevelopment and structural reorganization. Despite the more marked increases in the market, the rate of interest for these loans remained at 7.5 % until 18 December 1973, when it was raised to 8.25 % per annum, and in certain cases enterprises were granted a 3 % reduction in the interest rate for five years. Other loans from the ECSC's own funds amounted to nearly 6.9 million UA; these loans were granted at moderate rates for social purposes.

64.2 - This year the levy on steel and coal production in the new Member States, especially the United Kingdom, produced an increase in income of 33 %, thereby raising these incomings from 47 million UA to almost 63 million UA, the rate remaining fixed at 0.29 %. The improved returns or investments in 1973 and the increase in funds invested caused the Institution's income from bank accounts and portfolio deposits to rise to more than 17 million UA (47 % more than in 1972). Payment of one third of the accession contributions (19 million UA) by the new Member States also added to the total revenue.

64.3 - As regards funds available, the above factors, coupled with a drop in outgoings (of more than 9 million UA) compared to the previous year, brought about a surplus of revenue over expenditure of approximately 55 million UA

(against 10.6 million UA in 1972). The rate of payments made for rehabilitation and coking coal assistance slowed down during the course of the year, while increasing for interest reductions and remaining practically unchanged for research expenditure.

64.4 - As for allocations to provisions and reserves, under the head of provisions for financial aid the ECSC continued to set aside amounts legally committed for which contracts had been signed (research), agreement reached between the parties concerned (rehabilitation), offers made by the Institution in connection with loans contracted or finalized (interest reductions under Articles 54 and 56) or financial assistance officially approved (coking coal).

Higher amounts than in 1972 were allocated to provisions for rehabilitation and coking coal assistance (despite the fact that the latter was limited to the 1973 ceiling of 4 million UA), whereas the allocations for the two categories of interest reduction were reduced. The Institution increased the guarantee fund by 12 million UA and the special reserve by 3 million UA, thus reflecting the participation of the new Member States in ECSC funds.

Other provisions, which correspond rather to reserves with no legally binding character, also continue to appear on the balance sheet; these are used to cover a variety of financial or monetary risks (bad debts (levy), portfolio depreciation), whilst others serve to guarantee the borrowings, loans and guarantees granted), or, for the first time in 1973, to cover research and interest reduction commitments which the Institution, having failed to contract them in 1973 despite its forecasts, intends to take on in the first six months of 1974. It was intrinsically this latter reserve ("anticipated commitments") which used up the greater part of the levy for the income of 1973 financial year (more than 18 million UA).

Foremost among reserves set aside from other own resources is that intended to compensate any losses on future reimbursements of contracted borrowings (4.9 million UA).

64.5 - Altogether, it will thus be seen that the new allocations made in the financial year 1973, after deduction of relevant cancellations, totalled 153.3 million UA, an increase of 53.5 % over 1972.

The unallocated balance from the 1973 operations was 3 015 660 UA against 180 549 UA at the close of the preceding financial year. However, after applying the new conversion rules for the unit of account, it appears on the official balance sheet at 31 December 1973 as 496 038 UA.

The significance of the reserve unallocated at date of balance sheet here must be viewed in the light of the similar nature of the miscellaneous provisions (almost 30 million UA) and the possible re-evalutation of the assets (real estate, recoverable issue costs, portfolio). At the date of closing the accounts, the ECSC's own funds (guarantee fund, former pension fund) serve to increase still further the Community's financial capacity to cover or guarantee its activities, so that the financial resources always comprise a wide potential margin.

65 - The positive reception given by both the Assembly and the Commission to the section of our general conclusions last year devoted to an overall evaluation of the ECSC's <u>financial management</u> had raised our hopes of seeing the

Institution establish a priority programme to overcome the main shortcomings noted in the parliamentary resolution of 11 December 1973 *(1)*.

This prospect seemed all the more realistic since in the ECSC's institutional framework, the power to act and to make decisions is vested wholly in the Institution.

We could have expected the Institution's agreement to the broad reforms proposed in the parliamentary resolution - role of the Institution, interservice coordination, balance sheet structure, etc. - to lead to a more precise definition of its general and financial policy; which would have provided a valuable, if not indispensable, basis for our remarks.

Although certain urgent problems have been solved, such as the definition and rules of conversion for the unit of account, at the end of 1973 the situation as regards the main issues was still as described the previous year.

The lack of direction is being felt more and more.

65.1 - First of all, we must refer to the delays which - without any action by the Institution itself - have again held up the submission of the balance sheet in its final form (it was transmitted to us on 15 May). Although we were able to continue our work in the meantime, the final drafting of the texts, and especially insertion of the final figures, has had to be postponed considerably. In our anxiety to gain results which would allow our report to be used from the autumn, we had to proceed too quickly in the final stages - with some risk to the quality of the texts - and ask the translation and publication services to speed up their work from the pre-arranged rate. We are convinced that it is normal and possible for the balance sheet to be available in March.

This delay is due mainly to the lack of a predetermined and unvarying modus operandi which would ensure that successive balance sheets are comparable and comply with tried-and-tested, essential principles of management policy.

65.2 - Discussions between services to find a use for funds which, at the date of drawing up the balance sheet, were unallocated or did not correspond to the forecast destination are tangible evidence of the inherent difficulties posed by this lack of horizontal coordination, which must arise at Institution level.

Table 37, showing trends in the allocation of ECSC assets 1973, speak volumes in this aspect. It shows changes, effected after the close of the financial year, to other provisions which, whatever they may be called, are nothing more than reserves pure and simple, i.e. funds awaiting final allocation. It is this latter which carries with it the concept of irreversibility, which in turn can arise only as a result of a legal commitment by which the parties are bound.

Also surprising is the looseness with which the current liabilities are evaluated. Thus, even though free reserves were also undoubtly available, we found that the cover for coking coal assistance was 148 581 UA short *(2)*;

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*(1) Official Journal No 169 - December 1963 - Annex : Debates of the European Parliament. Minutes of the meeting of 11 December 1973.*

*(2) No 50 in this report.*

in contrast, applying the same criteria, the provision for interest reduction is too high to the extent that one of the conditions which makes the debt irrevocable - the signature of the respective loan - is not fulfilled.

65.3 - Asset evaluation also, is problematical as witness the unexplained and unexplainable variations in the recoverable issuing costs *(1)*, and the actual value of the real estate *(2)*.

As regards the balance sheet, we consider it to be particularly important for a public concern such as the ECSC to estimate both assets and liabilities at their correct value, and to keep them separate from accounts conveying possibilities or intentions which are merely a supplementary detail in the overall unallocated balance and shed no light on management for the financial year in question.

65.4 - In the matter of management properly speaking, we should like to note the good results of the cooperation between the Directorates-General for Budgets and for Credit and Investment, which has finally resulted in a complete, centralized accounting system as from the beginning of 1974. We shall have occasion to return to this point in our next report.

65.5 - However, in addition to what will be said about research, we noted various facts in the analysis by sector, and would like to single out two which require action from above :

- for the first time, a loan agreement for construction or modernization also allows for the purchase of moderate-rent housing; apart from being contrary to the Commission's basic decision, this stipulation does not comply with the Community's objective of encouraging the construction of housing.

- The Institution has been unduly slow in taking decisions of principle, thus blocking funds committed to worker rehabilitation programmes.

65.6 - In dealing with the problems of auditing proper, we should like to underline the advantages gained through our participation in on-the-spot inspections carried out by the Commission. Even though this consisted for the most part in closing the books of operations which were already old, the light shed on the facts and the comments of responsible persons greatly assist the parties concerned to see matters in the same way, thus providing an extremely solid basis for the auditor's observations.

65.7 - We were at pains to meet the Assembly's request by giving special attention to research expenditure.

For this reason all of our inspections of institutions or enterprises, with one exception, were devoted to this sphere, care being taken to spread them out between the three sectors (coal, steel, social) covered.

The desire to evaluate the overall situation of financed research led us to draw up a schedule itemizing all the stages involved from the initial application to payment of the final balance.

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*(1) No 15 in this report.*

*(2) No 14 in this report.*

To summarize the detailed conclusions which will be found in the relevant section of the second part of this report it should be pointed out that :

- the need for the Institution to have a constant progress report is all the more evident since the present situation - which varies from sector to sector - is fraught with a great many shortcommings, which, apart from their financial impact (unnecessarily suspended funds), reveal a certain laxity in the systematic use and dissemination of results;

- reorganization or even simplification of procedures would have very beneficial effects on financial management, which should be accountable for on the strength of previous, explicit and readily comprehensible agreements;

- cooperation between the technical and financial services - within the periodic management meetings - could save duplicate inspections and permit grouping of on-the-spot work into categories. Apart from these savings, it would provide external auditors - who enjoy more limited access - to obtain rapid and detailed information on the cost of works and appropriations provided for in the contracts.

Finally, after thus taking steps to put its managerial capacity to the best possible use, the Institution should concentrate on the reasons for delays, time lags in procedure and the inability to close accounts. The shortcomings mentioned in our previous report are growing worse from year to year, in so far as activities are following the rising trend reflected by the management of more and more contracts.

65.8 - In winding up these conclusions we should like once again to stress the extreme importance that the requisite information for good auditing should be forthcoming from an Institution where all the records are of an internal nature, only very few of them being officially published. While there have certainly been improvements, experience this year has shown once again that a lot still remains to be done in this respect.

66 - As a result of our investigations and auditing activities conducted during and at the end of the 1973 financial year in the sectors covered in this report, we are able to confirm that the ECSC's balance sheet and management account (statement of revenues and expenditures) dated 31 December 1973 tally in every respect with the accounting documents and vouchers submitted to us. We, therefore, certify that all the assets and liabilities shown in the balance sheet at 31 December 1973 are correct, and that all accounting operations relating to the year in question are correctly and properly shown.

In addition to certifying that accounting operations were correctly and properly carried out we are also able, in accordance with the terms of our mandate under the Treaty, to certify that the financial management conducted by the Commission within the context of the measures laid down in the Treaty of Paris is also correct and proper, taking into account, however, the qualifications flowing from the fundamental remarks contained in these conclusions.

We can state in conclusion that the ECSC's management of funds respects the requirements of prudence and orthodoxy generally observed in these activities, but that account should be taken in future of the remarks and suggestions set out in this report.

This report was compiled and the final version presented in French. The Publications Office and translation services of the European Communities in Luxembourg were responsible for translating it into the five other Community languages and for disseminating the various versions. Thanks to this cooperation - and we wish to thank those responsible for the exceptional effort they have put into the project - we shall be able to publish this report in all the official languages approximately within the deadline laid down by the Treaty, which means that full use can be made of it by the Authorities for which it is intended, particularly the European Parliament when debating the ECSC's operating budget and the Commission's report.

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x x

67 - We have continued to enjoy the full cooperation of the departments inspected, thanks to which, and to the diligence of our small team, led by Mr. J. Planchard, this report has been produced.

Luxembourg, 30 June 1973

Paul GAUDY
Auditor

# ANNEXES

## SYNOPSIS OF THE ECSC'S FINANCIAL AND BUDGETARY OPERATIONS

### INTRODUCTION

68 - The European Coal and Steel Community was established by the Paris Treaty of 18 April 1951, ratified by the six Member States and took effect on 23 July 1952 for a period of 50 years.

Under the terms of the Treaty the object of the ECSC is to work for economic expansion, maximum employment and higher living standards in the member countries, in harmony with the general economy of those countries and through the establishment of a common market for coal and steel.

It is based on the principles of free movement of coal and steel products and the creation of free but strictly-defined competition among manufacturers. To this end the institutions set up by the Treaty are also vested with powers to act in matters of prices, production and even capital expenditure (enterprises are required to declare their proposed investment projects).

It also has funds of its own in the form of levies on coal and steel production which enable it to give financial assistance to technical, economic and social research and to the rehabilitation of workers. Two types of resources also enable it, within certain limits, to operate in the social field (worker housing construction) and the field of investments or industrial structural reorganization. These are funds which the ECSC may borrow solely for re-allocation as loans, and income such as interest on invested funds, fines and interest on levy arrears. The Treaty does not require this income to be used for any specific purpose. One of the duties assigned to the High Authority of the ECSC in connection with industrial investments is that of facilitating their realization by acting as surety for loans obtained for the same purpose from third parties.

The ECSC has its own funds and the right to borrow funds, and is obliged to use its various revenues for purposes explicitly laid down in the Treaty. The special character of its own resources drawn from taxation levies and banks, the borrowed funds it can command, and the uses to which it is required to put these resources, gave this first European Community a character of

originality which is reflected in the organization of its finances. Furthermore, experience had led to the development of specific mechanisms best able to finance the tasks imparted to the Community.

Although the ECSC was empowered to levy a tax on coal and steel production it initially had no capital at all and thus tried in the first instance to build up a fund to serve as joint security to future creditors, using part of its first receipts from the levy. The temporary availability of part of its funds induced the Institution first of all to build up a fund of liquid assets by means of a careful, non-speculative investment policy and then to constitute reserves which in turn enabled it to increase its activities in the social field.

As a result, in fact, of its borrowing and lending policy the ECSC has to some extent become an industrial development financing institution, specializing in credits to coal and steel investments. More recently still, as a result of the economic climate in the coal and steel sectors, the ECSC has begun to finance new activities such as industrial structural reorganization, wherever such measures are likely to ensure re-employment of the labour made redundant in those two sectors.

It will be noted that the Paris Treaty did not endow the ECSC with a traditional budgetary structure except in respect of its administrative budget which, since the merger of the Executives, forms part of the single budget of the Commission of the European Communities.

Although not demanded, an informal 'budget' comprising two items - variable resources and the allocation of these to specific expenditure estimates - has been prepared every year since the High Authority of the ECSC was established. This 'operating' budget, drafted by the budget departments, has always been discussed with the European Parliament before being formally approved. Compilation of this estimate of income and requirements is in fact essential to allow the rate of the levy to be fixed in advance. This budget, essentially designed to provide a comparison of estimates, has never been restrictive or imperative in character. Only from 1962 onwards was it drafted in more precise detail, with a more methodical assessment of the specific requirements to be covered by the resources available.

Borrowing and lending operations and policy for the management of funds (a source of own funds) were never the subject of any budget estimate whatsoever, because they were considered strictly as financial, even banking operations.

This peculiarity of the ECSC's financial activities is reflected in the balance sheet and statement of revenues and expenditures which, because it is permitted to borrow funds, the Institution is required to publish for the benefit of its creditors and banking supervisory authorities. This balance sheet gives a full picture of all the Community's activities as regards both the management of funds yielded by its investments and the use made of its income from taxes and levies: this dualism reflects the intention of the authors of the treaty, whereby the ECSC's income from taxes and levies constitutes the ultimate guarantee of its commitments vis à vis its creditors.

This was in no way altered by the merger of the Executives in 1967. The ECSC's administrative expenditure is in fact charged as a fixed contribution of 18 million u.a. and shown under overall administrative expenditure.

