

EUROPEAN COAL AND STEEL COMMUNITY

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**AUDITOR'S REPORT**  
**FOR**  
**THE YEAR**  
**1975**

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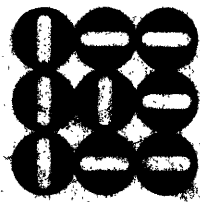
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**PAUL GAUDY**

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Submitted in Luxembourg, 30 June 1976

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**FOR**  
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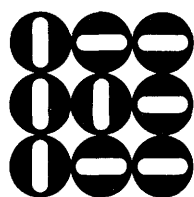
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PAUL GAUDY

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## Foreword

**1** The duties of the Auditor 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 Executive 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 income and expenditure, 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 income and expenditure, was inevitably a lack of the detailed regulations which are generally speaking necessary to define limits of competence and relationships between the institutions.

The independent 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 independent Auditor thus bases himself on regular and permanent observation of the Institution's day-to-day activities in drawing up an annual report, both descriptive and critical, for those to whom it is to be sent (Council, Commission and, via the latter, the European Parliament).

Despite the fact that the Treaty contains no provision for examination of the report or a procedure to approve it, the Parliament discusses in depth the elements and opinions which the Auditor provides in this way.

In doing so, the Parliament provides him with the critical guidance and political support which are essential if his work is to be used to maximum advantage.

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

Part one presents the ECSC's balance sheet, statement of income and expenditure, the allocation of the excess of income over expenditure at 31 December 1975, 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 accounts.

Part two gives details of the ground covered in our audit and our conclusions for some of the ECSC's large sectors of activity. The latter are presented so as to show, for each of the items of income, expenditure or other financial operations, trends, statistics as far as possible and, lastly, any criticisms prompted by 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, administrative expenditure, borrowing, lending and guarantee operations, management and investment of funds and financing of social housing construction.

The *General conclusions* sum up the most typical features of the ECSC's financial activity for the year 1975 and make recommendations prompted by our main critical observations.

There are also three annexes to this report.

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.

Lastly, Annex III is intended to comply with paragraphs 13 and 14 of the Resolution adopted by the European Parliament on 9 April 1976 (1). At the end of its debates on the report for the financial year 1974, the Parliament

'13 Requests the auditor, even before the European Court of Auditors is set up, to devote part of his next annual report to an assessment of external auditing, as practised in respect of the Coal and Steel Community for 20 years;

14 Is convinced that a summary of these measures, which are highly appreciated by Parliament, will provide a valuable basis for the work of the European Court of Auditors which is due to commence its activities in the near future.'

**4** For the first time since the creation of the ECSC, the value of the unit of account — in which all monetary amounts in this report are expressed — has been changed. This change, established by Decision 3289/75 ECSC of 18 December 1975 (2), was applied for the first time to the balance sheet drawn up on 31 December 1975.

**4.1** The ECSC originally adopted the unit of account of the European Payments Union (EPU), which was then replaced by the European Monetary Agreement (EMA) without any change in the rules affecting the value and conversion of the EPU unit of account.

The value of this unit of account was 0.888667088 grammes of fine gold and had to be expressed in currency according to the parities announced by the International Monetary Fund (IMF). It retained this value until 31 December 1972, when the European Monetary Agreement lapsed, even though in the meantime the inconvertibility of the US dollar, which began in 1971, had destroyed

(1) Minutes of proceedings 9 of 9. 4. 1976, Document PE 44.256 — European Parliament 1976-1977.

(2) OJ L 327 of 19. 12. 1975.

the situation of monetary stability in which exchange rates were maintained within a margin close to the parities announced by the IMF.

**4.2** From 1 January 1973 <sup>(1)</sup> there was to be a new unit of account (u. a.) : its value in relation to gold remained unchanged, but the rules for converting currency into u. a. were intended to bring rates closer to the market exchange rates. A new Decision No 3328/74/ECSC of 20 November 1974 <sup>(2)</sup> extended this same system with effect from 1 January 1975, while at the same time amending its provisions somewhat. Thus, the situation obtaining with regard to operations in 1975 can be seen from the following table.

National currencies	Balance sheet at 31. 12 1974	One unit of account in	
		first half 1975	second half 1975
Belgian francs (Bfrs)	48-6572	48-6572	48-6572
Danish kroner (Dkr)	7-57831	7-57831	7-57831
German marks (DM)	3-21978	3-21979	3-21979
French francs (FF)	5-97402	6-03069	5-86784
Irish pounds (£ Ir)	0-572465	0-536880	0-580749
Italian lire (Lit)	872-885	829-753	876-115
Luxembourg francs (Lfrs)	48-6572	48-6572	48-6572
Dutch guilders (fl)	3-35507	3-35507	3-35507
Pounds sterling (£)	0-572465	0-536880	0-580749
Swiss francs (Sfrs)	3-37685	—	—
US dollars (\$)	1-34286	—	—

The figures in the first column show the effect of applying these decisions when preparing the balance sheet at the end of last year. These are the result

- for currencies within the Community 'snake' of converting the u. . at the official exchange rate (gold parity or central bank rate) at 30 December 1974 <sup>(3)</sup> ;
- for all other currencies, of using a rate fixed by the Commission and based on the average exchange rate against the currency in question of all currencies concerned in the preceding paragraph as recorded on 30 December 1974 <sup>(3)</sup> on that currency's foreign exchange market (in the case of a Member State's currency) or on the foreign exchange markets of the currencies concerned in the preceding paragraph (in the case of a non-Community currency).

The next two columns concern operations other than the drawing up of the balance sheet. The Institution applies here the same rules as for the balance sheet, but with reference to different rates or periods.

These reference periods are :

- for the calculation of the average values used to calculate levy amounts : the last but one month before the calendar half-year to which these operations relate. The result of the calculation prior to collection of the levy is not included in the above table.
- For other operations, including the drawing up of the scales laying down, in the currency of each Member States, the net amount of the levy per tonne for the year 1975,
  - (a) the period 1 June to 30 November 1974 for operations relating to the first half of 1975,
  - (b) the period 1 December 1974 to 31 May 1975 for operations relating to the second half of 1975.'

<sup>(1)</sup> Nos 3451/73/ECSC and 3542/73/ECSC of 19. 12. 1973, OJ L 361 of 29. 12. 1973.

<sup>(2)</sup> OJ L 357 of 31. 12. 1974.

<sup>(3)</sup> 30 December was chosen since on the following day, the last working day within the meaning of the Decision, certain exchange markets do not compute rates for the different currencies.

In practice, the rates shown in the last two columns were only used to determine levy debts, since the other operations were either carried out on the basis of commitments or debts expressed in currency, or governed by their own special provision (in particular assistance to coking coal).

**4.3** Lastly, a final Decision No 3289/75/ECSC replaced, for the budget drawn up on 31 December 1975, the u. a. by a European unit of account (EUA) defined as being the sum of the following amounts in the currency of the Member States of the Community, which is why it is commonly known as the 'basket unit of account'.

It is defined as follows :

'The unit of account to be used in decisions, recommendations, opinions and communications for the purposes of the Treaty establishing the European Coal and Steel Community shall be the European unit of account 'EUA' defined as the sum of the following amounts of the currencies of the Member States of the Community :

DM	0.828
£ sterling	0.0885
FF	1.15
Lit	109
Fl	0.286
Bfrs	3.66
Lfrs	0.14
Dkr	0.217
£ Ir	0.00759'

The value of the unit of account in any given currency is equal to the sum of the equivalent in that currency of these amounts making up the basket. It is calculated by the Commission using the daily market exchange rates. The rates of conversion into the various national currencies are calculated daily by the Institution, which has them published in the Official Journal.

Thus, at 31 December 1975, the EUA equivalents in the various currencies used by the ECSC are as follows (1) :

National currencies	Balance sheet at 31 12 1975 EUA
Belgian francs (Bfrs)	46.0606
Danish kroner (Dkr)	7.19697
German marks (DM)	3.05382
French francs (FF)	5.21981
Irish pounds (£ Ir)	0.575039
Italian lire (Lit)	797.769
Luxembourg francs (Lfrs)	46.0606
Dutch guilders (Fl)	3.1312
Pounds sterling (£)	0.575973
Swiss francs (Sfrs)	3.05239
US dollar (\$)	1.16528

**4.4** As pointed out in the previous report, the financial management of the ECSC was, this year again, centred on currency in hand and all operations for the year recorded in the currency in which they were transacted. Throughout the financial year their conversion into u. a. was based on the equivalents laid down for drawing up the previous balance sheet on 31 December 1974 (first column of the above table).