The Commission, established in succession to the High Authority, continues to manage the ECSC's assets, its own resources and the use made of these funds, completely separately from the rest of the single budget.

Consequently the ECSC, albeit within a new institutional framework, retains its original and specific features, i.e. its financial autonomy, the special mechanisms operating it, its ability to borrow and lend and to undertake the tasks prescribed in the Paris Treaty in connection with the financing of research, rehabilitation and industrial structural reorganization.

In the sections which follow we shall now describe, one by one, the financial and budgetary mechanisms which currently form part of the specific activities of the European Coal and Steel Community and which come within the scope of our audit.

## THE LEVY

### 69 - General

Article 49 of the Treaty establishing the European Coal and Steel Community provides for the Community's requirements to be met exclusively out of its own resources, and the Institution is thus empowered to raise the funds for the performance of its work by imposing a levy on coal and steel production.

Under Article 50, this levy income must be used exclusively for administrative expenditure and outright grants (technical, economic and social research, rehabilitation research). In no event may levy income be used to finance investments. However, Article 5^provides for the use of the levy either to cover any part of interest payable on borrowed funds which cannot be met out of interest received on funds loaned, or if the ECSC extends its guarantee, to loans contracted directly by third parties should any reserve constituted by the Institution by adapting its loan and guarantee terms prove inadequate. Up to now the Institution has not set up a reserve of this kind.

The terms of assessment and collection of the levy were defined in the first instance on 23 December 1952 by the Institution and took effect from 1 January 1953. They were subsequently amended by later decisions *(1)*.

Before the beginning of each financial year the Institution, acting on its own initiative, fixes the rate of the levy on production for the following year. Although it has no formal obligation to do so, it first consults the European Parliament by submitting to it the various allocations envisaged.

Since 1 January 1953, the rate of the levy on coal and steel production has been both raised and reduced. These changes are essentially dictated by the volume of requirements and by the prevailing industrial climate. However, the much higher rates applying between 1 January 1953 and 1 January 1956 (0.50 %, 0.70 % and 0.90 %) were due to the new Community's need to constitute a guarantee fund to compensate for its lack of own resources. This fund rose steadily to 100 million units of account by 30 June 1956 and has remained unchanged ever since. If for any reason it became necessary to fix or increase the rate of the levy above the maximum figure of 1 %, this measure would first have to be approved by the Council by a two-thirds majority.

70 - Assessment

The ECSC fixes, in EMA units of account, the average per tonne value of the six categories of products subject to the levy:

(1) brown coal briquettes and semi-coke derived from brown coal, excluding crude brown coal which is not chargeable. No deduction may be made for 'seconds' which are sold cheaper. However, a flat-rate reduction of 3 % is granted on these products when consumed at the plant.

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*(1) See Official Journal of the European Coal and Steel Community*

*of 30.12.1952 (decision 2/52 and 3/52 of 23.12.1952)*
*of 1. 8.1954 (decision 30/54 of 25.6.1954)*
*of 28.11.1955 (decision 29/55 of 3.11.1955)*
*of 28.11.1955 (decision 31/55 of 19.11.1955)*
*of 22. 2.1956 (decision 4/56 of 15.2.1956)*
*of 27. 1.1959 (decision 3/59 of 21.1.1959)*
*of 27. 1.1959 (decision 4/59 of 21.1.1959)*
*of 27. 1.1959 (decision 5/59 of 21.1.1959)*
*of 22. 6.1959 (decision 34/59 of 10.6.1959)*
*of 12. 6.1964 (decision 13/64 of 3.6.1964)*
*of 22. 3.1965 (decision 5/65 of 17.3.1965)*
*of 22. 3.1965 (decision 6/65 of 17.3.1965)*
*of 14. 6.1965 (decision 8/65 of 2.6.1965)*
*of 16. 6.1966 (decision 10/66 of 8.6.1966)*
*of 28.12.1968 (decision 2/45/68/ECSC of 18.12.1968)*
*of 24.12.1969 (decision 490/69/ECSC of 18.12.1969)*
*of 30.12.1970 (decision 2650/70/ECSC of 22.12.1970)*
*of 23.12.1971 (decision 2733/71/ECSC of 15.12.1971)*
*of 23.12.1972 (decision 2691/72/ECSC of 18.12.1972)*
*of 31.12.1972 (decision 2853/72/ECSC of 29.12.1972)*
*of 31.12.1972 (decision 2854/72/ECSC of 29.12.1972)*

(2) Coal of all categories. A flat-rate reduction of 12 % is granted on net production after screening and washing, for in-plant consumption. Enterprises which have no washing and screening plants are permitted to reduce their gross production by 18 % before claiming any flat-rate reduction.

(3) Pig iron other than that for making ingots.

(4) Basic Bessemer steels in ingots.

(5) Steels in ingots other than basic Bessemer steel and in particular duplex steels, pure oxygen steels and special steels.

(6) Finished and end products set out in Annex I to the Treaty under nos. 4400 and 4500 (OEEC code). This category should include all products which, from the point of view of the steel industry, are considered as finished products, with the exception of tyres, one-piece wheels and hoops.

Article 2 of Decision 2/52 defines the average value on which assessment of the levy is based.

The average per tonne value of each of the products subject to the levy is that calculated on the basis of net receipts on leaving the plant. This value is applied to the whole of production whether sold or stocked.

The average values of the various products are calculated for each Member Country by the respective producer associations every year. The part played by the ECSC in this consists, on the one hand, in checking the information thus provided and, on the other hand, in determining the average Community values by an adequate weighting which results from applying the single rate to the values charged. Thus, the final net scale takes into account a weighting of the various current prices and the relative importance of products of one and the same category, both at national and at Community level.

Prior to 1 January 1973 the Institution, in establishing the scale, only took into account changes of at least 10 % in the average per tonne value of one of the products compared with its previous value. From that date *(1)* the Institution must determine each year the average value in order to fix the scale, but it may limit the increase resulting from the adjustment to 15 % of the previous scale.

In addition, a system of value-added tax was adopted in order to comply with the Treaty's stipulation that cumulative taxation should be avoided as far as possible. Under this system, only that which has not been charged at earlier stages is charged, and the chargeable value is determined by deducting from the average value of each product category the average value of the products already liable which have played a part in their manufacture.

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*(1) Official Journal of the European Communities no. L 286 dated 23.12.1972 (decision no. 2691/72 of 18.12.1972).*

71 - Statements of output

The services of the Levy Department maintain a list of addresses of Community enterprises which are liable to the levy. This list is constantly changing to reflect changes which may occur in enterprises liable to the levy: winding up of a company, creation of new industries, mergers, absorption and other changes.

A regular coding system is maintained in the form of a computer listing (and addressograph) which enables the competent departments to record for every enterprise and works (with separate registration numbers) monthly data regarding dispatch and submission of statements together with payments or any necessary reminders.

All enteprises subject to the levy make their own declaration, on two forms sent to them by the Institution, of their production figures on which the amount charged will be based.

On the first form, they calculate the sums payable by multiplying the tonnages produced by the scale fixed for the six product categories in their national currency and per tonne.

The second form requires statistical details of the tonnages declared for each of the products making up the six categories. In addition to its statistical usefulness, this detail is a valuable auditing aid, both for the Levy Department and for the internal inspectorate.

It frequently happens that, as a result of errors of calculation or interpretation, enteprises are obliged to amend their statements of output or their payments. These adding or cancelling operations require the submission of additional returns or the cancellation of earlier returns.

All enteprises coming within the terms of the Treaty must complete their monthly statement, including those which enjoy the exemption granted when the levy total effectively due for the month is lower than 100 units of account.

As from 1 January 1959 *(1)* the ECSC has authorized a number of coal mining enterprises to defer payment of sums due under the levy without arrears interest or penalty, as a result of marketing difficulties which in several Community coal fields have led to exceptionally large stockpiling of hard coal, coke derived from hard coal and patent fuels. This measure applies to chargeable output stocked after 31 December 1957 for which the levy amount is not payable until the 25th of the month following that in which a decrease in stock occurred. Stocks held on 31 December 1957 were considered as the normal level and it was not until the beginning of 1958 that the coal crisis began.

However, with the accession, on 1 Jnauary 1973, of three other countries to the ECSC, changes in this machinery of temporary deferment became necessary, as the reference date of 31 December 1957 could not be applied to the

*(1) OJ of 27.1.1959 (decision no. 5/59 of 21.1.1959).*

new member countries without subjecting their previous production to the levy. From this date *(1)* therefore, the Institution recognizes as normal any stock-building up to 3 % of the production liable to the levy *(2)*.

Thus the Institution authorizes a deferment of levies on quantities exceeding this 3 % limit, until such time as stocks again fall below this limit and sends a third form every month to the enterprises concerned to find out the monthly fluctuations in their stocks and the amount of deferments or the amount of levies due should these deferments have lapsed.

The statement forms are sent by the Levy Departement by the 5th of the month following that of the production in question. Enteprises must complete and return them by the 20th of the following month and for each of the establishments connected with them.

In the event of default or deliberate falsification of statements, fines and penalty payments may be imposed by the Institution under Article 47, paragraph 3 of the Treaty. The former are calculated as a flat percentage of the total annual turnover (1 %), the latter on a maximum of 5 % of the average daily turnover per day of arrears.

72 - Payment procedure and disputes

Payment of the levy on output for the month past becomes due on the 25th of the month during which the statement form is sent to the enterprise. This makes its payments in the currency of the country where it has its registered headquarters and into various accounts maintained by the ECSC in banking establishments in the nine countries of the Community.

On the basis of deaily records, the Levy Department draws up two copie of a list of statements from these banks. One copy is sent with all the relevant vouchers to the accounting department and the other is sent to the computer centre after transfer to the registers kept by the Levy Department for future checking operations.

Under Article 50 of the Treaty (paragraph 3) the Institution may impose arrears interest of up to 5 % per quarter overdue on enterprises not meeting their obligations. Pursuant to decision 3/52 (Article 6), levies not paid are charged 1 % interest per month (i.e. 3 % per quarter) from the 5th of the month following that in which payment was due. This arrears interest, calculated each time on the principal, may be reduced or waived if the Institution deems fit.

In the event of non-payment the Institution must give notice under the terms of the Treaty (letter based on Article 36) and issue an enforceable decision imposing financial sanctions (increases) (Article 92).

The notification procedure under Article 36 of the Treaty may be applied to all cases of dispute (fines or penalty payments) and is only embarked upon after two or three reminders (sent by the Levy Department) which may be spread over three months.

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*(1) OJ of 31.12.1972 (decision no. 2853/72/ECSC and 2854/72/ECSC of 29.12.1972).*

*(2) This 3 % represents stocks held at 31.12.1957 in relation to total chargeable production in 1957.*

The form in which notice is served is set out in Article 92 of the Treaty: enforcement within the territory of Member States is carried out by means of the legal procedures in force in each state, after the enforcement order in the form in use in the state on whose territory the decision is to be enforced has been appended to the decision.

To date, enterprises which have occasionally defaulted and have rectified the situation have never had financial sanctions imposed upon them.

73 - Levy collection procedure

As from 1 July 1967, when the Treaty of Merger establishing a single Council and a single Commission of the European Communities came into effect, the powers and competences devolving upon the High Authority under the Paris Treaty were transferred to the Commission. Consequently, income from the levy continues to provide the own resources of the ECSC and the earlier procedures for collection and supervision are still applied following the same principles and within the same, reorganized administrative structures.

73.1 - Since the Executives were merged, the Levy Department has been attached to the Directorate-General for Credit and Investements, which administers the funds and financail operations entailed by the ECSC's polcy of borrowing and lending. This department operates like a tax collection office. It has particular responsibility for:

- keeping up to date the list of addresses of enterprises registered and liable to the levy
- preparing and sending out the monthly statements of output (including preparation of the tax section, i.e. the scale of levy charges)
- making entries in the register per month and per enterprise and checking payment liabilites discharged
- overall accounting per country and group of products (coal, steel) of data or statements of output received during the month
- monthly checking by comparing the table of balances per enterprise with the figures of the overall accounting on the basis, on the one hand, of the department's documents and, on the other hand, of the computer listings
- keeping records of disputes and the relevant correspondence (reminders, litigation)
- processing the inspection reports compiled by the levy inspectors
- comparing the levy totals declared per enterprise with the overall figures per product category and country compiled by the statistical departments.

73.2 - The inspectorate is responsible, acting on details provided by the Levy Departement, for checking on the spot at debtor enterprises that provisions in force are observed and that the production declared is correct. On the basis of observations gathered from information declared by the enterprises, the Levy Departement gives the inspectorate broad guidelines as to the sectoral examinations to be conducted.

Under Article 86 of the Treaty the officials who carry out these checks enjoy the same rights and powers as are granted by the laws of Member States to officials of their own tax services. It is stipulated, however, that their only power is that of inspection and that in consequence they have no authority to cooperate with the enterprise in determining its output (even where doubts have arisen as to the correctness of the output statement submitted). Nor have they any authority to provide defaulting enterprises with a programme for discharge of their debts. Their inspection reports are intended for analysis by the Levy Department.

73.3 - The technical advisers attached to the coal and steel Directorates and representatives from the Levy Inspectorate and Departement meet periodically to process these inspection reports. The conclusions drawn by this working party are put into effect by the Levy Department.

## REHABILITATION

74 - General

The only provisions of the Treaty of Paris which now permit the ECSC to take action in the rehabilitation of workers are those of Article 56, Paragraphs 1 and 2.

In the Convention on the Transitional Provisions annexed to the Treaty, Paragraph 23 also sets out the machinery for the granting of rehabilitation assistance. These latter provisions, which ceased to be applicable in 1960, were transferred en bloc to Article 56, Paragraph 2, when a revision of the Treaty, based on Article 96, was carried out.

Under Paragraph 1, initially the only paragraph in Article 56, the Institution may take action at the request of the governments concerned to help the labour situation in emergencies only (deterioration in the labour situation following the introduction of new technical processes or equipment; exceptionally large reduction in labour requirements following achievement of the general objectives of the Common Market; particular difficulties in the re-employment of workers made redundant in one or more areas as a result of this reduction in labour requirements). Although there has not been, formally speaking, an emergency of this kind the unexpected pattern of development in the coal and steel market and the appearance of structural features with consequences which could be foreseen by the authors of the Treaty prompted the addition, in 1960, of the present-day Paragraph 2 to Article 56. Under this new paragraph the Institution may take action when an enterprise is compelled to discontinue, curtail or radically alter its activities as a result of fundamental changes, not directly connected with the establishment of the Common Market, in market conditions in the coal and steel industries.

If the Institution establishes that this is in fact the case it may, in conjunction with the government concerned, take a series of measures designed to re-employ the workers made redundant. The assistance it may give is only paid if the government concerned has itself made a special contribution at least equal to that of the Institution. This latter condition may, however, be waived with the assent of the Council, acting by a two-thirds majority.