(1) OJ C 2 of 6. 1. 1976.

For these reasons and for ease of comparison of the figures, the remarks in this report are based on the balance sheet (Table No 28), the management account (Table No 30) and the allocation of ECSC assets (Table No 31) calculated in the same u. a.

In contrast to procedure in previous years, the values expressed in u. a. in Tables 28 and 31 were not all determined in this way by the Institution. In fact the latter calculated new allocations to the various provisions directly in EUA. For want of another calculation basis, we thus had to convert from EUA into u. a. the items which had been allocated in this way ; the conversion rate of one u. a. (31 December 1974) = 1.07128 EUA was applied throughout. This rate had, furthermore, been adopted by the Institution in its official balance sheet to convert those assets or liabilities which had previously been expressed in u. a.

We arrived at this rate by the following method. For each currency, the percentage of its weighting in the EUA 'basket' was determined. Further, we established for each currency the ratio between its equivalent in u. a. at 31 December 1974 and its equivalent in EUA at 31 December 1975. The result (1.07128), related to the basis of 100, represents the weighted total of these ratios (i. e. the total of the ratios multiplied individually by the percentage relating to the given currency).

In this way it was possible to compare accurately the movements between the last two annual balance sheets and also to see the actual amount of allocations, especially when a single method of calculation had been selected by the Institution.

**4.5** No special difficulties were encountered this year in the coordination of the accounts of the Directorate-General for Credit and Investments in Luxembourg and those of the Directorate-General for Budgets in Brussels.

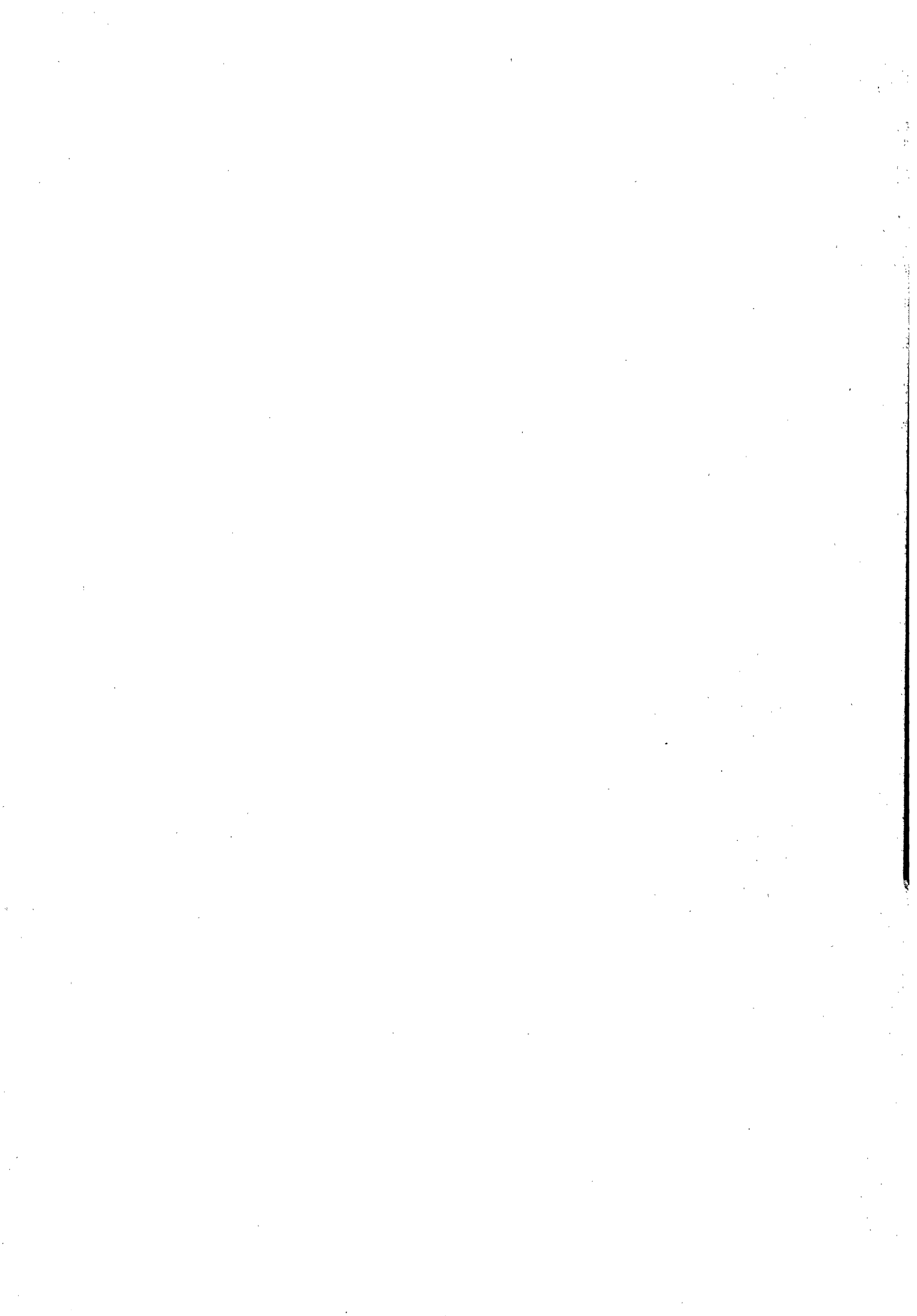
But the fact remains that the cumulative statements which for a long time were provided as an annex to the Auditor's Report can no longer be drawn up owing to the gap which previously existed between the methods of entering financial assistance in currency.

*N.B. :*

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 for the High Authority as a Community Executive.



**PART ONE**





## PART ONE

### Introduction

**5** The four Tables 28, 29, 30 and 31 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 (balance sheet in u.a., balance sheet in EUA, management accounts and allocation of the surplus to the various reserves and provisions), the four tables can be unfolded to the right, so that they are constantly visible to the reader of the report, whatever point he wishes to study.

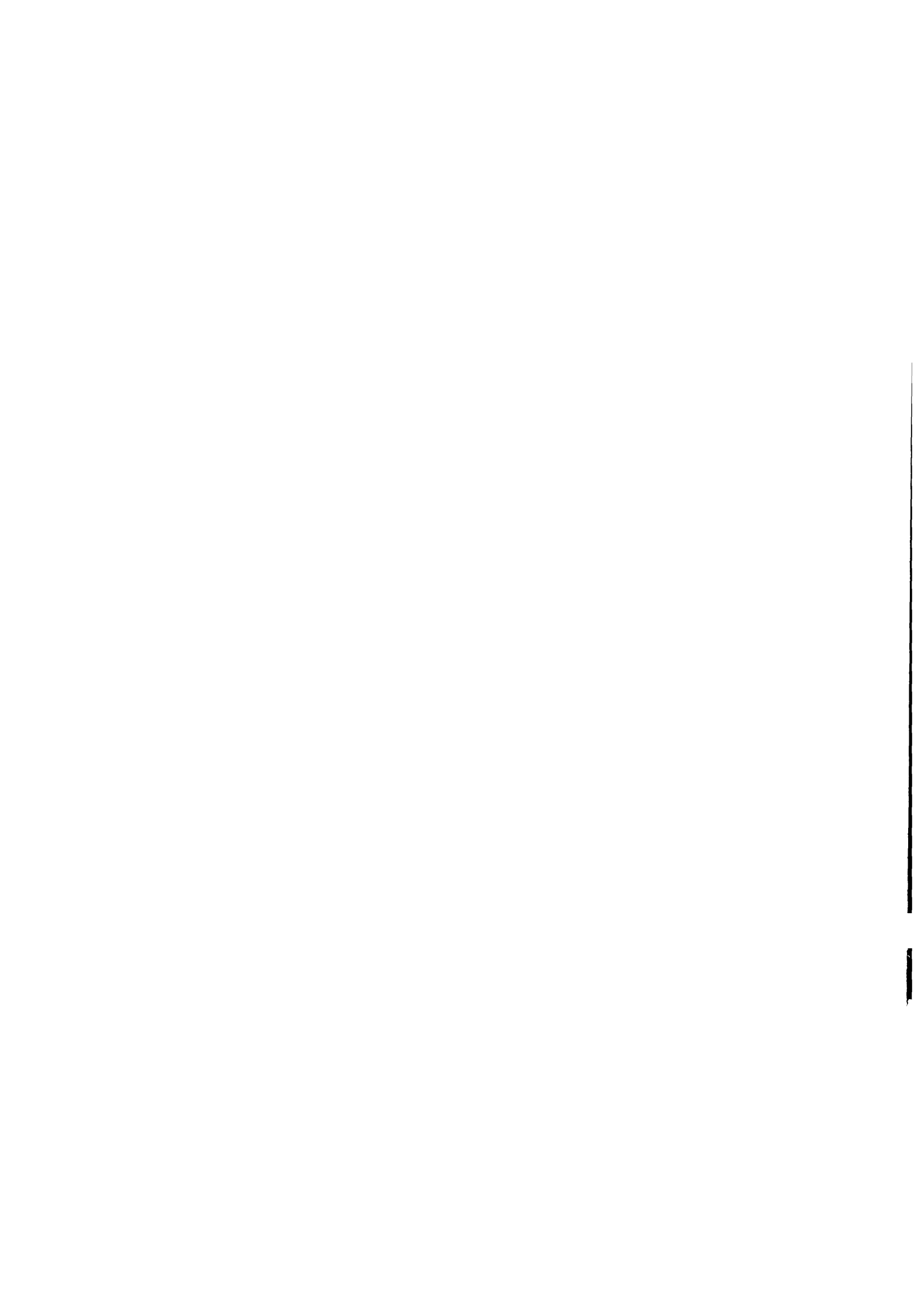
As explained in the discussion of the unit of account in the foreword, it was decided to introduce the EUA for drawing up the official balance sheet at 31 December 1975, although accounts had been kept for the year in u.a., the various currencies being converted at the rate applicable for the previous balance sheet. Since a complete balance sheet expressed in u.a. was not available, either for the management accounts or for the items arising from allocations of the management surplus, we were obliged, solely so as to be able to analyse and compare identical values, to convert the amounts expressed in EUA to the u.a. used in keeping the accounts (Tables 28 and 30). For this purpose, it was possible to calculate exactly the conversion of both the assets and the liabilities, which were expressed as currency amounts, by applying the rules in force at 31 December 1974 for converting currency amounts to u.a. ; on the other hand, the items expressed directly in EUA — whether the equivalent of amounts previously expressed in u.a. or the result of allocating the remaining surplus after balancing the accounts in EUA — were converted to u.a. by applying the standard rate of 1 u.a. at 31 December 1974 = EUA 1.07128, which was used by the institution for most of its conversions.

**6** Part One of this report first of all gives notes on and an analysis of the assets, liabilities and suspense account items in the ECSC financial statement (balance sheet). The balance sheet total at 31 December 1975 was 2 754 606 154 u.a. (Table 28) as against 2 150 492 690 u.a. at 31 December 1974).

After the analysis and notes on the assets and liabilities comes Table 12, which shows changes in the balance sheet items from 1974 to 1975.

Secondly, in the order in which the items appear in Table 30, there follow notes on and an analysis of the management account (statement of income and expenditure) and changes affecting the Community's net assets from one financial year to the next. The excess of income over expenditure for 1975 was 42 199 244 u.a. As regards the movements affecting the Community's net assets (Table 31) in particular, 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 28 and 29) and management account (Table 30) are presented in our report differs somewhat from that of the balance sheet and statement of income and expenditure 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 income and expenditure more explicit, have retained the official headings but supplemented them with those used in the earlier presentation.



## Notes to the balance sheet

### ASSETS

#### 8 I — Disbursed loans

The sum of 2 133 130 147 u.a. 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 1975, net of repayments already made.

The net increase of 658 394 349 u.a. compared with the position for the previous year resulting from disbursements on new loans or current contracts (720 853 417 u.a.) less repayments for the year (62 459 068 u.a.).

#### 9 A — Loans granted out of borrowed funds

Loans out of borrowed funds granted by the institution from its inception to 31 December 1975 total 2 489 998 291 u.a. (1) or 2 027 570 609 u.a. net of repayments.

Table 1 gives a breakdown, by country and use, of the loans disbursed and still outstanding at 31 December 1975, net of redemptions or anticipated repayments, together with movements affecting loan operations during the year.

At 31 December 1975 the overall liquid assets included borrowed funds totalling 128 898 240 u.a. which had not yet been disbursed as loans ; this includes a sum of 1 444 543 u.a. due to a timing discrepancy between disbursement of the loans and receipt of the corresponding borrowing. The greater part of the funds not disbursed, i.e. 127 453 697 u.a., arises from issues made in the second half of 1975. Total loans granted out of borrowed funds at 31 December 1975 (2 027 570 609 u.a.) break down into the following three types of financing :

**9.1** The first and most important (1 734 843 439 u.a.) is the financing of *industrial investment projects* submitted by Community enterprises under Article 54 of the Treaty, and comprises loans made to the iron and steel industry (1 334 517 860 u.a.), coal mines and coking plants (322 503 866 u.a.), iron ore mines (7 117 463 u.a.), power stations (66 583 432 u.a.) and shipyards (4 120 818 u.a.).

Total loans increased by 607 713 100 u.a. from 1974 to 1975 and include 69 new loans granted in 1975 with a total value of 649 818 346 u.a.

**9.2** The second category of operations under Article 56 of the Treaty (271 994 346 u.a.) is the financing of *industrial structural reorganization* in areas particularly affected by closures of steelworks and pits. Compared with the previous year, total loans rose by 40 103 428 u.a. In 1975 there were 21 new loans totalling 52 028 468 u.a.

**9.3** The third category of operations (20 732 824 u.a.) concerns the financing of *social housing construction projects* in the iron and steel and mining sectors. In this case loans are

(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 1975 and sums disbursed and outstanding 31. 12. 1975*