The Institution may, then, grant assistance for rehabilitation only if a formal request is made by the government and if certain economic and technological conditions are met.

75 - Types of financial assistance for rehabilitation

75.1 - Financial assistance for worker rehabilitation granted by the ECSC under paragraph 23 of the Convention on the Transitional Provisions and, later, exclusively under Article 56, Paragraph 2 b of the Treaty. It has usually been in the form of outright grants (subsidies) and occasionally as repayable assistance (loans).

At present this assistance, comprising an ECSC contribution of 50% of the costs which qualify for such aid (except in special cases with the unanimous assent of the Council of the European Communities), is as follows:

(i) for workers re-employed at a lower wage: guarantee for a limited period of time of between 70 and 100% of the previous net wage or 60 to 80% of the difference between the old and the new wage. Assistance is generally paid for a period of 12 months, but may be extended for certain categories of older or handicapped workers or workers in places where the labour situation is difficult. Criteria used to determine the rate of assistance given within the above limits include local differences and family circumstances;

(ii) For workers in the coal industry who are over 40 years of age or handicapped on dismissal: granting, in one or more payments, of a compensatory lump sum, of which the ECSC will pay up to 750 units of account;

(iii) For workers re-employed in or transferred to another region:

. payment of a lump sum resettlement grant and reimbursement of travel and removal costs for the worker and his family;

. reimbursement, in certain cases, of additional daily travel expenses and payment of a separation grant when the worker is unable to bring his family with him to the new region;

(iv) For workers undergoing vocational training:

. contribution by the ECSC towards costs of vocational re-training (wages of workers attending re-training courses and operating costs of state or private vocational training centres).

Assistance in the form of subsidies and loans granted before 1960 under Paragraph 23 of the Convention on the Transitional Provisions was of the same type as that now granted under Article 56, Paragraph 23 of the Treaty. The subsidies were given to workers made redundant in Belgian coal mines and the loans, two in number, were granted for the re-housing of workers displaced in France. Only one of these is still being paid off.

75.2 - Lastly, mention should be made of the special decisions taken under Article 95 of the Treaty 1) after the unanimous approval of the Council and following consultation with the Consultative Committee. These covered two types of assistance which have now ceased to operate. The first was in the form of outright grants and five-year interest-free loans given to ease the situation

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*1) Under Article 95, Paragraph 2 the Institution may, subject to certain procedural conditions, take a decision or make a recommendation in all cases not provided for in the Treaty where this is necessary to ensure that the common market in coal and steel continues to function normally.*

created in the coal mining industry as a result of unusually high stock piling and to reduce the number of days not worked in certain coalmining enterprises of the Community. Assistance of this kind, both repayable and non-repayable, has virtually ceased since 1963-1964.

76 - Financial policy and procedure

In order to meet commitments subscribed by the ECSC for outright rehabilitation grants, the Institution allocates funds to a provision for rehabilitation expenditure which it shows on its balance sheet. Calculation of the sums entered in this provision has undergone several changes in the course of recent years.

Up to the financial year 1961/1962 the Institution allocated each year to this provision the approximate sum it expected to pay out, as distinct from the social assistance which the various governments proposed to provide.

From 1961-1962 onwards, the Institution was led to define a stricter policy aimed at financial equilibrium not just for one year but for a period of several years, by more rigorous limitation of the sums tied up under its commitments. This financial policy - reflected by the putting to provision of the sums mentioned above - is the result of the widening gap between the Community's revenues and requirements as determined by the state of the economy, and of the difficulties inherent in precise valuation of rehabilitation commitments.

Consequently from this date onwards, the provision for rehabilitation shown on the balance sheet under liabilities comprises:

(i) the part not yet disbursed of commitments subscribed by the ECSC in accordance with the agreements on Community financing, which have formed the object of a decision by the Institution and been accepted by the governments;

(ii) part of commitments already undertaken by Member Countries, which have formed the object of a ECSC decision and which are of the type eligible for Community financing;

(iii) a sum equal to the loans it grants for rehabilitation. After 1965-1966, however, this practice was discontinued, as the Institution deemed it unnecessary to maintain sums corresponding to loans in the provision for rehabilitation. It considered that the granting of loans did not deplete its resources as such, so that no corresponding provision need be formed;

(iv) a buffer reserve fixed in the first instance at 10 000 000 u.a. and designed to meet exceptional requirements which might be created by a period of economic depression, thus avoiding the need to increase the rate of the levy unduly. This reserve was completely exhausted by 31 December 1970 and has not been reconstituted.

In order to make the sum held in the provision as realistic as possible, and by agreement with the governments concerned, the Institution occasionally cancels commitments or parts of commitments undertaken towards workers affected by the closure of coal mines or iron and steelworks, where it appears certain that the assistance will not actually be used. Because of these cancellations, sums earmarked for the rehabilitation provision are periodically readjusted.

77 - Procedure for the granting and supervision of rehabilitation assistance

77.1 - Procedure for the granting and payment of outright assistance is laid down in general agreements concluded with the various governments concerned.

These general agreements,which are designed ultimately to adjust and harmonize the procedures set out in the various national legislations, are concluded for an unspecified period of time with the relevant Community countries. Only one exception to this rule has been made in the case of Great Britain with which the ECSC concluded a general agreement in 1973, for a limited period of three years, to give that country a transitional period in which to adjust. General agreements are subsequently completed by directives which are the subject of agreements between the Institution and the respective governments.

The Institution receives from the national authorities lists of the personnel who qualify for the assistance provided for in the agreement. These lists are compiled jointly by the enterprises employing the workers affected by the rehabilitation measures and by the competent government departments. These lists give details of jobs withdrawn and of each individual case (registered number, date of birth, dismissal, nationality, latest gross wage, etc.) and enable the Institution subsequently to check that payments are made in accordance with the directives issued.

Grants and expenses are never paid directly to workers by the Institution but by the competent national government bodies or, if appropriate, by enterprises themselves.

The ECSC's contribution is only paid, in principle, on presentation of the government's own detailed statements and calculations. In respect both of interim allowances and resettlement and vocational retraining costs, these statements and calculations must include all elements evidencing payments effected by governments bodies or enterprises so that the Institution can check that the amounts of contributions requested of it are in order. However, in order to accelerate disbursements, it pays out to government bodies instalments of sums already paid out by these to those receiving assistance before the final statement has been sent and checked. In effect, the assurance that the respective states have already paid their contribution empowers the Institution to make available these instalments before the final statements are checked.

77.2 - Procedures for ECSC readaptation assistance involve the departments of four Directorates-General: 'Social Affairs', 'Budgets', 'Financial Control' and the 'Legal Department'.

77.21 - The Directorate-General for Social Affairs has special responsibility for drawing up agreements with governments on rehabilitation assistance and for checking the assistance granted.

The supporting documents themselves are held by the bodies which pay out the contributions. However, declarations, statements, and calculations submitted in connection with rehabilitation assistance are studied in depth by specialist departments of the Directorate-General for Social Affairs and are often amended and corrected as a result.

When assistance has been granted by the Institution, the statements submitted (and already checked) by the governmental bodies in the countries concerned are carefully vetted from computer listings. For those countries

which do not as yet use computers to administer and check their rehabilitation assistance, the Directorate-General for Social Affairs carries out random checks on the spot. It has virtually discontinued manual checking from the individual records for beneficiaries.

Checking operations also examine the efficiency of the assistance machinery and ensure a minimum of delay between attribution of the assistance and actual receipt of it by the beneficiary. Other contacts with heads of beneficiary enterprises and trade unions, when these are possible, enable the Directorate-General to keep an eye on assistance methods and procedures as applied at national level.

77.22 - The Directorate-General for Budgets prepares budget estimates for rehabilitation, for inclusion in the Community's overall budget estimates. The rehabilitation estimates are based on data supplied by the Directorate-General for Social Affairs. It cooperates with the latter department in a regular assessment of available Institution funds and may settle legal matters or disputes (debt collection, overpayments, etc.).

77.23 - The Legal Department vets the technical dossiers compiled by the Directorate-General for Social Affairs to ensure that the required conditions are met, and thus participates in the preparation of programmes and directives.

77.24 - A Financial Control department is responsible at an earlier stage for keeping the accounts, charging commitments, making payments and supervising rehabilitation expenditure.

## TECHNICAL AND SOCIAL RESEARCH

78 - Legal basis

Under Article 55 of the Paris Treaty, the ECSC has to promote technical and economic research concerning the production and increased consumption of coal and steel, and the achievement of safe working conditions in these industries. To this end, it is required to organize all appropriate contacts among existing research bodies.

Under the terms of the Treaty the ECSC may finance research in three ways, after consulting the Consultative Committee. These are by organizing joint financing by the enterprises concerned, by allotting for this purpose funds from the levy, subject to the approval of the Council. Use has been made of this third option.

The Institution makes available to all interested parties in the Community the results of research financed by these two latter means and issues all notices which may help to spread knowledge of technical improvements (in particular exchanges of patents and the issuing of operating licences).

79 - Areas of research assisted

Since 1955 the ECSC has financed research activities by allocating part of its levy income, in accordance with a procedure laid down in the Treaty, i.e. after consultation with the Consultative Committee comprising representatives of the producers, consumers and workers, and with the assent of the Council representing the governments.

Financial assistance of this kind has been granted to research bodies and institutions and to enterprises. The applicant does not need to be directly concerned with the mining or steel industries, but it is essential that the proposed research should be potentially beneficial to a large number of enterprises in the Community or, in the case of measures connected with work safety, to a large number of workers in these enterprises.

Research programmes implemented since 1955 have covered the following sectors:

(i) coal, steel and iron ore from the most varied of aspects : from economic studies of research itself or the profitability of production techniques to the perfection in industry of processes developed from prototypes. Both for the coal and the steel sectors the ECSC has tried in recent years to draw up a long-term research programme to be implemented and financed partially out of own funds;

(ii) the social sector in which, under large-scale programmes extending over a number of years, the Institution encourages basic laboratory research and applied research in industrial health, medicine and safety and in ergonomics (industrial physiology and psychology) aimed at improving the prevention and treatment of vocational diseases and industrial accidents and providing workers with greater comfort and safety.

80 - Special features of ECSC research

The three cornerstones of research planned systematically since 1955 (granting of financial assistance, promotion of cooperation among research organizations in the Member countries and the making available of results by the taking out of patents) have enabled national research bodies, institutes and enterprises with which the ECSC cooperates in the preparation, carrying out and partial financing of research work and the dissemination of its results, to gain a deeper knowledge of each others' work and have prompted them to undertake projects jointly.

Compared with other types, ECSC research projects have the following features:

(i) they are not carried out in the European Institutions but in scientific and technical institutes or industrial enterprises;

(ii) they are financed in part by contract assistance granted for the implementation of a work project;

(iii) they are carried out in temporary cooperation under a strictly defined programme which is limited in time and may be spread over a number of years;

(iv) whether basic or applied, they pursue practical objectives.

81 - Procedure prior to research projects

For research on coal, steel and iron ore the Institution normally establishes a Committee of highly qualified specialists from the six Community countries (directors of research centres or institutes, senior figures in industry, experts and academics). This Committee draws up proposals and opinions on research projects under consideration for financial assistance. Once the Consultative Committee has given its opinion and the Council its assent, the decision to award financial assistance is taken and an executive committee set up which, for each project or group of projects, includes representatives of the beneficiary institutes, organizations and enterprises. It is responsible for following the progress of the project, working together with the competent technical officials of the Institution.

In the case of social research, the Institution prepares general programmes after consultation with scientific and technical circles, professional circles (employers and workers) and government experts and compares the requirements thus ascertained with Community objectives. Consequently it is not until

these programmes have been painstakingly prepared and distributed that preliminary applications for research are received and granted and that contracts are signed.

82 - Financial procedures governing contracts

The agreement concluded with the beneficiary of the financial assistance fixes the maximum amount of the ECSC's contribution. Up to this maximum amount the Institution reimburses its share of expenditure claimed and duly substantiated. In most contracts, however, clauses specify that the Institution may pay up to 90% of the proposed subsidy in instalments as the work progresses and the relevant payments are made.

On receipt of the final scientific and financial reports, the Institution's budget departments draw up a final statement which is checked on the spot with the authorizing department. The balance is then paid.

Financial assistance given by the ECSC is not always restricted to part of the expenditure incurred directly by the research project itself. This expenditure may be recurring costs (staff, consumable materials, etc.) or expenditure for equipment (installation and material) intended directly for use in the research project. On completion of projects in the coal and steel sectors, the ECSC, under the terms of the contract, takes account in its final statement of the residual value of the equipment, which is not necessarily the case in the social and medical sectors where the material acquired may be left at the disposal of universities or institutes active in ECSC research.

When existing equipment or equipment purchased with a view to later industrial use is made available for the research project, the assistance provided by the ECSC may be equal to the depreciation in value undergone by the equipment as a direct result of the project. In the event of total depreciation as a result of the project, the ECSC may also provide part of the purchase price.

83 - Availability of research findings and dissemination of information

The ECSC contributes to the dissemination of results and information by providing the costs of publishing research findings or of filing and keeping any patents. It also imposes a number of obligations on beneficiaries to make available the findings of research financed by the ECSC to all interested parties in the Community. Furthermore, it is entitled to a share of any royalties the beneficiary may earn from the granting of licenses in respect of industrial property or from the passing on of knowledge acquired from the research.

On these matters and since the merger of the executives, the technical officials with responsibility for ECSC research - who remain the authorizing officers cooperate with the Directorate-General for the Dissemination of Information in order to facilitate the dissemination of research findings within the enlarged framework of the Commission of the European Communities. Control and centralization of information problems following the completion of research projects and the possibility of having the findings published by a directorate-general specialized in this field makes the job of the authorizing department easier and provides the continuity essential to any operation to disseminate information, together with a greater degree of effectiveness.

This cooperation takes the form of information sessions, symposia, seminars and the printing of publications.

As regards publications, the directorates-general responsible for ECSC research projects and the Directorate-General for the Dissemination of Information make every effort to keep up to date, in a regular and harmonized manner, with progress in the three sectors of coal, steel and industrial safety and medicine. It is also proposed to provide the steel and social sectors with a wide-circulation publication similar to that in the coal sector which distributes a report on its current research projects every year.

Measures of this kind are financed mainly by the portion of levy income which is set aside for the research projects themselves and, in the second place, by the administrative budget of the European Communities to which the ECSC makes an annual contribution of 18 million u.a. In the former case, funds earmarked for these measures may be up to 3% of total research expenditure. In the latter case, the costs involved are additional ones relating to the convening of experts, officials' travel expenses and the setting up of a documentation pool.