Categories Countries	Position at 31. 12. 1974			Operations in 1975			Position at 31. 12. 1975			Position at 31. 12. 1975 (EUA)		
	Sums disbursed	Sums outstanding	Sums loaned	Redemptions, anticipated repayments and accelerated redemptions	Sums disbursed	Sums outstanding	Sums disbursed	Sums outstanding	Sums disbursed	Sums outstanding	Sums disbursed	Sums outstanding
<b>I. Industrial investments</b> (Article 54 of the Treaty)												
Belgium	69 534 664	53 418 683	38 192 251	1 810 621	107 726 915	89 800 313	116 353 921	89 800 313	116 353 921	89 800 313	116 353 921	89 800 313
Denmark	7 809 738	7 809 738	20 328 761	—	28 138 499	28 138 499	30 832 809	28 138 499	30 832 809	28 138 499	30 832 809	28 138 499
Germany	724 979 591	526 193 220	129 625 131	22 594 358	854 604 722	633 223 993	936 051 753	633 223 993	936 051 753	633 223 993	936 051 753	633 223 993
France	225 968 120	306 646 580	90 165 544	6 263 555	448 133 664	390 548 569	501 511 240	390 548 569	501 511 240	390 548 569	501 511 240	390 548 569
Italy	357 654 221	156 726 746	152 510 314	9 314 258	378 164 535	299 922 802	427 907 049	299 922 802	427 907 049	299 922 802	427 907 049	299 922 802
Luxembourg	3 018 127	2 273 447	6 165 558	227 344	3 634 685	2 662 661	3 906 476	2 662 661	3 906 476	2 662 661	3 906 476	2 662 661
Netherlands	33 647 470	27 890 586	22 980 421	1 895 110	56 627 891	48 975 897	60 714 801	48 975 897	60 714 801	48 975 897	60 714 801	48 975 897
United Kingdom	46 171 339	46 171 339	195 399 366	—	241 570 705	241 570 705	276 175 989	241 570 705	276 175 989	241 570 705	276 175 989	241 570 705
<b>Total</b>	<b>1 468 783 270</b>	<b>1 127 130 339</b>	<b>649 818 346</b>	<b>42 105 246</b>	<b>2 118 601 616</b>	<b>1 734 843 439</b>	<b>2 353 454 038</b>	<b>1 734 843 439</b>	<b>2 353 454 038</b>	<b>1 734 843 439</b>	<b>2 353 454 038</b>	<b>1 926 654 609</b>
<b>II. Social housing</b>												
Belgium	21 677 162	11 914 547	493 247	1 147 495	22 170 409	11 260 299	23 420 233	11 260 299	23 420 233	11 260 299	23 420 233	11 895 082
Germany	16 453 748	4 835 196	—	860 535	16 453 748	3 974 661	17 347 928	3 974 661	17 347 928	3 974 661	17 347 928	4 190 664
France	398 124	398 124	—	—	398 124	398 124	455 649	398 124	455 649	398 124	455 649	455 649
Italy	6 011 868	3 260 052	—	334 524	6 011 868	925 528	6 621 297	925 528	6 621 297	925 528	6 621 297	3 200 989
Luxembourg	1 746 915	1 074 697	—	73 039	1 746 915	1 001 658	1 845 395	1 001 658	1 845 395	1 001 658	1 845 395	1 058 125
Netherlands	2 309 937	1 261 375	—	88 821	2 309 937	1 172 554	2 475 090	1 172 554	2 475 090	1 172 554	2 475 090	1 256 387
<b>Total</b>	<b>48 597 754</b>	<b>22 743 991</b>	<b>493 247</b>	<b>2 504 414</b>	<b>49 091 001</b>	<b>20 732 824</b>	<b>52 165 592</b>	<b>20 732 824</b>	<b>52 165 592</b>	<b>20 732 824</b>	<b>52 165 592</b>	<b>22 056 896</b>
<b>III. Structural reorganization</b> (Article 56 of the Treaty)												
Belgium	43 995 259	35 391 505	49 674	2 038 076	44 044 933	33 403 103	48 292 785	33 403 103	48 292 785	33 403 103	48 292 785	36 564 828
Germany	101 349 372	91 274 708	3 726 963	4 954 735	105 076 335	90 046 936	111 716 328	90 046 936	111 716 328	90 046 936	111 716 328	95 709 377
France	62 601 303	57 120 802	9 894 692	1 698 904	72 495 995	65 316 590	77 918 446	65 316 590	77 918 446	65 316 590	77 918 446	70 161 870
Italy	24 024 348	12 749 719	—	1 915 555	24 024 348	10 834 164	26 008 655	10 834 164	26 008 655	10 834 164	26 008 655	11 873 904
Netherlands	21 142 067	18 189 327	4 854 019	1 317 770	25 996 086	21 725 576	27 956 814	21 725 576	27 956 814	21 725 576	27 956 814	23 254 844
United Kingdom	17 164 857	17 164 857	33 503 120	—	50 667 977	50 667 977	58 389 400	50 667 977	58 389 400	50 667 977	58 389 400	58 389 400
<b>Total</b>	<b>270 277 206</b>	<b>231 890 918</b>	<b>52 028 468</b>	<b>11 925 040</b>	<b>322 305 674</b>	<b>271 994 346</b>	<b>350 282 428</b>	<b>271 994 346</b>	<b>350 282 428</b>	<b>271 994 346</b>	<b>350 282 428</b>	<b>295 954 223</b>
<b>Sum total</b>	<b>1 787 658 230 (1)</b>	<b>1 381 765 248</b>	<b>702 340 061</b>	<b>56 534 700</b>	<b>2 489 998 291</b>	<b>2 027 570 609</b>	<b>2 755 902 058</b>	<b>2 027 570 609</b>	<b>2 755 902 058</b>	<b>2 027 570 609</b>	<b>2 755 902 058</b>	<b>2 244 665 728</b>

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

granted to industrial enterprises or organizations specializing in this field. These projects are to be completed under programmes implemented over a number of years in the countries of the Community.

Loans in this category increased by 2 011 167 u.a. compared with the previous year. One new loan, amounting to 493 247 u.a., was granted in 1975, 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*

Other loans granted by the institution from its inception to 31 December 1975 total 149 208 138 u.a., or 105 559 538 u.a. net of repayments.

**10.0** The total as shown on the balance sheet (105 559 538 u.a.) comprises loans granted out of funds from three sources: from the special reserve to finance social housing (91 129 814 u.a.), from the levy itself to finance rehabilitation (311 668 u.a.) and technical research (2 146 734 u.a.), and from the former ECSC pension fund (11 971 322 u.a.) to finance the construction or purchase of housing by officials of the Community.

After the repayment in 1975 of 615 515 u.a., which was the total outstanding at 31 December 1974, the category of loans from the special reserve for industrial structural reorganization has disappeared completely.

**10.1** Loans granted out of the special reserve for the financing of social housing construction amount to 91 129 814 u.a. and cover, 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 1975, three partial disbursements were made. Two of them, totalling 168 195 u.a., are part of a loan granted to Italy under the sixth programme. The third disbursement of 226 072 u.a., made under a loan agreement reached in Belgium, was taken partly (154 140 u.a.) from the funds of the fifth special programme, the remainder (71 932 u.a.) coming under the sixth programme.

For the seventh programme, where the year's operations were confined to the normal section, the breakdown by country for the 16 disbursements made during the year, both under contracts signed during the year and under those signed previously, is as follows:

Belgium	u.a.	957 658
Denmark	u.a.	387 949
Germany	u.a.	7 497 158
France	u.a.	4 323 052
Ireland	u.a.	167 696
Italy	u.a.	595 726
Luxembourg	u.a.	450 992
Netherlands	u.a.	827 106
United Kingdom	u.a.	1 136 173

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 1975. It should be pointed out that the new loans granted are intended exclusively for social housing, whereas the granting of loans for industrial structural reorganization has now been replaced by the granting of interest reductions.

**10.2** *Loans for research and rehabilitation granted out of own funds raised by the levy* totalled 2 458 402 u.a. at 31 December 1975. No new loans were granted or disbursed in these two sectors during the year in question.

Assistance in the research and rehabilitation sectors has for some years now been financed exclusively by subsidies (see notes on research and rehabilitation expenditure under Nos. 28.2 and

TABLE 2

## Loans granted out of the special reserve

Breakdown by use and country

Operations in 1975 and sums disbursed and outstanding at 31. 12. 1975

Use and country	Position at 31. 12. 1974		Operations in 1975		Position at 31. 12. 1975		Position at 31. 12. 1975 (EUA)	
	Sums disbursed	Sums outstanding	Sums loaned	Redemptions or repayments	Sums disbursed	Sums outstanding	Sums disbursed	Sums outstanding
<i>Social housing</i>								
Belgium	4 381 160	2 334 870	1 183 730	223 889	5 564 890	3 294 711	5 878 603	3 480 446
Denmark	271 829	271 829	387 949	4 127	659 778	655 651	694 737	690 391
Germany	62 717 999	47 535 308	7 497 158	2 037 853	70 215 157	52 994 613	74 031 004	55 874 609
France	23 287 719	15 307 963	4 323 052	1 253 180	27 610 771	18 377 835	31 600 250	21 033 247
Ireland	—	—	167 696	—	167 696	167 696	166 945	166 945
Italy	7 183 690	5 252 415	763 921	305 674	7 947 611	5 710 662	8 695 938	6 248 364
Luxembourg	2 474 454	1 790 550	450 992	113 181	2 925 446	2 128 361	3 090 364	2 248 344
Netherlands	6 324 160	4 415 165	827 106	300 238	7 151 266	4 942 033	7 662 558	5 295 372
United Kingdom	1 722 079	1 722 079	1 136 173	—	2 858 252	2 858 252	2 840 843	2 840 843
Total social housing	108 363 090	78 630 179	16 737 777	4 238 142	125 100 867	91 129 814	134 661 242	97 878 561
<i>Structural reorganization</i>								
Belgium	52 074	6 928	—	6 928	52 074	—	56 978	—
Germany	924 313	118 187	—	118 187	924 313	—	1 011 344	—
France	263 689	33 861	—	33 861	263 689	—	288 517	—
Italy	737 367	78 804	—	78 804	737 367	—	806 795	—
Netherlands	3 047 551	377 735	—	377 735	3 047 551	—	3 334 501	—
Total structural reorganization	5 024 994	615 515	—	615 515	5 024 994	—	5 498 135	—
Sum total	113 388 084	79 245 694	16 737 777	4 853 657	130 125 861	91 129 814	140 159 377	97 878 561

28.3). The only changes to the total were the result of scheduled 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 below current market rates at that time, and were for a relatively long term (36 years).

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

Table 3 shows the history of these loans granted out of the levy funds, with their amounts, the countries in which they were made and the security obtained by the institution.

**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 total 11 971 322 u.a. The increase as compared with the previous year (814 527 u.a.) is due to disbursements made in 1975 (1 855 352 u.a.), less repayments (1 040 825 u.a.).

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

## **11 II — Cash and banks**

Under this heading (382 694 513 u.a.) the institution has grouped all the cash assets it holds in current accounts (11 531 385 u.a.) and various fixed deposits (371 163 128 u.a.).

The considerable decrease (88 146 518 u.a.) in overall liquid assets as compared with the previous year is due mainly to the reduced amount of borrowed funds not yet reallocated as loans at 31 December and to the lower yield on funds invested at interest rates which have shown a downward trend compared with 1974.

## **12 III — Short- and medium-term investments**

This item (27 105 613 u.a.), which shows an increase of 2 630 569 u.a. as compared with the position at 31 December 1974, comprises :

- 3 560 260 u.a. : a number of short- and medium-term investments consisting for the most part of securities pledged to the ECSC with bank guarantees and kept safe by those banks, and bonds and notes with staggered maturity dates of less than five years.
- 23 545 353 u.a. : the product of ECSC debenture bonds redeemed by the ECSC before maturity.

The increase in this balance sheet item is entirely due to increased use of the latter procedure.

## **13 IV — Portfolio**

This item is shown on the balance sheet at its acquisition value of 66 177 283 u.a., and is down by 732 699 u.a. compared with its value at 31 December 1974.

Apart from initial, more diversified investments which are managed by banks, the portfolio is composed entirely of bonds issued for the most part through the public sector and held for safe-keeping by the banks which acted as intermediaries in their purchase.

The proportion of total ECSC funds accounted for by the portfolio increased from 11.1 % to 13.9 % between 1974 and 1975.

TABLE 3

## Loans for technical research (second experimental building programme) and rehabilitation

Breakdown by country and type of security obtained  
Operations in 1975 and sums disbursed and outstanding at 31. 12. 1975

Country	Total loans disbursed	Loan balances outstanding at 31. 12. 1974	Repayments in 1975	Loan balances outstanding at 31. 12. 1975	Loan balances outstanding at 31. 12. 1975 (EUA)	Type of security obtained
<i>Technical research</i>						
Belgium	462 419	327 473	13 039	314 434	332 160	Government guarantee
Germany	1 608 370	1 174 248	47 462	1 126 786	1 188 020	Mortgage bonds
France	554 702	384 871	15 167	369 704	423 123	Surety
Italy	161 104	111 126	4 424	106 702	116 748	Surety
Luxembourg	77 070	60 382	2 305	58 077	61 352	Government guarantee
Netherlands	258 236	178 123	7 092	171 031	183 259	Surety
Total	3 121 901	2 236 223	89 489	2 146 734	2 304 662	
<i>Rehabilitation</i>						
France	492 583	331 838	20 170	311 668	356 701	Government guarantee and Surety
Sum total	3 614 484	2 568 061	109 659	2 458 402	2 661 363	



TABLE 4

**Loans granted out of the former ECSC pension fund**

*Breakdown by system  
Sums disbursed and outstanding between 31. 12. 1974 and 31. 12. 1975*

Loan system	Number of loans granted	Position at 31. 12. 1974		Operations in 1975		Position at 31. 12. 1975		Position at 31. 12. 1975 (EUA)	
		Sums disbursed	Sums outstanding	Sums disbursed	Repayments	Sums disbursed	Sums outstanding	Sums disbursed	Sums outstanding
Old system (up to 1968)	277	2 605 760	1 453 626	—	144 892	2 605 760	1 308 734	2 752 656	1 382 512
New system (from 1971)	1 117	11 006 681	9 703 169	1 855 352	895 933	12 862 033	10 662 588	13 587 112	14 353 066
Sum total	1 394	13 612 441	11 156 795	1 855 352	1 040 825	15 467 793	11 971 322	16 339 768	15 735 578

**V — Real estate**

The token amount of 1 u.a. shown under this heading represents the ECSC's title to three properties: two held in co-ownership with the other executives prior to the merger and another acquired privately in 1971 and rented to the European Communities.

**VI — Recoverable issuing costs**

This amount (33 051 704 u.a.) represents costs incurred by the ECSC at the time it borrows funds, less the repayments made each year. These are costs such as taking-firm fees, bank fees, redemption premiums (discount), printing costs for securities and prospectuses, first listing costs, legal consultants' fees in connection with these operations, etc. Regular costs of servicing borrowings (interest and fees) are not included.

Issuing costs in 1975 were for 27 loans two of which had been floated at the end of 1974. These costs total 13 201 219 u.a. and break down by loan and currency as follows:

	<i>Amount borrowed</i>	<i>Costs</i>
<i>Loans in DM</i>		
floated in 1974	u.a. 6 211 605	u.a. 11 237
floated in 1974	u.a. 9 317 408	u.a. 14 129
floated in 1974	u.a. 15 529 011	u.a. 16 335
floated in 1974	u.a. 46 587 034	u.a. 187 897
floated in 1975	u.a. 17 392 493	u.a. 434 812
floated in 1975	u.a. 6 211 605	u.a. 124 232
floated in 1975	u.a. 46 587 034	u.a. 1 473 595
floated in 1975	u.a. 4 969 284	u.a. 74 539
floated in 1975	u.a. 18 634 814	u.a. 288 840
<i>Loans in Bfrs</i>		
floated in 1975	u.a. 30 827 914	u.a. 836 476
<i>Loans in Lit.</i>		
floated in 1975	u.a. 34 368 789	u.a. 1 031 064
<i>Loans in FF</i>		
floated in 1975	u.a. 20 923 934	u.a. 505 373
<i>Loans in Lfrs</i>		
floated in 1974	u.a. 8 220 777	u.a. 6 498
floated in 1975	u.a. 10 275 971	u.a. 291 087
floated in 1975	u.a. 2 055 194	u.a. 51 694
<i>Loans in Fl.</i>		
floated in 1975	u.a. 17 883 382	u.a. 448 972
floated in 1975	u.a. 5 961 127	u.a. 47 093
<i>Loans in Sfrs</i>		
floated in 1975	u.a. 29 613 397	u.a. 641 036
floated in 1975	u.a. 29 613 397	u.a. 638 107
floated in 1975	u.a. 23 690 718	u.a. 984 808
floated in 1975	u.a. 14 806 699	u.a. 320 008
<i>Loans in US \$</i>		
floated in 1974	u.a. 84 286 473	u.a. 136 007
floated in 1975	u.a. 111 701 890	u.a. 1 733 950
floated in 1975	u.a. 37 233 963	u.a. 1 262 872
floated in 1975	u.a. 22 340 378	u.a. 532 847
floated in 1975	u.a. 18 616 982	u.a. 255 984
floated in 1975	u.a. 93 084 908	u.a. 851 727
	u.a. 766 946 181	u.a. 13 201 219

Since the beginning of its borrowing operations, the institution has carried on its balance sheet, under assets, a sum for recoverable issuing costs. At 31 December 1975 this was 63 149 419 u.a. Allowing for sums already recovered (30 097 715 u.a.), including 3 467 051 u.a. for 1975, total issuing costs still to be recovered amount to 33 051 704 u.a.

## 16 VII — Sundry debtors

**16.0** This item (51 465 502 u.a.) is up by more than 14 % compared with 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** The heading *debtors under the levy* (4 297 348 u.a.) covers sums due from the levy, payment of which has been deferred (1 266 295 u.a.) and sums due from bankrupt enterprises (102 842 u.a.) and enterprises in arrears (2 928 211 u.a.)

The following table shows the changes by country, from 31 December 1974 to 31 December 1975, in deferred levy payments for quantities of hard coal stocked during 1975.

TABLE 5

Changes in deferred levy payments for quantities for hard coal stocked

Country	Deferred payments at 31 12 1974	Changes between 1. 1. 1975 and 31 12. 1975		Deferred payments at 31 12 1975	Deferred payments at 31. 12 1975 (EUA)
		+	—		
Belgium	479	949	324	1 104	1 166
Germany	166 814	801 600	103 811	864 603	911 589
France	44 054	136 305	11 397	168 962	193 375
Netherlands	9 051	—	2 684	6 367	6 822
United Kingdom	3 635	238 830	17 206	225 259	223 887
Community	224 033	1 177 684	135 422	1 266 295	1 336 839

**16.2** *Financial debtors* (3 416 412 u.a.), which showed an overall net increase of 573 060 u.a., include redemption premiums (1 720 528 u.a.), which are shown both under assets, as a debt to be recovered by the institution from the loan service account, and under liabilities, where they are added to total borrowings.