At present any patents filed are filed on the initiative of the research assistance beneficiary. The ECSC merely makes a financial contribution towards the costs of lodging and obtaining them. Licences may be granted only to 'beneficiaries within the sector', a concept which is taken to cover debtors under the levy, i.e. producers, who have a right of appeal to obtain licences 'for their own use'. Adjustment of these practices is currently being studied with a view to devising a true Community policy on the subject.

A first step in this direction was made in 1972 with the publication of a survey of patents already taken out by Community industries as a result of research projects financed by the ECSC in the coal and steel sectors. This survey was based on the data collected on completion of the projects, when a systematic list is compiled of the patent or patents filed by the beneficiary during the research project financed.

In the social sector, in addition to the advantages yielded by the usual specific and final measures, active and frequent participation by the same research workers and the joint organization of research work in the context of general programmes means that the enterprises concerned are directly acquainted with the findings obtained.

## 84 - Financial policy

A number of elements make budgeting for technical and economic research difficult. Financial assistance by the ECSC requires first of all an application by an enterprise or research establishment and, secondly, the completion of procedures laid down in the Treaty (consultation of the Consultative Committee, assent of the Council).

In practice it is found that a considerable period of time often elapses between the decision in principle which specifies the total amount of assistance granted, signature of the research contracts with the beneficiaries and the actual financing of the first part of the work.

On its inception, the Institution allocated the following items to a provision for research on its balance sheet: the total amount of internal and unilateral commitments resulting from broad decisions taken by the Institution,

a sum equal to the value of loans granted for technical research (two loans granted under experimental social housing programmes); and a buffer reserve of 6 000 000 u.a. which was exhausted by 31 December 1972 and has not been renewed since.

Gradually, however, the Institution amended the procedures governing constitution of the provision for financial assistance to research, by allocating to this provision only such amounts for which legal commitments had been undertaken and signed as of the date of the balance sheet (contracts with research institutes). These sums thus represent commitments which are legally more binding than those resulting from broad decisions taken by the Institution. The contra of loans granted to research was no longer included in the provisions since these loans, unlike outright grants, did not entail an irrecoverable depletion of the Community's assets.

The provision for research also includes accessory costs directly linked to research projects and evaluated as and when deemed necessary. These are part of the total allocation (3% of the value of each contract) earmarked by the Institution to enable it to finance the dissemination of scientific research findings, help researchers to draw benefit from them and permit the competent bodies in the sectors concerned to promote and facilitate the practical application of these findings.

The Institution periodically cancels outstanding provision balances corresponding to credits given to projects which have been completed and will require no further payments. It may also reduce the provisions following application of the contract's resolutory clause, under which it may rescind the agreement in certain cases of non-performance.

85 - Supervisory procedure for research assistance

Departments involved in ECSC financial assistance to research projects include, on the one hand, the directorates-general concerned with steel and iron ore (Industrial Affairs), coal (Energy) and industrial safety and medicine (Social Affairs) and, on the other hand, certain sections of the Directorate-General for Budgets and the Directorate-General for Financial Control.

The first are especially responsible for drawing up general and special research programmes, preparing negotiations on research contracts and for technical supervision of their progress. The Budget officials help to work out the financial details of contracts, check on the use made of subsidies and prepare the budget estimate for the sector in which the research is done. The procedures laid down for each project deal particularly with scientific and financial responsibility, certain guarantees concerning the use made of credits and the making available of the research findings. The Directorate-General for Financial Control gives prior approval to this expenditure.

The Legal Department also cooperates at all stages in the drafting and editing of contracts and their interpretation in the event of disputes or litigation.

The beneficiary is required to send in a technical and a financial progress report every six months, whereby the ECSC reserves the right to check on the spot and from any document that the expenditure claimed is justified.

Periodically, the appropriate officials of the directorates-general of the Institution carry out joint on-the-spot inspections and draft an interim report on financial aspects of the research project at its current stage of progress.

## BORROWING, LENDING AND GUARANTEE OPERATIONS

### BORROWINGS

86 - Authority to borrow

Under Article 49 of the Treaty and on behalf of the ECSC - which, under Article 6 of the Treaty, has legal personality in its own right - the Institution may borrow funds in order to obtain the resources necessary to the performance of its work.

Since its inception, the ECSC has contracted a series of loans both on the international market and on a number of national markets, notably those of the member countries of the Community, the USA and Switzerland.

87 - Guarantee operations

The ECSC was not provided with any initial capital by the Member States. In addition, Member States are not obliged to guarantee loans floated by the ECSC even when the latter judges it necessary to seek this guarantee after consulting the Council and the governments concerned, (Article 51, Section 1, Paragraph 3 of the Treaty). In reality, the ECSC has always issued its loans without making use of the guarantee of Member States. As a result, the fiscal powers granted to the Community under the Treaty were initially the only guarantee offered to those lending it funds.

For its first loans, contracted between 1954 and 1961, the ECSC was bound by an instrument of English and American law known as the 'Act of Pledge'. Under this the first creditors, mainly American, obtained a common possessory lien on claims held by the ECSC against enterprises receiving loans granted out of ECSC's borrowings. This lien took the form of the holding in pledge of these claims (and the sureties relating to them) by an 'approved third party', the Bank for International Settlements (BIS). This body was responsible, on behalf of the creditors, for the safe-keeping of the items secured and for ensuring that the Act of Pledge was respected. In effect it centralized all banking transactions connected with the payment of funds borrowed and the servicing of loans both contracted and granted by the ECSC. To this end the BIS obtained the assistance of financial institutions in each Member country to act as

agents. When the loan was contracted and the promissory notes transferred, the proceeds were paid into a special account with the BIS, which only used it to pay out loans to beneficiary enterprises on receipt of the proofs of debt and related sureties. The same applied to the annual repayments on loans paid directly by debtor enterprises into the special account.

Since 1961, bond issues have not been governed by the act of Pledge because of the new guarantees which the ECSC is able to offer on its assets.

In addition to subscribing to the Act of Pledge, the Institution gradually built up by 1956 a guarantee fund of 100 million units of account using its income from the levy, the rate of which had been set fairly high. This guarantee fund, however, may only be drawn on after all other reserves are exhausted.

Furthermore, creditors lending funds to the ECSC know that the ECSC is compelled to use the product of loans it contracts exclusively for re-lending, as it is required under the Treaty to meet its operating expenses out of receipts from the levy and income on its assets. In addition, the choice and quality of the beneficiaries receiving loans keeps failures to a minimum and the increase in structural reorganization loans diversifies the risks involved by making them less dependent on the economic climate in the coal and steel sector alone.

This gives an idea of the credit capacity offered by the ECSC and which enables it to draw on money markets. It is because it makes public issues on these markets that the Institution publishes and distributes its balance sheet at regular intervals.

88 - Methods and procedures

Under Article 51, Section 1, Paragraph 2 of the Treaty, the floating of ECSC loans on the markets of Member States is subject to the rules obtaining on these markets.

In general issues are made through banks or institutional investors and are quoted in the currency of the market on which they are floated. These loans are medium, but above all long-term loans and are floated under the conditions usual on the market. Issue prospectuses contain the conditions governing the loan, viz. the amount borrowed, rate of interest, duration, payment and repayment terms and the applicable laws and place of jurisdiction. New bonds are held 'pari passu' with all bonds issued and to be issued, with the exception of those covered by the Act of Pledge.

The ECSC also contracts private loans from banking establishments.

Given that borrowed funds must be allocated to loan operations, the accounting procedure for payment of interest on those funds and on the corresponding loans is kept separate, so that the operating balance between these parallel operations can be ascertained at any time.

Current costs connected with the service of loans contracted by the ECSC (interest and fees paid annually) are charged to this special loan operating account and offset by current receipts from the service of loans granted (interest collected annually). The initial costs of loans contracted are not charged to this special operating account but are carried on the balance sheet

as assets under a separate heading (recoverable issuing costs) and are gradually written off every year out of the special loan operating account. The end position of this special operating account may also be affected by other management factors (particularly by any losses due to default on the part of borrowers).

The balance of this account, which has so far always been in credit, is put to reserve on the liabilities side of the balance sheet (other provisions).

89 - Use

Under Article 51, Section 1, Paragraph 1, the product of ECSC borrowings may only be used to grant loans.

## LOANS

Loans granted by the Institution are of two types, depending on the origin of the funds providing them. Some are granted out of borrowed funds, others from non-borrowed funds taken either from the special reserve, or directly from the levy, or from the former pension fund for officials of the ECSC.

90 - Loans from borrowed funds

90.1 - Apart from the fact that the product of borrowings is generally speaking used to grant loans (Article 51, Paragraph 1 of the Treaty) and that as a result there is an equilibrium between funds borrowed and funds loaned, Articles 54 and 56 give more detailed definitions of the exact use to which borrowed funds may be put. Under Article 54, Sections 1 and 2 and Article 56, Sections 1 and 2, loans granted out of borrowed funds must be used to finance:

(a) the implementation of investment programmes by coal and steel enterprises;

(b) with the unanimous agreement of the Council, works and installations which contribute directly and mainly to:

- increased production
- lower production costs
- easier marketing of products subject to the jurisdiction of the ECSC;

(c) In the industries subject to the ECSC's jurisdiction or, with the agreement of the Council, in any other industry, programmes to create new and economically sound activites capable of assuring productive reemployment to workers discharged following the introduction of new technical processes or equipment into enterprises;

(d) In the industries subject to the ECSC' s jurisdiction or, with the agreement of the Council, in any other industry, programmes for the creation of new and economically sound activities or the transformation of enterprises capable of assuring productive reemployment of workers discharged as a result of far-reaching changes in marketing conditions in the coal and steel industry.

90.2 - From the accounting point of view and to underline the fact that borrowed funds are used exclusively for allocation as loans as stipulated in Article 51 of the Treaty, the Institution, up to 1968, always shows separately in the balance sheet the arithmetical balance between the funds borrowed, under liabilities, and, under assets, the same funds whether they have been paid out to borrowers or not. This balance was in fact the result of the policy whereby funds borrowed were directly and individually allocated as loans for financing.

After 1968, the Institution no longer drew a distinction between categories of loans according to their origin or use. Nevertheless, the balance between borrowed funds and loans continues to be respected and can be checked in the overall accounts. This change was prompted by the desire to apply the principle of unity in managing both borrowed and own funds, as we shall explain in the section entitled 'Management and investments of funds'.

90.3 - In general, the terms of loans granted have been more or less identical with those of loans contracted (same currency, duration, principal, repayment terms). The rate of interest on the loans granted has often been slightly higher than that on the corresponding loan contracted, to offset its cost. As from 1969, however, the ECSC sets a standard rate for all loans granted out of borrowed funds. This single rate is subject to periodic alteration and is the result of evening out the cost of various loans contracted over a certain period.

Loans for structural reorganization (under Article 56 of the Treaty), the amount of which rises considerably, were initially granted at more or less the same rate of interest as that on the corresponding funds borrowed and then at a lower rate, thanks to the combination of funds from different origins (very low-interest own funds and higher-interest borrowed funds). Since 1967 loans for structural reorganization granted under borrowed funds qualify for a reduced rate of interest for the first five years. These reduced rates were fixed successively at 4.5 % and 5.5%. The resulting interest loss, shown in the loan operating account, is made good by an outright difference payment credited to the same account to restore the balance between the cost of borrowed funds and the cost of the corresponding loans.

Loans for the financing of industrial investment projects under Article 54 of the Treaty have always been granted under the Institution's normal conditions. As from June 1970, however, they also can obtain a reduced rate of interest, provided they fulfil certain requirements, similar to that on structural reorganization loans granted under Article 56 of the Treaty. The criteria taken into account in granting this reduction are concerned with the nature of the investments to be financed: investments resulting from safety and public health considerations (nuisance control), multinational investments promoting the integration within the Community of ECSC enterprises, investments designed to eliminate bottlenecks affecting an entire ECSC industry or investment for the establishment of research or vocational training centres within the scope of the ECSC's activities.

Under Article 54 of the Treaty, the ECSC has also financed housing construction programmes for workers in the coal and steel industries. These loans are mainly granted out of own funds at 1%, but may also be granted out of borrowed funds at a normal rate of interest more or less equal to that on the funds borrowed.

90.4 - Guarantees required by the ECSC on the loans it grants are principally first mortgages, guarantees from Member Governments, industrial groups and banks.

90.5 - All loans provided out of borrowed funds are granted in the same currency as that of the borrowing, whatever the nationality of the beneficiary.

90.6 - As regards the Institution's policy towards potential borrowers, this is essentially to guide and direct investments in accordance with the general objectives periodically defined under Article 46 of the Treaty; these are furthermore published in the Official Journal of the European Communities and thus enable industrialists to know the areas in which they may expect Community financial assistance for their investments.

Article 54 also provides for the prior declaration of individual programmes. Within three months the Institution gives a reasoned opinion based on the general objectives whenever the investment plan is a basic investment. Approval in fact means that Community loans may theoretically be made, subject to fulfilment of certain financial conditions.

In addition to these contacts envisaged in the Treaty the Institution makes known its financial assistance terms either through official channels (Official Journal of the European Communities), or by letters to governments when, as in the case of structural reorganization, these are the intermediaries responsible for submitting loans applications, or by circulars sent to professionnal organizations or even to enterprises themselves.

91 - Loans granted out of non-borrowed funds

In addition to loans granted from borrowed funds, the ECSC also grants loans out of the special reserve (to finance social housing construction and structural reorganization), from levy resources (for the social readaptation of steel workers and miners or for technical or social research) and from the former ECSC pension fund (for the construction of personal housing for officials of the Communities).

91.1 - In effect, loans for readaptation, technical and social research and structural reorganization are few in number and date from the years 1958 - 59, 1955 - 66 and 1966 - 67 respectively. If operations in these areas have slowed down, this is mainly due to a change in the methods of financing projects in these three sectors: loans have in effect given way to subsidies.

91.2 - Loans granted out of ECSC own funds are principally used, then, to finance social housing. These loans are usually granted to financial establishments or banks. In view of the very moderate rate of interest they are given (1%), these establishments usually undertake in turn to lend the sums received from the ECSC to industrial enterprises or specialist organizations, supplemented by amounts which they themselves raise on their home markets. The combined amount can thus be loaned at a single rate of interest, which, because the interest on the funds loaned by the ECSC is so low, is very competitive. The final rate is laid down in the agreement and must be respected by the companies which grant the loans to beneficiaries.

Programmes receiving assistance must be approved and checked by the ECSC which also requires security on the loans it grants. This security may be one of many types but is often either Government guarantees given by national

construction companies specializing in moderate-rent housing or guarantees from industrial groups given to construction companies attached exclusively to those groups. When loans granted for worker housing construction programmes are provided from borrowed funds, these are often combined with own funds so that the average interest rate can be a moderate one.

Loans of this type are always given in the currency of the country in which the borrower is established. This eliminates all exchange risks for the borrowers and makes the financing of building operations considerably easier.