The financial debtors also include :

- 3 debts on loans, on two of which the beneficiaries have not made their annual repayments for several years (735 241 u.a.), while a third arises from the failure of a borrower to fulfil his obligations in 1975 (69 259 u.a.) ;
- overdue payments for coupons under portfolios held for the ECSC by a number of financial organizations (6 104 u.a.) ;
- advances given to the European Communities out of ECSC own funds to service loans to officials (173 003 u.a.) ;
- sums owed by the iron and Steel Scrap Compensation Office (3 330 u.a.) ;
- fines owed by enterprises under the iron and steel scrap compensation system (3 351 u.a.) ;
- 6 overdue loan payments (345 133 u.a.) ;
- a debt in respect of rent for the property in Washington for the period 1972 to 1975 (23 955 u.a.) ;

- real-estate advances (1 831 u.a.) ;
- levies imposed on coupons still to be recovered (7 968 u.a.) ;
- banking errors (326 709 u.a.).

**16.3** The heading 'deposits for coupons and bonds due but not yet presented' (43 751 742 u.a.) is intended to cover the liquid assets accumulated by the institution with the financial organizations responsible for servicing its coupons and redeemable securities for the purpose of meeting their expenditure on these two counts.

The rise of 3 148 913 u.a. in this item compared with 1974 is the result not only of due dates close to the end of the year but also of large numbers of late presentations of coupons.

## **17 VIII — Accrued income**

**17.0** This heading (totalling 59 422 045 u.a.) covers interest and fees accrued but not yet due at 31 December 1975 (58 807 751 u.a.), together with sums declared for the levy (5 614 294 u.a.) for December 1975 but not yet paid (payment becomes due on 25th of the first month following that of the production on which the amount payable is assessed).

**17.1** The former amount (53 807 751 u.a.) results from the entering as receipts of interest, guarantee fees and assistance (under Articles 54 and 56 of the Treaty), which were accrued but not yet collected on 31 December 1975.

**17.2** The second amount (5 614 294 u.a.) is not shown among the sundry debtors because it is rather special in nature. Payment of this levy 'debt' is in fact legally due after the date of the balance sheet, but the amount of this debt is assessed on coal and steel production for the month of December 1975, the last month of the year.

## **17A IX — Balance**

This year, this balance (1 559 346 u.a.) has no real meaning and does not correspond to the unallocated balance on the EUA balance sheet, which in fact represents surplus assets.

This discrepancy is the result, on the one hand, of a slight difference between the proportions of various currencies in the ECSC's assets and the currency balance on which the EUA is based and, on the other hand, from certain exceptions made by the institution in applying the coefficient of conversion from u.a. to EUA.

## LIABILITIES

### 18 I — A — Borrowings

Since its inception the ECSC has contracted numerous loans both internationally and on various national markets to a nominal value of 2 592 218 040 u.a. The balance outstanding at 31 December 1975, net of repayments, was 2 156 468 849 u.a.

Total initial borrowings and balances outstanding at 31 December 1975 are broken down by currency in Table 6. With the exception of loans floated on the international market, the product of the loans was paid in the currency of the country of issue.

**TABLE 6**  
**Borrowings contracted and collected by the ECSC**  
*Currency in which floated*  
*Initial borrowings and balances outstanding at 31. 12. 1975*

Currency	Initial borrowing (in u.a.)	Balance outstanding at 31. 12. 1975 (in u.a.)	Balance outstanding at 31. 12. 1975 (EUA)
US \$ (US dollars)	1 009 040 406	843 088 632	971 569 065
DM (German Marks)	608 109 079	466 770 255	492 136 908
Lit. (Italian lire)	177 572 074	155 805 175	170 475 413
Fl (Dutch guilders)	85 765 722	46 924 207	50 279 126
FF (French francs)	139 771 879	128 786 814	147 395 212
Sfrs (Swiss francs)	252 095 888	221 952 411	245 545 294
Lfrs (Luxembourg francs)	134 615 227	124 332 214	131 341 263
Bfrs (Belgian francs)	108 411 499	97 172 875	102 650 856
Units of account EPU <sup>(1)</sup>	20 000 000	14 800 000	19 802 404 <sup>(2)</sup>
£ (European units of account) <sup>(3)</sup>	56 836 266	56 836 266	59 924 950 <sup>(4)</sup>
<b>Total</b>	<b>2 592 218 040</b>	<b>2 156 468 849</b>	<b>2 391 120 491</b>

<sup>(1)</sup> This unit of account, with a value of 0.888667088 grammes of fine gold, is to be converted, for the 17 currencies of the Member States of the European Payments Union (EPU), on the basis of the gold parities declared to the IMF.

<sup>(2)</sup> By reason of bearers' right to receive the currency equivalent of the gold value of securities, and given the different positions of the various currencies for which the gold parities have practically been abandoned, the choice of the Swiss franc as reference currency has been approved by arbitration. Thus the value in EUA has been calculated on the basis of the current ratio between the value of the Swiss franc in EUA (1 EUA = Sfrs 3.05239) and that of one u.a. = Sfrs 4.0841, the latest published parity.

<sup>(3)</sup> The fixed value of one £ is DM 3.66 — Frs 50 — FF 5.55419 — Lit 625 — Lfrs 50 — Fl. 3.62, the choice of currency being left to the bearer.

<sup>(4)</sup> The reference currency chosen by the institution for arriving at the value in EUA of the amount expressed in u.a. is the DM, on account of the probability that bearers will resort to the most attractive currency. Thus, the amount in EUA is a function of the value of the EUA in DM, i.e. DM 3.05382. Since 1 £ = DM 3.66, 1 UCE = 0.834377 £

TABLE 7

**Borrowings***Individual characteristics of new loans floated in 1975*

Nature of loan	Date floated (signature)	Amounts in currency of issue	Amounts in u a	Interest per annum	Term (years)
Public bond loan floated in USA	6. 2. 75	\$ 150 000 000	111 701 890	8,375 %	8
Public bond loan floated in Luxembourg	21. 2. 75	Flux 500 000 000	10 275 971	9 %	10
Private loan contracted in Germany	10. 3. 75	DM 20 000 000	6 211 605	8,50 %	7
Private loan contracted in Germany	10. 3. 75	DM 56 000 000	17 392 493	8,50 %	3-10
Private bond loan floated in Luxembourg	12. 3. 75	Flux 100 000 000	2 055 194	9 %	9
Public bond loan floated in Germany	26. 3. 75	DM 150 000 000	46 587 034	8,50 %	10
Public bond loan floated in the Netherlands	27. 5. 75	FL 60 000 000	17 883 382	8,50 %	15
Public bond loan floated on the international market	29. 5. 75	FF 125 000 000	20 923 934	10 %	7
Public bond loan floated on the international market	13. 6. 75	\$ 50 000 000	37 233 963	8,75 %	7
Public bond loan floated in Belgium	20. 6. 75	FB 1 500 000 000	30 827 914	8,25 %	10
Private bond loan floated in Switzerland	9. 7. 75	FS 100 000 000	29 613 397	8 %	7
Private loan contracted in Germany	12. 8. 75	DM 16 000 000	4 969 284	8,50 %	5
Private loan contracted in the Netherlands	19. 8. 75	FI 20 000 000	5 961 127	8,625 %	10
Private loan contracted in Switzerland	10. 10. 75	FS 50 000 000	14 806 699	8 %	8
Private loan contracted in Switzerland	10. 10. 75	FS 50 000 000	14 806 698	8 %	8
Public bond loan floated on the international market	14. 10. 75	\$ 30 000 000	22 340 378	9,25 %	5
Public bond loan floated in Switzerland	20. 10. 75	FS 80 000 000	23 690 718	7,75 %	15
Private bond loan floated on the international market	24. 10. 75	\$ 25 000 000	18 616 982	9,25 %	7
Private bond loan floated in Switzerland	13. 11. 75	FS 50 000 000	14 806 699	8 %	8
Private bond loan floated in Italy	1. 12. 75	Lit 30 000 000 000	34 368 789	10 %	10
Private bond loan contracted in Germany	10. 12. 75	DM 60 000 000	18 634 814	8 %	5
Private bond loan floated in Switzerland (open for subscription on 16. 1. 76)	10. 12. 75	FS 50 000 000	14 806 699	7,75 %	7
Public bond loan floated in USA	17. 12. 75	\$ 125 000 000	93 084 908	8,875 %	5
Public bond loan floated in Germany (open for subscription in 1976)	19. 12. 75	DM 150 000 000	46 587 034	8 %	7
Total contracted in 1975			658 187 606		
Total collected in 1975			596 793 873		

During the 1975 financial year, the ECSC collected the product of 21 loans in US \$, DM, Fl., FF, Lfrs, Sfrs and Lit. to a total value of 596 793 873 u.a. (compared with 14 loans in 1974 to a value of 527 711 958 u.a.). The main characteristics of each of these loans are set out in Table 7. If allowance is made for these new receipts and for repayments made during the year (55 540 439 u.a.) the loan total shown on the balance sheet is up by 541 253 434 u.a. Two loans of Sfrs 50 million and DM 150 million were concluded at the end of December 1975 but had not yet been collected at 31. December 1975.