91.3 - The third type of non-borrowed funds out of which loans are granted are those of the former ECSC pension fund. Since 1964 the Institution has used these funds to grant loans to its employees for the purchase or construction of personal housing. Up to 4 March 1968 the ECSC pension fund was constituted from ECSC and employees' contributions and managed by the Institution with the rest of its assets. Since the merger of the Executives when all the pensions of Community officials were placed on the administrative budget of the single Executive, this fund has been part of the overall financial assets of the ECSC. In 1970 a decision was passed whereby 40% of the sum may be allocated to provide personal housing loans to all Community officials and 60% of it for the purpose either of guaranteeing social readaptation commitments or granting reduced-interest loans within the context of the social and economic objectives of the ECSC Treaty.

Details of the loans granted out of this fund are set out in the annex to this report (Pension Fund).

## GUARANTEE OPERATIONS

92 - Under Article 51, Paragraph 2 and Article 54, Paragraph 1 of the Treaty, the ECSC may also extend its guarantee to loans contracted by coal and steel enterprises with other parties. Such guarantees must be extended in accordance with the terms of Article 54 of the Treaty, i.e. respecting the objectives envisaged (loans to assist the implementation of investment programmes or, with the agreement of the Council, works and installations which contribute to an increase in production, lower production costs or easier marketing of products.

In accordance with normal banking procedure, the ECSC receives remuneration for the guarantees it extends in the form of moderate guarantee fees which are added to its own funds.

## MANAGEMENT AND INVESTMENT OF FUNDS

### 93 - Origin and composition of the financial assets of the ECSC

Although the Treaty does not provide for the constitution of a body of initial capital and contains no rules governing the administration of funds temporarily held by the Institution, it does contain some financial provisions. Article 49 sets out the means by which the Institution may procure funds: the levy, borrowing and any gifts. On the other hand Article 50, Section 1, Paragraph 3 and Article 51, Section 3 state that the Institution may constitute reserves. Section 4 of Article 51 also specifies that the Institution may not itself engage in banking operations relevant to its financial activities and Article 52 requires all Member States to take all appropriate measures to ensure that funds are transferred as far as required.

Within the spirit of these provisions then, and because of its public interest the Institution has always taken care to avoid speculative investment and has tried, as far as possible, to keep in accounts maintained on its behalf all receipts from the levy in their country of origin until such time as they are used.

Furthermore, since the ECSC had no financial resources at the beginning, it was obliged to build up over the initial years a body of assets which could be used to guarantee its commitments (guarantee fund, reserves and provisions), the contra of which in the assets is a body of liquid funds, held either at banks in current accounts at sight or at notice, or in debenture bonds.

Using its own funds from the levy, the ECSC first built up a reserve of 100 million units of account known as the 'guarantee fund'. This amount was reached as from 30 June 1956, as a result of having fixed the levy at a relatively high rate during the first three years. The purpose of this fund was to assist the establishment of the new Coal and Steel Community and help it to obtain credit.

Its other resources from borrowed funds must be used for loans to finance activities specified in the Treaty. Although these funds may not be held as permanent liquid resources, they do give the Institution a certain margin of liquidity.

In view of the fact that the Institution must allocate its income from the levy to specific uses (administrative expenditure, research and rehabilitation expenditure), it constitutes provisions for these three items out of levy income. As the amount of these commitments is not paid to beneficiaries directly and entails expenditure spread over a number of years, the liquid assets thus shown in these provisions are placed in deposits for varying periods, depending on when they will be required. Income on the investment of these funds is placed in a 'special reserve'; the Treaty has not made any provision for a reserve of this kind, or how it should be used.

The ECSC has not to date received any gifts of the kind envisaged in Article 49 of the Treaty.

Together, these allocations thus leave a considerable amount of liquid assets per contra which are invested as described below.

94 - Forms of investment

The greater part of liquid assets is held at banks in current accounts at sight and at notice, in fixed deposits with a term of less than 1 year or in the form of other short-term investments guaranteed by banks. A number of longer-term investments can be maintained, since the need to cover obligations contracted is spread over a period of time. The rest is held in portfolio in the form of first bonds issued by national and government authorities and official and semi-official bodies. The securities portfolio comprises bonds of varying currencies held at banks in ten or so different countries.

Up to 1965-66, the ECSC also concluded individual agreements with the banks at which the Institution's assets had been placed at medium-term. These required the banks in turn to grant medium-term, low-interest loans to coal and steel enterprises of the Community. In this way these enterprises were able, on favourable terms, to obtain further sums over and above the sums borrowed directly from the ECSC to finance their investments. As from 1966-67, however, the accelerated pace of the ECSC's disbursements under increasing commitments for rehabilitation, research and loans, obliged the Institution to discontinue this form of investment.

95 - Principles governing the management of liquid assets

The investment policy pursued by the Institution has always concentrated on obtaining the best possible return on its assets at the same time as meeting the security and liquidity requirements bound up with the performance of its tasks.

95.1 - The high level of returns on investments is reflected in the size of the funds which have been gradually accumulated, allowing the ECSC to intensify its action at social level with a number of different activities, especially in the field of social housing.

95.2 - As regards security, the ECSC has always avoided the hazards of speculation by following a cautious investment policy with deposits at large banks and a portfolio mainly comprising first bonds of national and government authorities and official or semi-official bodies. The Institution has also sought investment in securities carrying bank endorsements.

95.3 - Finally, the Institution meets its liquidity requirements by a suitable policy of allocation of its resources.

So far it has always covered all its loans by sufficient advance borrowing on the market, after which these loans are paid out without any significant delay. The Institution earmarks other resources of fiscal nature (levy income, fines, interest and increases on arrears) and from banks (income on investments) to cover all its commitments at the time when the decision on this is taken, even if the sums involved are to be paid out over several years. This system is complemented by a policy of investment at various terms which enables the Institution to meet payments required at irregular intervals and, at the same time, to collect a significant return on other investments.

## ASSISTANCE TO COKING COAL AND COKE

96 - General

Since 1967 the ECSC, making due allowance for the special characteristics of the market in coking coals and coke for use in steel industry blast furnaces, has taken measures to ensure that the conditions of sale attaching to output of these commodities enable Community coal mining enterprises to keep their sale prices close at all times to those of imported coke. These measures, based on Article 95 of the Treaty, require unanimous approval by the Council and consultation with the Consultative Committee. They have given rise to three successive directives which have guaranteed continuity in Community policy on this question.

An initial decision (1/67) of 21 February 1967 established mechamisms, for a period of three years, which made it possible for the six Member States to grant maximum subsidies per tonne, thereby making up the difference between Community and imported coking coals. In order to make this financial assistance a truly Community initiative the ECSC, without actually providing funds itself, set up a system of financial adjustments among the Member States, whereby the Institution's role consisted simply in centralizing accounting operations for production and delivery figures and in calculating and checking sums transferred from one State to another.

When this system came to an end, a new decision was enacted by the Institution on 19 November 1969. This decision (1/70), which took effect on 1 January 1970 for a period of three years, authorized Member States to continue giving aid to coking coal and coke and pledged the financial liability of the ECSC by contributing to a 'Community fund'.

A new decision (73/287/ECSC), taken on 25 July 1973, came into force for a period of six years with effect backdated to 1 January 1973. It provides for a system broadly comparable to that outlined in Annex I to the 1972 Auditor's Report. *1)*

The paragraphs which follow describe the new system, with special reference to the differences between the old and new machinery.

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*1) 1971 Auditor'sReport, Nos 200 - 202.*

Operation of the system provided for in decision 73/287/ECSC

96.1 - The new system, like that introduced by decision 1/70, provides for two types of assistance:

(i) a production aid for coking coal, provided and disbursed exclusively by the producer states. This is paid at a rate decided by the governments which must first be authorized by the Institution. The rate is fixed annually for each coalfield, taking particular account of the average costs of production in that coalfield, the price of coking coal in its principal sales area and the long-term supply conditions;

(ii) a sales aid to deliveries to areas remote from the coalfield (national aid). Aids to deliveries effected by way of intra-Community trade are financed jointly by the ECSC, Member States and, for the first time, by the iron and steel industry itself up to a limit of 15 million tonnes per annum (as against 17 million tonnes previously).

96.2 - These aids are given:

(i) in the case of national production aids, to the coking coal producers. When these pass the production aid on to their buyers, this must not give rise to discrimination between the various long-term contracts to be performed by the producers;

(ii) in the case of sales aids, to the purchasers of coking coal and blast furnace coke, in the form of a price rebate.

These aids can only be granted under long-term contracts, *1)*

96.3 - The 'special fund' of Community resources, a breakdown accounting item administered by the Institution, will be provided from the following three sources:

(i) ECSC contribution: for the first year this will be 0.266 u.a. per tonne, or not more than 4 million u.a., for the second year 0.333 u.a. per tonne, or not more than 5 million u.a. and, for subsequent years, 0.400 u.a. per tonne or not more than 6 million u.a. per annum;

(ii) iron and steel industry' s contribution: this contribution, which made it possible for such a high rate of aid to be given, will for the first four years be 1.107 u.a. per tonne, or not more than 16.6 million u.a. per annum; for the fifth year 1.207 u.a. per tonne, or not more than 15.5 million u.a. and, for the sixth year 0.593 u.a. per tonne, or not more than 8.8 million u.a. The total amount contributed is provided by iron and steel enterprises in proportion to their consumption of blast furnace coke;

(iii) Member States' contribution: for the first year this will be 0.627 u.a. per tonne, or not more than 9.4 million u.a.; for the second year

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*1) Rules for determination of the aid basis: Decision No 73/3544/ECSC dated 20 December 1973, OJ of 29 December 1973.*

0.560 u.a. per tonne, or not more than 8.4 million u.a.; for the third year and fourth years 0.493 u.a. per tonne, or not more than 7.4 million u.a.; for the fifth year 0.273 u.a. per tonne, or not more than 4.1 million u.a. and for the sixth year 0.207 u.a. per tonne, or not more than 3.1 million u.a. The percentage contributions of the various Member States are as follows: Germany 31%, France 28%, Belgium 13%, Italy 12%, Luxembourg 10%, Netherlands 6%.

96.4 - No government contribution has been envisaged for Great Britain which has not so far taken part in existing intra-Community trade. In order to avoid any discrimination, the contribution by the British iron and steel industry will be fixed in accordance with the Community rule and paid direct to the government.

Neither Denmark nor Ireland has any blast furnaces and these countries are not, therefore, included in the system.

97 - Procedure

As regards procedure, four partners are involved in the operation of the system: steelworks (which use coking coal and coke), the coal mining industries (which supply coking coal or coke), the Member States (which pay part of this financial assistance and are required to submit statements of their assistance to production and marketing) and, finally, the Institution through the intermediary of the Directorate-General for Energy (which centralizes notifications of transactions, checks the details and settles final accounts between countries by payment of its own contribution).

Commission Decision No 3544/73/ECSC laid down the conditions for application of Decision 73/283/ECSC, particularly in regard to the notification of transactions, determination of the aid basis, determination and collection of the iron and steel industry's contribution and the organization of administrative operations and supervision of them.

97.1 - On the appropriate forms and within the prescribed time limit (30 days from conclusion of the contract in the case of deliveries, every quarter for purchases from non-Community countries) coal and steel enterprises send in notice of new transactions or changes in supply contracts and details of coking coal purchases. Complete professional secrecy is observed in the transmission of this information which is then vetted by the appropriate departments of the Directorate-General for Energy, particularly to check that supplies are made in accordance with the terms of the contracts.

Coal and steel enterprises which produce and consume coke and coking coal must also, on their own initiative, send their respective Member States the information needed by government departments in order to calculate coefficients for determination of the assessment basis. These coefficients determine the ratio between total coke production and deliveries to the iron and steel industry.

Steel enterprises calculate the amount of their contribution every quarter, on the basis of their consumption of blast furnace coke and the rate per tonne indicated to them by the Institution, and pay their contribution into an account in each country designated by the Institution for the purpose.

97.3 - For their part, Member States:

(i) give financial assistance to coking coal producers in their respective countries together with a sales aid to deliveries effected under long-term contracts to areas remote from the producer coalfield or by way of intra-Community trade;

(ii) in order to speed up Community financing operations, submit quarterly statements to the Institution of coking coal supplies which qualify for and pay instalments which are adjusted annually.

Using the information supplied by enterprises, the Member States calculate coefficients for each coking plant. These are based on standard questionnaires drawn up by the Institution to ensure easy comparability and which ask for economic figures (origin of supplies and breakdown of production) and financial details (calculation of the coefficients). If the coking plant and/or blast furnace is situated in a country other than that in which the coal mining enterprise is located, it is the Institution which calculates the coefficient for that enterprise and informs the supplier country.

The Member States calculate for each quarter and then for each year the sums due to coal-producing enterprises. This information is submitted to the Institution not less than 6 weeks from the end of each quarter, in the summarized form devised by the Institution and with a full breakdown of figures.

The Commission for its part:

(i) vets and then authorizes the rate of the aids granted by Member States to production. These rates are submitted to it for approval, on the basis of the Community criteria, three months prior to the year in question;

(ii) checks declarations from enterprises for correct application of the rules governing prices, calculation of the assessment basis and of the sum of assistance granted;

(iii) asks Member States and steel enterprises, on the basis of declarations received and in order to speed up Community financing of sales aids, to pay the relevant sums to supplier countries using a quarterly breakdown and then disburses its own contribution;

(iv) draws up final statements for each country and each steel enterprise at the beginning of each year for the year past, mobilizes the funds accordingly and transfers the net amounts to the supplier countries.

## FINANCING OF SOCIAL HOUSING CONSTRUCTION

98 - General

The large amounts of financial assistance given by the ECSC for the construction of housing for coal and steel workers take the form of loans or subsidies as part of the social and economic objectives defined in the Treaty.

The assistance may be financed in two ways: either from subsidies for technical and economic research, which have been restricted to the financing of the first two experimental construction programmes in 1965, or from loans granted out of borrowed funds or, most frequently, out of the own funds in the special reserve.

99 - General machinery

Since 1954 the ECSC has helped to finance seven housing programmes for coal and steel workers in Community countries, as well as three special experimental programmes.

In all normal programmes the ECSC does not act as the developer. The construction work is handled by building firms or associations, local authorities or industries, sometimes by the workers themselves. Such projects, which are social in nature, are implemented in the context of national legislation and receive various kinds of assistance from government authorities.

For reasons of a social nature and under a general policy covering precisely defined building programmes, the ECSC gives its assistance in the form of long-term loans (25 to 30 years) and at reduced interest (1%). It provides between 15 and 25% of the total cost required for loans granted out of own funds, and up to 50% for loans granted out of a combination of own funds borrowed funds.

100 - Implementation and supervisory procedures

Under its procedures for drafting, implementation and supervision of construction programmes to which it decides to give partial financing, the Institution first takes a decision in principle, for the entire Community, to

draw up a programme of assistance to the construction of social housing. The ECSC's action is part of a general housing programme closely determined by the general objectives of the Community. Normal and experimental programmes are selected and prepared after consultation with the appropriate industrial and trade union circles in accordance with the general social policy pursued by the European Communities.

The Institution then fixes the total value allocated to the programme out of the resources available, determines the period for its implementation and its special features (certain programmes submitted are drawn up with particular objectives in mind) and decides how to make the financing available and how to check the use made of funds granted to finance such programmes. In the coalfields and steelworks, regional committees composed of representatives of the appropriate ministries and of both sides of industry are established. These are consulted with regard to the distribution of funds, choice of projects to be financed and the choice of developer.

Two Directorates-General of the Institution are involved in the financing of construction programmes: the Directorate-General for Social Affairs and the Directorate-General for Credit and Investments.

The Directorate-General for Social Affairs is responsible for drafting a general housing policy and for preparing construction programmes and overseeing their implementation. After compilation, dossiers are examined to ensure that they comply with the financial and technical provisions laid down in the programme.

Opinions and lists of projects are submitted to the Institution for approval. After an official decision in each individual case, appropriate contracts are drawn up with the national financial establishments responsible for granting and administering loans to final beneficiaries.

After informing-beneficiaries of the agreement provisionally granted, the Directorate-General sends them two postcards which must be returned showing the dates on which construction work began and was completed. It is worth mentioning at this point that the contracts stipulate that any change to a project or transfer of a loan to another builder requires the prior assent of the ECSC. This new information is recorded. In addition, if progress is found to be abnormally slow, on-the-spot inspections may be carried out by officials of the Directorate-General.

The Directorate-General for Social Affairs also maintains up-to-date dossiers on each project and keeps records both of credits granted and payments made under each programme. The method of classification of projects enables statistical and financial information to be located at any time by country, sector, enterprise, programme and project. These financial records are made possible by cooperation with the Directorate-General for Credit and Investments.

This Directorate-General works out the financial procedures followed, prepares loan agreements together with the legal department and signs these contracts with the financial institutions which distribute the funds to beneficiaries. It also takes care of the administration proper of loans, i.e. it disburses them and checks repayments.

101 - Financing

As stressed in the foregoing paragraphs, housing construction programmes are financed above all from loans granted for the most part out of own funds drawn from the special reserve. Sometimes loans are also granted using a combination of funds from the special reserve and borrowed funds, particularly when the loan interest rate currently prevailing on money markets makes this necessary.

These loans are most often granted - in accordance with the procedure described above - to financial establishments or banks. The interest rates charged on loans granted from the special reserve are always low (1%), and are moderate (3.5 to 4.5%) on loans granted from combined funds.

As these interest rates are so low, the establishments borrowing funds must undertake in turn to give loans, within 3 months of receiving the funds from the ECSC, to industrial enterprises or undertakings which specialize in social housing construction, supplementing the sums received by amounts they themselves raise on the home market.

At social level, this means that employees in the iron and steel and coal-mining industries - the final beneficiaries of this system - can, thanks to the various conditions under which these combined funds are granted, obtain loans at a single rate of interest which is very competitive and is no higher than the rates envisaged in the loan agreements between the ECSC and the establishment extending the loan. Moreover these procedures make it possible for Community loans to play an added financing role under its general social housing policy.

All loans under programmes for social housing construction are given in the currency of the country in which the final borrower is established. This eliminates all exchange risks for the borrower and makes the financing of building operations considerably easier.

The Institution has thus drawn mainly on the special reserve, constituted from the interest yield on own funds invested, in its efforts to promote the construction of social housing. In order to make quite clear that the special reserve is allocated exclusively to social purposes, the Institution has also, since 1970, withdrawn from this reserve all sums which were not specifically intended to finance these programmes.

## THE PENSION FUND

### 102 - Constitution and Operation of the ECSC Pension Fund

The coming into force of the service regulations for staff of the European Coal and Steel Community (1 July 1956) was accompanied by the establishment of an independently financed pension fund applying to all officials of the Community. Into this fund - which took over the assets of the earlier, provisional Provident Fund - ECSC employees paid a personal contribution of 7.5 % of their basic salary, whilst the Institution paid a contribution of 15% of the basic salary, thus guaranteeing officials a full pension (60% of the latest basic salary) after 30 years of service. The fund thus established formed part of the financial assets of the ECSC which managed them together with its other assets and under the terms it had liberally set. This pension fund, like the Institution's liquid assets, was thus invested at medium and long-term in a number of forms: either fixed deposits of varying lengths, securities, or even as loans to Community officials for building or purchasing houses.

The pension fund has, however, remained on the balance sheet shown separately under liabilities among the ECSC's creditors, since the ECSC was responsible for managing it and crediting it with 3.5% annual interest as required in the service regulations.

From 1 January 1962 the employee's contribution to the pension fund was reduced to 6% of the basic salary (12% for the Institution's share), and a full pension was granted after 33 years of service. Officials employed before 1 January 1962 were, however, given the option of continuing at the old rate or paying the new rate.

This fund thus increased each year by the amount of the contributions paid by the Institution and its employees, the statutory allocations paid by the institutions of the ECSC, and the interest yield on these (3.5%), but decreased by the amount of retirement pensions paid out and severance grants provided for in the service regulations for certain categories of employees.

With the merger of the Executive and harmonization of the service regulations of the three European Communities, the pensions of officials of all three Communities were transferred to the single administrative budget as from 5 March 1968. As a result the ECSC pension fund ceased to grow, because contributions paid by employees were thereafter added not to the pension fund

but to the administrative receipts of the single Executive. The fund, which at that time totalled 25.5 million u.a., continued to be shown as a liability in the ECSC balance sheet, whilst the annual interest credit was, until 31 December 1971, paid into a provision described as 'unspecified, awaiting allocation' (placement de fonds pour compte) and used to finance ECSC initiatives, such as part of the aid to coking coal.

As for the pension fund itself, its position on the ECSC balance sheet has remained unchanged and it is carried under the heading 'former ECSC pension fund'.

103 - Administration of the pension fund

As stated above, the pension fund is invested together with the rest of the ECSC's financial assets. No prior specification is made as to the form this investment should take.

In addition to investing it in fixed deposits and securities, managed as shown in this annex (under'management and investment of funds'). the Institution decided in 1964 to grant part of it as loans to its officials under certain conditions, for the purchase, construction or conversion of personal housing, or the repayment of other loans already contracted for this purpose. There was thus a social purpose in this normal diversification in the investment of the pension fund and at the same time enough liquidity was maintained to pay out pensions due or shortly to become due to beneficiaries.

This system of loans, which was open only to ECSC officials and the main features of which are described below, underwent a number of modifications and came to an end in 1968. It was replaced in 1971 by a new system of loans open to all officials of the European Communities on terms which will also be described below.

103.1 - The conditions governing the first category of loans granted out of the ECSC pension fund were as follows:

(i) borrowers had to show that they could cover at least 10% of the total cost (land, building, purchase, conversion and any other costs) from their own resources. Where property was being converted, this had to entail a minimum increase in value of BF 250 000, excluding repairs;

(ii) annual interest of 4.5% in the first instance, subsequently reduced to 4% and 3.75%, including the cost of insuring the balance outstanding;

(iii) beneficiaries had to have paid contributions for at least 5 years;

(iv) possibility of obtaining this loan to repay other loans contracted earlier for the same purpose, without any limit on interest already paid or available funds;

(v) maximum term of the loan was 20 years, with the stipulation that loans had to be repaid by the age of 70;

(vi) the maximum amount of the loan, fixed in the first instance at 10 000 u.a. plus 500 u.a. per child or other dependant, was increased to 14 000 and 1 000 u.a. respectively, but could not exceed 18 000 u.a. or 40% of the total cost of the project (including land);

(vii) total financial burden on the borrower not to exceed 25% of his basic salary;

(viii) repayments were monthly, by deduction from the salary, with the option of anticipated repayment of an unlimited amount;

(ix) the security required by the Institution consisted in undertakings by the beneficiary either to forfeit any severance grant to which he might be entitled or to repay at once the amounts outstanding if he should cease working for the community;

(x) applications, supported by the appropriate documents, were examined by an ad hoc Committee and the loans were serviced by the Directorate-General for Credit and Investments.

103.2 - As regards the second system of loans, which took effect on 18 June 1971, its main features are as follows:

(i) up to 40% of the former ECSC pension fund may be used for loans, whereby repayments and interest on these loans are charged to this amount, thus providing a kind of revolving fund;

(ii) total loans from the Commission and other sources must not exceed 90% of the total cost. Where property is converted, this must entail a substantial increase in value;

(iii) annual interest of 4.25%, including the cost of insuring the balance outstanding (0.25%). From 1971 the sum of this interest is added to the former pension fund;

(iv) beneficiaries must have had 5 years service and paid contributions under the pension scheme for the entire 5 year period;

(v) possibility of obtaining this loan to repay other loans contracted earlier for the same purpose subject to: (a) this being within 10% of available funds and (b) amounting to a maximum of 50% of the balance outstanding on the date of application for the loan, and (c) subject to the interest rate payable on the other loans being at least 2.5 points higher than the interest rate applied;

(vi) maximum term of the loan is 25 years with the stipulation that loans must be repaid by the age of 65;

(vii) the maximum amount of the loan is 12 000 u.a. plus 1 000 u.a. per dependent child, but may not exceed 18 000 u.a. in all. These sums are set by reference to the consumer price index applied in Belgium;

(viii) the total amount of the loan may not exceed a percentage (between 20 and 80%) of the total cost (including purchase of the land); this percentage varies according to the employee's basic salary;

(ix) total financiel burden on the borrower not to exceed 30% of his net salary at the time the loan is granted;

(x) repayments to be monthly, by deduction from the salary, with the option of anticipated repayment of at least 1/20 of the initial sum borrowed;

(xi) the conditions governing repayment, lodging of applications, guarantees and cases in which repayment may be demanded are essentially the same as those applying to loans granted between 1964 and 1968.

104 - Use of the former ECSC pension fund

Following the merger of the Executives, harmonization of the Staff Regulations for the three European Communities (ECSC, EEC and Euratom)

deprived ECSC employees of the special system laid down in the old article 83 of its service regulations and replaced this system by the single budgetary system. As a result, the pension fund became inoperative and a qualified majority vote of the Council of the European Communities, acting on a Commission proposal and with the assent of the Service Regulations Committee, was authorized to determine how it should be used. *1)*

On 2 March 1970, the Council decided to retain the sums made available from the pension fund on the ECSC budget, thus confirming that it is still an asset of the European Coal and Steel Community. As a result, the management of this asset was left to the Commission with instructions that it be used as follows:

(i) up to a limit of 40% for loans under a housing policy extended to all officials of the European Communities;

(ii) the other 60% would remain at the disposal of the ECSC to guarantee commitments for readaptation (article 56 of the Treaty) and to grant reduced-interest loans intended to further the social and economic objectives of the Treaty within the scope of the financial operations provided for in it.

Meanwhile, the Commission had suspended from 1 October 1968 the High Authority's decision on the system of loans granted from the pension fund to finance the construction, purchase or conversion of housing by ECSC officials. By its decision of 18 June 1971, which took effect the following day, the Commission enacted the provisions for implementation of the new system of loans and amended some of the provisions on 29 September 1971, with effect from 18 June 1971.

105 - Allocation of interest yielded on the pension fund

Throughout its statutory existence, the fund was credited with annual interest of 3.5%.

From 1967, however, a provision entitled 'unspecified, awaiting allocation' (placement de fonds pour compte) was constituted. Initially paid into this was the difference (1.25%) between the yield on the pension fund calculated at the average rate on all Community assets invested and the fixed yield of 3.5% on the fund itself, as laid down in the service regulations.

As from 5 March 1968 the entire interest on the fund, the amount of which has remained constant, has been put to this provision.

Part of this is used to meet expenditure incurred by the ECSC for assistance to coking coal.

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*1) Regulation (EEC, Euratom) No 259/68 of the Council dated 29/2/1968 (OJ L 56 dated 4/3/1968), Article 2, number 11.*

# ANNEX II

## THE IRON AND STEEL SCRAP COMPENSATION SYSTEM

106 - General

The settlement account of the single office which controls the machinery of compensation and was instituted under decision no. 19/65 has been in operation since 1 January 1966 and records the operations involved in implementation of the system.

These are:

- the pursuit of claims against defaulting debtor enterprises for recovery of contributions in arrear *(1)* and against scrap dealers for compensation amounts improperly collected for ineligible supplies

- the distribution of funds recovered to all enterprises subject to the system, in the form of refunds

- the adjustment of certain situations following possible changes in bases of assessment.

We refer you to the condensed management account dated 31 December 1965 *(2)* on the basis of which the final rates of contributions, principal and interest, were set by decision no. 19/65 of the High Authority dated 15 December 1965.

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*(1) These amounts can be found on the assets side of the account on the next page (enterprises' current accounts).*

*(2) ECSC Auditor's Report for the year 1965-1966, no. 99.*

107 - Extent of our audit

As regards settlement operations under the iron and steel scrap compensation system, our audit is confined to ensuring that the settlement account at 31 December 1973 is correct and balanced. To this end we conducted an examination at the Directorate-General for Industrial Affairs (Directorate for Steel) of the position of the settlement account closed at 31 December 1973 and, in the case of bank holdings, we checked that the balances shown in the ECSC's account tallied with the statements of account issued by the banks.

108 - Condensed account of settlements at 31 December 1973 and notes

The position of the settlement account, as closed at 31 December 1973 appears as follows :

| A S S E T S | | L I A B I L I T I E S | |
|---|---|---|---|
| Enterprises' current accounts | 821 386 UA | Provision for future management costs and bad debts | 799 670 UA |
| Banks *(1)* | 930 358 UA | Accounts payable | 38 242 UA |
| | | Temporary accounts | 5 021 UA |
| | | Unallocated balance | 908 811 UA |
| | 1 751 744 UA | | 1 751 744 UA |

109 - Assets:

Examination of this account reveals that the Office holds claims for contributions in arrear totalling 821 386 UA owed by thirteen Italian enterprises.

110 - Liabilities:

110.1 - The sum of 799 671 UA shown as 'provision for future management costs and bad debts' covers:

- fees to the trustee for its subsequent services under the compensation system (16 526 UA)

- the sum owed by doubtful debtor enterprises (695 201 UA)

- the balance due from enterprises engaged in legal actions (87 943 UA).

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*(1) For bank assets at 31 December 1973 the exchange rates applied are the same as those used to draw up the ECSC balance sheet at that date.*

110.2 - The liabilities item 'accounts payable' amounts to 38 242 UA. This sum represents a claim of the Commission against the Settlements Office, to which it has temporarily ceded the product of sanctions imposed under the compensation system on enterprises which still owe considerable arrears in contributions. It was agreed that the order in which payments would be charged against the total debt owed by these enterprises would be: interest in arrears, contribution principal and finally the penalty payments. The ECSC will thus collect the latter once the first two parts of the debt are discharged in full.