**19 I — B — Outstanding redemption premiums (1 720 528 u.a.)**

This represents the sum of the premiums arising from the difference between the redemption price of certain loans and their face value at issue.

Thus, the total for heading I, including the two sub-headings A and B, i.e. 2 158 189 377 u.a., represents the total ECSC debt including all obligations contracted, whatever their payment or maturity dates.

**20 II — Reserves**

**20.0** This heading contains :

**20.1** The *guarantee fund*, which has been increased to 140 019 416 u.a. as a result of the allocation of 20 019 416 u.a. derived from the final instalment of contributions paid by the three new member countries (1) and from management surpluses. This fund is designed to cover any part of the service of loans contracted by the ECSC which cannot be met out of income on the loans it grants and to cover any 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 interest on arrears and interest on loans granted out of own funds), which increased by 6 146 666 u.a. to a total of 96 146 666 u.a. at 31 December 1975. This amount is similarly affected by the inclusion of accession contributions from new member countries (1), Since 1970, when sums earmarked for other purposes (interest reductions on loans for structural reorganization, assistance to coking coal, etc.) were separated and entered under the corresponding provisions, this fund has been used exclusively for the granting of loans to finance social housing construction programmes.

**21 III — Provisions**

**21.0** This balance sheet item comprises two types of provision :

**21.1** *Financial assistance* (179 880 395 u.a.) consisting of :

— *legally binding commitments* for :

— rehabilitation (112 654 883 u.a.),

— research (44 838 350 u.a.),

— interest reductions on loans already signed and intended either for industrial structural reorganization under Article 56 of the Treaty (7 769 774 u.a.), or for financing investments under Article 54 of the Treaty (8 707 288 u.a.) ;

— *maximum approved assistance* (5 910 100 u.a.) (2) under the heading of Community aid to coking coal for 1975.

(1) The amount received under this heading in 1975 totalled 13 847 898 u.a.

(2) This maximum had, however, been fixed at 6 million u.a.

TABLE 8

## Rehabilitation assistance

Movements in 1975

Country and sector	Number of beneficiaires	New allocations	Financial operations (cancellation of credits, disbursements and repayments)	Change in the provision between 31. 12. 1974 and 31. 12. 1975
<i>Belgium</i>				
Coal	2 217	1 757 191	3 168 347	— 1 411 156
Steel	1 562	822 078	732 443	+ 89 635
<i>Germany</i>				
Coal	5 563	5 401 440	10 267 363	— 4 865 923
Steel	162	156 532	136 950	+ 19 582
<i>France</i>				
Coal	429	1 119 682	11 601 903	— 10 482 221
Steel	—	92 808	2 261 055	— 2 168 247
<i>Italy</i>				
Coal	—	—	169	— 69
Steel	—	—	88 845	— 88 845
<i>Netherlands</i>				
Coal	—	—	1 158 824	— 1 158 824
Steel	331	208 639	—	+ 208 639
<i>United Kingdom</i>				
Coal	1 757	15 824 864	7 424 036	+ 8 400 828
Steel	3 288	2 141 965	1 245 718	+ 896 247
<b>Total</b>	<b>15 309</b>	<b>27 525 199</b>	<b>38 085 653</b>	<b>— 10 560 454</b>

**21.2** *Other provisions (38 743 085 u.a.), including :*

- a reserve constituted from levy receipts in 1975 to cover research, rehabilitation and interest reduction commitments to be entered upon during the first half of 1976 (14 004 455 u.a.) ;
- a provision to cover sundry risks amounting to 24 738 630 u.a.

**21.11** *The provision for the social rehabilitation of workers in the mining and steel industries (112 654 883 u.a.) shows a decrease (10 560 454 u.a.) compared with the situation at 31 December 1974. New commitments approved and recorded during the year totalled 27 525 199 u.a., whilst actual expenditure on this count for the year was 27 844 522 u.a. and credits no longer necessary were cancelled to the value of 10 241 131 u.a.*

Aid granted under new decisions taken during the year was distributed as follows : United Kingdom, 65.2 % ; Germany, 20.2 % ; Belgium, 9.4 % ; France, 4.4 % ; and the Netherlands, 0.8 %.

Table 8 gives details, by country and sector (coal and steel) of new assistance approved and amounts disbursed during 1975.

Table 9 sets out, by country and sector (coal and steel), the composition of sums remaining in the provision at 31 December 1975.

**21.12** *The provision for technical research (44 838 350 u.a.) shows a net increase of 22 012 159 u.a. compared with the situation at 31 December 1974. This is the result of an allocation of 43 426 504 u.a. for new agreements concluded during the year, less expenditure for the year*



TABLE 9

## Changes in the provision for rehabilitation between 1. 1. 1975 and 31. 12. 1975

breakdown by country and sector (1)

	Amounts still covered in the provision at 31. 12. 1974	Changes in 1975	Amounts still covered in the provision at 31. 12. 1975	Amounts still covered in the provision at 31. 12. 1975 (EUA)
<i>Belgium</i>				
Article 56				
Steel	1 141 957	+ 89 635	1 231 592	1 301 021
Coal	8 606 016	— 1 411 156	7 194 860	7 600 460
Belgium total	9 747 973	— 1 321 521	8 426 452	8 901 481
<i>Germany</i>				
Article 56				
Steel	1 456 932	+ 19 582	1 476 514	1 556 755
Coal	51 525 508	— 4 865 923	46 659 585	49 195 303
Germany total	52 982 440	— 4 846 341	48 136 099	50 752 058
<i>France</i>				
Article 56				
Steel	5 553 900	— 2 168 247	3 385 653	3 874 846
Coal	21 471 628	— 10 482 221	10 989 407	12 577 266
France total	27 025 528	— 12 650 468	14 375 060	16 452 112
<i>Italy</i>				
Article 56				
Steel	240 235	— 88 845	151 390	165 644
Coal	90 645	— 169	90 476	98 995
Italy total	330 880	— 89 014	241 866	264 639
<i>Netherlands</i>				
Article 56				
Steel	212 256	+ 208 639	420 895	450 988
Coal	18 442 053	— 1 158 824	17 283 229	18 518 920
Netherlands total	18 654 309	— 950 185	17 704 124	18 969 908
<i>United Kingdom</i>				
Article 56				
Steel	3 694 823	+ 896 247	4 591 070	4 563 108
Coal	10 779 384	+ 8 400 828	19 180 212	19 063 393
United Kingdom total	14 474 207	+ 9 297 075	23 771 282	23 626 501
Community	123 215 337	— 10 560 454	112 654 883	118 966 699

(1) The steel sector also includes iron ore mines and steelworks coking plants. The coal sector also includes colliery coking plants.

amounting to 19 693 529 u.a. and the sum of 1 720 816 u.a. from the cancellation of credits still unused at the end of certain research programmes. New contracts were concluded during the year for the steel sector (17 632 031 u.a.), the coal sector (15 284 714 u.a.), the social sector (9 071 531 u.a.) and the iron ore mining sector (1 438 228 u.a.). Table 10 shows details, by sector, of new assistance approved and amounts disbursed in 1975.

TABLE 10

**Technical and social research**

*Movements in 1974*

Sector	New allocations	Financial operations (cancellation of credits, disbursements and repayments)	Changes in the provision between 31 12 1974 and 31 12 1975
Steel	17 298 712	9 244 847	+ 8 053 865
Coal	15 207 030	6 615 463	+ 8 591 567
Ores	1 438 228	491 905	+ 946 323
Social	9 071 531	4 745 970	+ 4 325 561
Social housing	—	—	—
Making available of research findings	411 003	316 160	+ 94 843
Total	43 426 504	21 414 345	+ 22 012 159

Table 11 gives a breakdown by sector of the components of the provision at 31 December 1975.