On the assets side of the ECSC balance sheet (under sundry debtors) a different amount can be found (33 590 UA), which represents the debt owed by the Settlements Office to the Community. The difference of 4 651 UA arises from the adjustment made in 1973 of a penalty payment made by an enterprise in 1972. The Institution had not been informed by the Settlements Office of this rectification, which related to a sum due to the ECSC, at the time of drawing up its balance sheet, but an adjustment will be made in the ECSC's books in 1974.

110.3 - The 'temporary accounts' cover fees and costs payable to a trustee for services rendered during 1973 (5 200 UA). On the assets side they also include interest receivable for 1973 (179 UA).

110.4 - The 'unallocated balance' of 908 811 UA represents the sum available for distribution as settlement refunds as provided for in Article 7 of decision no. 19/65.

Six refund distributions had been made up to 31 December 1973 to a total of 7 413 730 UA. The sixth refund made in 1973 totalled 1 167 300 UA. According to our information a seventh refund distribution is scheduled for 1974.

111 - Management account

Operating expenditure, which totalled 3 514 UA in 1973, was, apart from banking fees to the value of 203 UA, in payment of the services of a trust company provided in connection with the settlement of compensation activities. These payments were for services rendered in the second half of 1972.

112 - Remarks prompted by our audit

We found that in the course of the year the Office was obliged to abandon two debts which became irrecoverable when two debtor enterprises went bankrupt. The total loss amounts to 359 635 UA. In the first case (16 845 UA) the dividend obtained from the final distribution of the estate was only 8.9 % of the initial debt. In the second case (342 790 UA) the forced sale covered only the priority claims and not the unsecured claims, of which the debt for compensation was one.

# A N N E X III

## PATTERN OF DEVELOPMENT IN THE MAIN ELEMENTS OF THE ECSC'S FINANCES

113 - This annex contains a series of tables showing the principal elements of the ECSC'S finances during the last four financial years.

The first table, no. 27, juxtaposes the balance sheets for 1972 and 1973 giving changes for better or worse.

Table 28 gives the pattern of revenues and expenditures and the amount of the excess of revenues over expenditure during the last four years.

In Table 29 we show how the surplus referred to in table 28 was allocated at the end of each year. It will be recalled that the excess of revenues over expenditures is allocated, at the end of each year, to provisions and reserves (guarantee fund, special reserve, rehabilitation, research, etc.).

Table 30 shows the nominal and outstanding totals, at the end of each of the last four years, of ECSC borrowings and loans granted out of borrowed funds.

Table 31 shows the nominal and outstanding total of ECSC loans granted out of own funds.

Table 32 gives the annual yield on the ECSC's liquid assets. It should be noted that this is calculated by comparing the revenues for the year with the average value of the ECSC's assets during the year.

All amounts in the tables which follow are expressed in thousand units of the European Monetary Agreement.

Table 27: - CHANGES IN ITEMS OF THE ECSC'S BALANCE SHEETS BETWEEN 31 DECEMBER 1972 AND 31 DECEMBER 1973 (in thousand units of account)

ASSETS

| | 1972 | 1973 | changes |
|---|---|---|---|
| I. DISBURSED LOANS | | | |
| A. Loans granted out of borrowed funds | 869 283 | 1 085 936 | + 216 653 |
| B. Other loans | 89 151 | 90 293 | + 1 142 |
| Total item I | 958 434 | 1 176 229 | + 217 795 |
| II. CASH AND BANKS | 195 261 | 269 900 | + 74 639 |
| III. SHORT AND MEDIUM-TERM INVESTMENTS | 27 150 | 21 298 | - 5 852 |
| IV. PORTFOLIO | 54 505 | 60 778 | + 6 278 |
| V. REAL ESTATE | 120 | - | - 120 |
| VI. RECOVERABLE ISSUING COSTS | 17 580 | 14 085 | - 3 495 |
| VII. MISCELLANEOUS | | | |
| A. Debtors under the levy | 3 885 | 2 811 | - 1 074 |
| B. Financial debtors | 986 | 3 134 | + 2 148 |
| C. Deposits for coupons and bonds due but not yet presented | 23 615 | 35 054 | + 11 439 |
| Total item VII | 28 486 | 40 999 | + 12 513 |
| VIII. ACCRUED INCOME | | | |
| A. Interest and fees accrued but not yet due on deposits, portfolio, loans and guarantees | 21 669 | 29 011 | + 7 342 |
| B. Levy declared for December 1972 and 1973 production but payable after 31 December 1972 and 31 December 1973 | 3 992 | 4 939 | + 947 |
| Total item VIII | 25 661 | 33 950 | + 8 289 |
| TOTAL FOR BALANCE SHEETS | 1 307 197 | 1 617 239 | + 310 042 |

LIABILITIES

| | 1972 | 1973 | changes |
|---|---|---|---|
| I. A. BORROWINGS | 918 598 | 1 145 132 | + 226 534 |
| B. OUTSTANDING REDEMPTION PREMIUMS | - | 2 253 | + 2 253 |
| II. RESERVES | 187 000 | 202 000 | + 15 000 |
| III. PROVISIONS | | | |
| A. Financial assistance | 110 615 | 135 491 | + 24 876 |
| B. Other provisions | 18 008 | 29 891 | + 11 883 |
| Total item III | 128 623 | 165 382 | + 36 759 |
| IV. FORMER PENSION FUND | 25 860 | 26 235 | + 375 |
| V. MISCELLANEOUS | | | |
| A. Coupons and bonds payable | 23 615 | 35 054 | + 11 439 |
| B. Financial creditors | 923 | 6 415 | + 5 492 |
| Total item V | 24 538 | 41 469 | + 16 931 |
| VI. ACCRUED LIABILITIES | | | |
| Interest and fees accrued but not yet due on borrowings and guarantees | 22 397 | 31 753 | + 9 356 |
| VII. UNALLOCATED BALANCE | 181 | 3 015 | + 2 834 |
| TOTAL FOR BALANCE SHEETS | 1 307 197 | 1 617 239 | + 310 042 |

SUSPENSE ACCOUNT

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| I. Due on bonds | 44 434 | 15 000 | - 29 434 | I. Bonds payable | 44 434 | 15 000 | - 29 434 |
| II. Enterprises' liabilities under guarantees | 24 137 | 22 199 | - 1 938 | II. ECSC's liabilities under guarantees | 24 137 | 22 199 | - 1 938 |
| III. Contributions from Member States | - | 38 475 | + 38 475 | III. Contributions from Member States | - | 38 475 | + 38 475 |

Table 28: - PATTERN OF REVENUES AND EXPENDITURES AND THE EXCESS BALANCE FOR THE YEARS 1970 TO 1973

| | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Levy | 39 505 | 37 776 | 47 209 | 62 894 |
| Income from bank accounts and interest on loans granted out of own funds | 14 984 | 14 200 | 13 034 | 18 673 |
| Servicing of loans and guarantees | 45 261 | 50 135 | 58 666 | 73 352 |
| Administrative and miscellaneous | 251 | 526 | 291 | 877 |
| Contribution from the new Member States | - | - | - | 19 238 |
| Total | 100 001 | 102 637 | 119 200 | 175 034 |
| **Expenditures** | | | | |
| Administrative | 18 000 | 18 000 | 18 000 | 18 000 |
| Readaptation | 11 363 | 15 362 | 14 519 | 5 082 |
| Research | 12 459 | 11 230 | 11 639 | 11 670 |
| Servicing of borrowings and guarantees | 43 986 | 47 838 | 57 601 | 79 567 |
| Assistance on interest (Art. 56) | 1 090 | 2 099 | 2 463 | 3 425 |
| Assistance on interest (Art. 54) | - | 135 | 850 | 1 439 |
| Assistance to coke | 2 627 | 2 647 | 1 701 | 426 |
| Financial and sundry costs | 50 | 290 | 1 809 | 456 |
| Total | 89 575 | 97 601 | 108 582 | 120 065 |
| Excess of revenues over expenditures | 10 426 | 5 036 | 10 618 | 54 969 |

Table 29: - NET APPROPRIATION TO RESERVES AND PROVISIONS OF THE EXCESS REVENUES OVER EXPENDITURES FOR THE YEARS 1970 TO 1973

| Reserves and provisions | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|
| - Guarantee fund | - | - | - | 12 000 |
| - Special reserve | - 7 518 | 2 000 | - | 3 000 |
| - Readaptation | 11 944 | - 1 867 | 666 | 31 293 |
| - Technical and economic research | - 3 285 | 1 707 | 3 143 | - 6 437 |
| - Assistance on interest (Art. 56) | 798 | 5 009 | 519 | - 3 037 |
| - Assistance on interest (Art. 54) | - | 3 027 | 3 170 | - 942 |
| - Coking coal | - | - | - | 4 000 |
| - Sundry provisions | 8 487 | - 5 579 | 3 444 | 11 883 |
| - Former pension fund | - | 142 | 209 | 375 |
| - Unallocated balance | - | 597 | - 533 | 2 834 |
| Total net appropriations | 10 426 | 5 036 | 10 618 | 54 969 |

Table 30: - BORROWINGS CONTRACTED AND LOANS GRANTED OUT OF BORROWED FUNDS FOR THE YEARS 1970 TO 1973

| Position at | Borrowings | | Loans | |
|---|---|---|---|---|
| | Nominal value | Total outstanding | Nominal value | Total outstanding |
| 31.12.1970 | 902 567 | 690 606 | 897 901 | 685 940 |
| 31.12.1971 | 1 057 827 | 801 707 | 1 011 805 | 755 685 |
| 31.12.1972 | 1 213 778 | 918 598 | 1 164 463 | 869 283 |
| 31.12.1973 | 1 490 637 | 1 145 132 | 1 431 441(1) | 1 085 936 |

*(1) Of the borrowed funds, 59 196 UA had not yet been loaned at 31 December 1973.*

Table 31: - LOANS GRANTED OUT OF OWN FUNDS FOR THE YEARS 1970 TO 1973

| Position at | Loans drawn from the special reserve | | Loans granted out of levy income | | | |
|---|---|---|---|---|---|---|
| | | | Research | | Readaptation | |
| | Nominal value | Total outstanding | Nominal value | Total outstanding | Nominal value | Total outstanding |
| 31.12.1970 | 95 271 | 80 110 | 3 001 | 2 463 | 530 | 437 |
| 31.12.1971 | 95 789 | 75 424 | 3 001 | 2 388 | 530 | 416 |
| 31.12.1972 | 102 712 | 77 683 | 3 001 | 2 309 | 530 | 395 |
| 31.12.1973 | 107 403 | 77 335 | 3 001 | 2 228 | 530 | 373 |

Table 32: - ANNUAL AVERAGE YIELD ON LIQUID ASSETS FOR THE YEARS 1970 TO 1973

| Year | Average capital | Income from bank accounts | % |
|---|---|---|---|
| 1970 | 230 000 | 13 923 | 6.0 |
| 1971 | 227 000 | 13 156 | 5.8 |
| 1972 | 216 500 | 11 689 | 5.4 |
| 1973 | 248 200 | 16 700 | 6.7 |

Table 33: - FINANCIAL POSITION OF THE EUROPEAN COAL AND STEEL COMMUNITY AT 31 DECEMBER 1973

(BALANCE SHEET)

ASSETS

| | UA | UA |
|---|---|---|
| I - DISBURSED LOANS (1) | | |
| A) Loans granted out of borrowed funds | | |
| - to finance industrial investments | 867 475 442 | |
| - for industrial redevelopment and reconversion | 193 457 865 | |
| - to finance social housing construction | 25 002 359 | 1 085 935 666 |
| B) Other loans | | |
| - out of the special reserve, to finance social housing construction | 75 206 216 | |
| - out of the special reserve, for industrial redevelopment and reconversion | 2 129 630 | |
| - for readaptation | 373 495 | |
| - for research | 2 227 957 | |
| - miscellaneous (out of the former pension fund) | 10 356 322 | 90 293 620 |
| | | 1 176 229 286 |
| II - CASH AND BANKS | | |
| A) Current accounts | 22 494 323 | |
| B) Fixed deposits | 247 405 630 | 269 899 953 |
| III -- SHORT AND MEDIUM-TERM INVESTMENTS | | 21 297 874 |
| IV -- PORTFOLIO | | 60 778 496 |
| V - REAL ESTATE | | 1 |
| VI - RECOVERABLE ISSUING COSTS | | 14 085 219 |
| VII - MISCELLANEOUS | | |
| A) Debtors under the levy | 2 810 848 | |
| B) Financial debtors | 3 133 958 | |
| C) Deposits for coupons and bonds due but not yet presented | 34 054 332 | 40 999 138 |
| VIII - ACCRUED INCOME | | |
| A) Interest and fees accrued but not yet due on deposits, portfolio, loans and guarantees | 29 011 196 | |
| B) Levy declared for December 1973 production but payable after 31.12.1973 | 4 938 434 | 33 949 630 |
| | | 1 617 239 597 |

LIABILITIES

| | | UA | UA |
|---|---|---|---|
| I A - BORROWINGS (1) | | | |
| in US dollars | (US $ 223 350 000) | 205 717 917 | |
| in German marks | (DM 1 066 000 000) | 296 402 089 | |
| in Italian lire | (Lit 106 000 000 000) | 169 600 000 | |
| in Dutch florins | (NFl 96 630 000) | 26 693 370 | |
| in French francs | (FFr 663 125 000) | 119 391 847 | |
| in Belgian francs | (BFr 3 451 960 000) | 69 039 200 | |
| in Luxembourg francs | (LFr 4 426 969 301) | 88 539 386 | |
| in Swiss francs | (SFr 418 000 000) | 102 348 131 | |
| in Ɛ | | 17 400 000 | |
| in units of account | | 50 000 000 | |
| | | 1 145 131 940 | |
| B - REPAYMENT PREMIUMS TO BE PAID | | | |
| in French francs | (FFr 12 375 000) | | |
| in Belgian francs | (BFr 1 250 000) | 2 253 048 | 1 147 384 988 |
| II - RESERVES | | | |
| A) Guarantee fund | | 112 000 000 | |
| B) Special reserve | | 90 000 000 | 202 000 000 |
| III - PROVISIONS | | | |
| A) Financial assistance | | | |
| - Rehabilitation | | 99 010 726 | |
| - Research | | 19 759 262 | |
| - Assistance under Article 56 | | 7 466 153 | |
| - Assistance under Article 54 | | 5 254 974 | |
| - Aid to coke | | 4 000 000 | |
| | | 135 491 115 | |
| B) Other provisions | | | |
| - Anticipated commitments | | 18 366 633 | |
| - Sundry provisions | | 11 524 239 | |
| | | 29 890 872 | 165 381 987 |
| IV - FORMER PENSION FUND | | | 26 235 316 |
| V - MISCELLANEOUS | | | |
| A) Coupons and bonds payable | | 35 053 338 | |
| B) Sundry creditors | | 6 415 018 | 41 468 356 |
| VI - ACCRUED LIABILITIES (2) | | | |
| - Interest and fees accrued but not yet due on borrowings and guarantees | | | 31 753 290 |
| VII - UNALLOCATED BALANCE | | | 3 015 660 |
| | | | 1 617 239 597 |

SUSPENSE ACCOUNT

| | |
|---|---|
| I - Receivable on bonds (LFr 750 000 000) | 15 000 000 |
| II - Enterprises' liabilities under guarantee | 22 199 454 |
| III - Contributions from Member States | 38 475 287 |

| | |
|---|---|
| I - Bonds due | 15 000 000 |
| II - ECSC's liabilities under guarantees | 22 199 454 |
| III - Contributions from Member States | 38 475 287 |

(1) Up to July 1961, claims and related sureties under loans granted out of borrowed funds, together with other items of the assets, were pledged (under the Act of Pledge) to the Bank for International Settlements in Basel in favour of the holders of secured notes and coupons issued by the ECSC and indicated in note (1) to the balance sheet liabilities. The amounts pledged were:

Item I: 77 121 524 - Item II: 109 953 - Item VII: 1 639 177

(1) Borrowings secured by the Act of Pledge total 77 121 524 UA

(2) Of which secured notes total: 1 377 900 UA

Table 34: - FINANCIAL POSITION OF THE EUROPEAN COAL AND STEEL COMMUNITY AT 31 DECEMBER 1973

(BALANCE SHEET)

ASSETS

| | (new parities) | |
|---|---|---|
| I - DISBURSED LOANS (1) | | |
| A) Loans granted out of borrowed funds | | |
| - to finance industrial investments | 872 056 775 | |
| - for industrial redevelopment and reconversion | 196 008 398 | |
| - to finance social housing construction | 25 485 296 | 1 093 550 469 |
| B) Other loans | | |
| - out of the special reserve, to finance social housing construction | 80 633 101 | |
| - out of the special reserve, for industrial redevelopment and reconversion | 1 829 227 | |
| - for rehabilitation | 373 495 | |
| - for research | 2 376 354 | |
| - miscellaneous (out of the former pension fund) | 10 642 127 | 95 854 304 |
| | | 1 189 404 773 |
| II - CASH AND BANKS | | |
| A) Current accounts | 21 043 721 | |
| B) Fixed deposits | 244 347 714 | 265 391 435 |
| III - SHORT AND MEDIUM-TERM INVESTMENTS | | 19 482 606 |
| IV - PORTFOLIO | | 67 446 063 |
| V - REAL ESTATE | | 1 |
| VI - RECOVERABLE ISSUING COSTS | | 14 085 219 |
| VII - MISCELLANEOUS | | |
| A) Debtors under the levy | 2 950 381 | |
| B) Financial debtors | 3 069 567 | |
| C) Deposits for coupons and bonds due but not yet presented | 35 661 078 | 41 681 026 |
| VIII - ACCRUED INCOME | | |
| A) Interest and fees accrued but not yet due on deposits, portfolio, loans and guarantees | 29 264 180 | |
| B) Levy declared for December 1973 production but payable after 31.12.1973 | 4 947 366 | 34 211 546 |
| | | 1 631 702 669 |

LIABILITIES

| | | (new parities) | |
|---|---|---|---|
| I A - BORROWINGS (1) | | | |
| in US dollars | (US $ 223 350 000) | 188 253 837 | |
| in German marks | (DM 1 066 000 000) | 336 927 258 | |
| in Italian lire | (Lit 106 000 000 000) | 145 676 433 | |
| in Dutch florins | (NFl 96 630 000) | 28 801 187 | |
| in French francs | (FFr 663 125 000) | 119 391 847 | |
| in Belgian francs | (BFr 3 451 960 000) | 70 944 485 | |
| in Luxembourg francs | (LFr 4 426 969 301) | 90 982 821 | |
| in Swiss francs | (SFr 418 000 000) | 108 509 142 | |
| in £ | | 50 000 000 | |
| in units of account | | 17 400 000 | |
| | | 1 156 887 010 | |
| B - REPAYMENT PREMIUMS TO BE PAID | | | |
| in French francs | (FFr 12 375 000) | | |
| in Belgian francs | (BFr 1 250 000) | 2 253 737 | 1 159 140 747 |
| II - RESERVES | | | |
| A) Guarantee fund | | 112 000 000 | |
| B) Special reserve | | 90 000 000 | 202 000 000 |
| III - PROVISIONS | | | |
| A) Financial assistance | | | |
| - Rehabilitation | | 106 615 871 | |
| - Research | | 20 578 101 | |
| - Assistance under Article 56 | | 7 726 756 | |
| - Assistance under Article 54 | | 5 339 754 | |
| - Aid to coke | | 4 000 000 | |
| | | 144 260 482 | |
| B) Other provisions | | | |
| - Anticipated commitments | | 18 366 633 | |
| - Sundry provisions | | 11 524 239 | |
| | | 29 890 872 | 174 151 354 |
| IV - FORMER PENSION FUND | | | 26 521 122 |
| V - MISCELLANEOUS | | | |
| A) Coupons and bonds payable | | 35 660 066 | |
| B) Sundry creditors | | 1 499 243 | 37 159 309 |
| VI - ACCRUED LIABILITIES (2) | | | |
| - Interest and fees accrued but not yet due on borrowings and guarantees | | | 32 234 099 |
| VII - UNALLOCATED BALANCE | | | 496 038 |
| | | | 1 631 702 669 |

SUSPENSE ACCOUNT

| | | | |
|---|---|---|---|
| I - Receivable on bonds (LFr 750 000 000) | 15 413 957 | I - Bonds due | 15 413 957 |
| II - Enterprises' liabilities under guarantee | 25 234 643 | II - ECSC's liabilities under guarantees | 25 234 643 |
| III - Contributions from Member States | 31 406 998 | III - Contributions from Member States | 31 406 998 |

(1) Up to July 1961, claims and related sureties under loans granted out of borrowed funds, together with other items of the assets, were pledged (under the Act of Pledge) to the Bank for International Settlements in Basel in favour of the holders of secured notes and coupons issued by the ECSC and indicated in note (1) to the balance sheet liabilities. The amounts pledged were:

Item I: 73 576 075 - Item II: 106 476 - Item VII: 1 373 209

(1) Borrowings secured by the Act of Pledge total 73 576 075 UA

(2) Of which secured notes total: 1 302 791 UA

Table 35: - MANAGEMENT ACCOUNT OF THE EUROPEAN COAL AND STEEL COMMUNITY FOR THE YEAR 1973

(STATEMENT OF REVENUES AND EXPENDITURES)

EXPENDITURES

| | UA |
|---|---|
| I - SERVICING OF BORROWINGS AND GUARANTEES | |
| A) BORROWINGS | |
| - Interest and borrowings | 66 615 310 |
| - Fees to custodian and agent banks | 1 572 521 |
| - Miscellaneous expenditure | 311 554 |
| - Payment of recoverable issuing costs | 11 060 735 |
| - Total expenditure for servicing borrowings | 79 560 120 |
| B) GUARANTEES | |
| - Fee to agent banks | 6 660 |
| Total expenditure for servicing borrowings and guarantees | 79 556 780 |
| II - BUDGETARY EXPENDITURE | |
| - Administrative expenditure | 18 000 000 |
| - Rehabilitation expenditure | 5 081 991 |
| - Research expenditure | 11 670 438 |
| - Reduction on interest - Article 56 | 3 425 472 |
| - Reduction on interest - Article 54 | 1 438 693 |
| - Assistance to coke | 425 000 |
| Tôtal budgetary expenditure | 40 042 094 |
| III - OTHER EXPENDITURE | |
| - Financial costs | 456 107 |
| IV - EXCESS OF REVENUES OVER EXPENDITURES | 54 969 054 |
| SUM TOTAL | 175 034 035 |

REVENUES

| | UA |
|---|---|
| I - SERVICING OF LOANS AND GUARANTEES | |
| A) LOANS GRANTED OUT OF BORROWED FUNDS | |
| - Interest on loans | 64 574 886 |
| - Interest on borrowed funds not disbursed | 3 469 162 |
| - Miscellaneous revenue | 5 195 652 |
| Total revenues from loans granted out of borrowed funds | 73 239 700 |
| B) GUARANTEES | |
| - Fees credited | 112 800 |
| Total revenues from loans out of borrowed funds and guarantees | 73 352 500 |
| II - LEVY | |
| - German enterprises | 21 957 368 |
| - Belgian enterprises | 5 495 274 |
| - British enterprises | 14 487 757 |
| - Danish enterprises | 150 025 |
| - French enterprises | 9 498 656 |
| - Italian enterprises | 40 387 |
| - Luxembourg enterprises | 7 441 756 |
| - Dutch enterprises | 1 798 405 |
| | 2 024 399 |
| Total from levy | 62 894 027 |
| III - OTHER REVENUES | |
| - Interest on bank deposits and portfolio | 17 228 226 |
| - Interest on loans granted out of non-borrowed funds | 1 444 895 |
| - Increases for delays | 4 948 |
| - Contributions from new Member States | 19 237 712 |
| - Miscellaneous revenue | 871 727 |
| Total other revenues | 38 787 508 |
| SUM TOTAL | 175 034 035 |

Table 36: - MANAGEMENT ACCOUNT OF THE EUROPEAN COAL AND STEEL COMMUNITY FOR THE YEAR 1973

(STATEMENT OF REVENUES AND EXPENDITURES)

| BORROWINGS AND GUARANTEES | UA |
|---|---|
| S | |
| t and borrowings | 66 615 310 |
| custodian and agent banks | 1 572 521 |
| aneous expenditure | 311 554 |
| of recoverable issuing costs | 11 060 735 |
| enditure for servicing borrowings | 79 560 120 |
| S | |
| agent banks | 6 660 |
| enditure for servicing borrowings and guarantees | 79 566 780 |
| PENDITURE | |
| tive expenditure | 18 000 000 |
| tion expenditure | 5 081 991 |
| xpenditure | 11 670 438 |
| on interest - Article 56 | 3 425 472 |
| on interest - Article 54 | 1 438 693 |
| to coke | 425 500 |
| ary expenditure | 40 042 094 |
| ITURE | |
| costs | 456 107 |
| VENUES OVER EXPENDITURES | 61 504 605 |
| SUM TOTAL | 181 569 586 |

REVENUES

| | UA |
|---|---|
| I - SERVICING OF LOANS AND GUARANTEES | |
| A) LOANS GRANTED OUT OF BORROWED FUNDS | |
| - Interest on loans | 64 574 886 |
| - Interest on borrowed funds not disbursed | 3 469 162 |
| - Miscellaneous revenue | 5 195 652 |
| Total revenues from loans granted out of borrowed funds | 73 239 700 |
| B) GUARANTEES | |
| - Fees credited | 112 800 |
| Total revenues from loans out of borrowed funds and guarantees | 73 352 500 |
| II - LEVY | |
| - German enterprises | 21 957 368 |
| - Belgian enterprises | 5 495 274 |
| - British enterprises | 14 487 757 |
| - Danish enterprises | 150 025 |
| - French enterprises | 9 498 656 |
| - Irish enterprises | 40 387 |
| - Italian enterprises | 7 441 756 |
| - Luxembourg enterprises | 1 798 405 |
| - Dutch enterprises | 2 024 399 |
| Total from levy | 62 894 027 |
| III - OTHER REVENUES | |
| - Interest on bank deposits and portfolio | 17 228 226 |
| - Interest on loans granted out of non-borrowed funds | 1 444 895 |
| - Increases for delays | 4 948 |
| - Contributions from new Member States | 19 237 712 |
| - Miscellaneous revenue (1) | 7 407 278 |
| Total other revenues | 45 324 059 |
| SUM TOTAL | 181 569 586 |

ılting from the new rules for conversion into UA in the balance sheet (Table 34) of the various currencies (official effective exchange rate for BF, DKr, DM, FF, l market exchange rate on 31 December 1973 for other currencies, the UA being equal to 0.88867088 gr. of fine gold - former definition of the US $) in accordance ı decision No. 3541 and 3542/73/ECSC - O.J. No. L 361, 29 December 1973.

Table 37: - ALLOCATION OF ECSC ASSETS DURING 1973

| Allocation of ECSC assets (reserves and provisions) | Total assets at 31.12.1972 | Allocation of assets | Expenditure | Total assets 31.12.1973 | (New parities) |
|---|---|---|---|---|---|
| Guarantee fund | 100 000 000 | 12 000 000 | - | 112 000 000 | 112 000 000 |
| Special reserve | 87 000 000 | 3 000 000 | - | 90 000 000 | 90 000 000 |
| Rehabilitation | 67 718 338 | 36 374 379 | 5 081 991 | 99 010 726 | 106 615 871 |
| Technical and social research | 26 197 014 | 5 232 686 | 11 670 438 | 19 759 262 | 20 578 101 |
| Interest reduction - loans for industrial redevelopment & reorganization (art. 56) | 10 502 914 | 388 711 | 3 425 472 | 7 466 153 | 7 726 756 |
| Interest reduction - investment loans (art. 54) | 6 196 707 | 496 960 | 1 438 693 | 5 254 974 | 5 339 754 |
| Assistance to coke | - | 4 000 000 | - | 4 000 000 | 4 000 000 |
| Other provisions: | | | | | |
| 1 - Servicing of borrowings | 6 135 546 | 73 355 886 | 79 491 432 | - | - |
| - Doubtful debtors (borrowings) | 1 920 759 | - | 75 348 | 1 845 411 | 1 845 411 |
| - Guarantee fee | 1 828 828 | - | - | 1 828 828 | 1 828 828 |
| 2 - Portfolio depreciation | 1 350 000 | - | - | 1 350 000 | 1 350 000 |
| 3 - Compensation of exchange losses on borrowings | 1 100 000 | 4 900 000 | - | 6 000 000 | 6 000 000 |
| 4 - Doubtful debtors (levy) | 500 000 | - | - | 500 000 | 500 000 |
| 5 - Compensation for exchange losses on accession contributions | 2 473 358 | - 2 473 358 | - | - | - |
| 6 - For currency risks | 2 700 000 | - 2 700 000 | - | - | - |
| 7 - Anticipated commitments | - | 18 366 633 | - | 18 366 633 | 18 366 633 |
| Former pension fund | 25 859 895 | 375 421 | - | 26 235 316 | 26 521 122 |
| Unallocated balance | 180 549 | 21 716 717 | 18 881 607 (1) | 3 015 659 | 496 038 |
| TOTAL | 341 663 908 | 175 034 035 | 120 064 981 | 396 632 962 | 403 168 514 |

*(1) Includes 18 million UA as flat-rate contribution to administrative expenditure, 456 107 UA for financial costs, and 425 500 UA for assistance to coke.*

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