**21.13** *The provision for assistance to industrial structural reorganization* (article 56) (7769 774 u.a.) is intended for reducing the interest on loans granted for this purpose, whether by the ECSC out of borrowings or by third parties. The net increase in this provision compared with the position at 31 December 1974 (31 041 u.a.) is due to the fact that the new allocation (3 661 680 u.a.) is greater than the total assistance paid out during the year (3 630 639 u.a.).

**21.14** *The provision for assistance to investments* (Article 54) (8 707 288 u.a.) is intended — under the same financial terms as for industrial structural reorganization — for reducing the interest on investment loans granted under Article 54 of the Treaty, subject to the fulfilment of certain requirements.

Compared with the previous year, the decrease of 459 670 u.a. may be explained by the fact that the new allocation of 2 515 709 u.a. is less than the assistance disbursed during the year out of the provision in question (2 975 379 u.a.).

**21.15** *The provision for assistance to coke* (5 910 100 u.a.) represents the maximum financial allocation for the sales aid to be provided by the ECSC, at a rate in 1975 of 0.4 u.a. per tonne, in order to offset the purchase price discount granted to buyers of coking coal.

**21.21** *Future commitments* (14 004 455 u.a.) represent a reserve reflecting the institution's intention to allocate, during the first six months of 1976, that part of levy resources which was not allocated in 1975 for :

rehabilitation	— 1 525 199 u.a. (1)
technical research	+ 4 674 296 u.a.
assistance (Article 54)	+ 4 087 572 u.a.
assistance (Article 56)	+ 6 767 786 u.a.

(1) The negative figure means that the institution has committed more than the budget estimate for rehabilitation; the other three categories of assistance, for which funds are still available, will thus be reduced accordingly.

TABLE 11

**Technical, economic and social research**  
*Changes in the provision between 1. 1. 1975 and 31. 12. 1975*

Research sector	Amounts still covered in the provision at 31. 12. 1974	Changes in 1975	Amounts still covered in the provision at 31. 12. 1975	Amounts still covered in the provision at 31. 12. 1975 (EUA)
Steel	10 422 466	+ 8 053 865	18 476 311	19 775 223
Ores	179 720	+ 946 323	1 126 043	1 288 744
Coal	7 275 976	+ 8 591 567	15 867 543	16 547 912
Industrial safety, health and medicine	4 763 544	+ 4 325 561	9 089 105	9 630 569
Experimental social housing construction	71 290	—	71 290	75 308
Making available of research findings	113 215	+ 94 843	208 058	222 064
Total	22 826 191	+ 22 012 159	44 838 350	47 539 820

**21.22** *Sundry provisions* (24 738 630 u.a.) comprise :

**21.221** The provision for doubtful debtors in respect of borrowings (1 568 218 u.a.), which represents, as previously, the total amount of interest and principal due from three recipients of loans granted out of borrowed funds.

**21.222** The provision for depreciation of the securities portfolio (767 306 u.a.), although the difference between the acquisition price and the current market value of the portfolio securities amounts to an increase in value of 487 943 u.a.

**21.223** The provision for compensation of borrowing costs (6 534 239 u.a.), which is down by 2 294 590 u.a. This has contained :

- since 1972, the sum of 2 million u.a. intended to offset the probable loss, estimated at 3 %<sup>(1)</sup> on the US dollar loan floated on the international market with a clause of reference to the Luxembourg franc ;
- since 1973, lump sum which totalled 4 534 239 u.a. at 31 December 1975 and is designed to offset losses on certain loan issues.

**21.224** A contingencies provision amounting to 2 800 388 u.a. This is a new provision constituted to allow for any short-term factors which might affect either the receipts from the levy or budget expenditure.

**21.225** A provision for the 1976 budget (13 068 479 u.a.)<sup>(2)</sup> designed to reserve income from interest and from loans granted out of own funds for allocation to budget expenditure in the coming financial year.

**22 IV — Former pension fund** (34 238 818 u.a.)

The increase in this fund of 289 092 u.a. as compared with its total at 31 December 1974 is due to the allocation of interest payments totalling 457 481 u.a. from beneficiaries of loans granted out of the fund. The total would have been higher but for a shortfall of 168 389 u.a. lost by the incorrect conversion into EUA of the amount in u.a.

<sup>(1)</sup> 1971 Auditor's Report, point 114.

<sup>(2)</sup> Unpublished Decision by the Commission of 30 October 1974.

**TABLE 12**  
**Changes in items of the ECSC's balance sheets between 31 December 1974 and 31 December 1975**  
*(in thousand units of account)*

ASSETS		1974	1975	Changes	LIABILITIES			
I. Disbursed loans						1974	1975	Changes
A. Loans granted out of borrowed funds		1 381 765	2 027 571	+ 645 806	I. Borrowings	1 615 215	2 156 469	+ 541 254
B. Other loans		92 971	105 559	+ 12 588	B. Outstanding redemption premiums	1 909	1 720	- 189
	Total item I	1 474 736	2 133 130	+ 658 394	II. Reserves	210 000	236 166	+ 26 166
II. Cash and banks		470 841	382 694	- 88 147	III. Provisions			
III. Short and medium term investments		24 475	27 106	+ 2 631	A. Financial assistance	167 947	179 881	+ 11 934
IV. Portfolio		66 910	66 177	- 733	B. Other provisions	33 357	38 743	+ 5 386
V. Real estate		—	—	—	Total item III	201 304	218 624	+ 17 320
VI. Recoverable issuing costs		23 318	33 052	+ 9 734	IV. Former pension fund	33 950	34 239	+ 289
VII. Miscellaneous					V. Miscellaneous			
A. Debtors under the levy		1 569	4 297	+ 2 728	A. Coupons and bonds payable	40 601	43 751	+ 3 150
B. Financial debtors		2 843	3 417	+ 574	B. Financial creditors	348	107	- 241
C. Deposits for coupons and bonds due but not yet presented		40 603	43 752	+ 3 149	Total item V	40 949	43 858	+ 2 909
VIII. Accrued income		45 015	51 466	+ 6 451	VI. Accrued liabilities			
A. Interest and fees accrued but not yet due on deposits, portfolio, loans and guaranteees		39 448	53 808	+ 14 360	Interest and fees accrued but not yet due on borrowings and guaranteees	47 150	63 530	+ 16 380
B. Levy declared for December 1974 and 1975 production but payable after 31 December 1974 and 31 December 1975		5 750	5 614	- 136	Unallocated balance	16	—	- 16
IX. Balance		45 198	59 422	+ 14 224	TOTAL FOR BALANCE SHEETS	2 150 493	2 754 606	+ 604 113
	Total item VIII	—	1 559	+ 1 559	SUSPENSE ACCOUNTS			
TOTAL FOR BALANCE SHEETS		2 150 493	2 754 606	+ 604 113	I. Bonds payable	—	61 394	+ 61 394
I. Due on bonds		—	61 394	+ 61 394	II. ECSC's liabilities under guaranteees	22 517	16 694	- 5 823
II. Enterprises' liabilities under guaranteees		22 517	16 694	- 5 823	III. Contributions from Member States	13 848	—	- 13 848
III. Contributions from Member States		13 848	—	- 13 848				

**23 V — Miscellaneous (43 858 225 u.a.)**

This heading includes the sum of 43 751 165 u.a. payable on coupons due and redeemable bonds which are due but not yet presented, plus a variety of credit items to a total of 107 060 u.a.

**23.1** The item 'coupons and bonds payable' (43 751 165 u.a.) represents the debt arising from coupons and bonds which are due but have not yet been presented for payment. It represents the contra of assets deposited with the banks to be serviced by them, and the same considerations thus apply as outlined under point 16.3

**23.2** The item 'sundry creditors' (107 060 u.a.) comprises various debts arising from :

- fines being recovered (6 681 u.a.),
- sums deducted for insurance on loans granted to officials to finance their personal housing (17 246 u.a.),
- correction of banking errors (38 732 u.a.),
- coupons which have become void (23 u.a.),
- partly anticipated advance repayments on bonds in French francs (42 685 u.a.),
- prepayment of symposium fees (1 693 u.a.)

**24 VI — Accrued Liabilities (63 530 172 u.a.)**

This account, which includes the amount of interest and fees accrued but not due at 31 December 1975, increased by 16 380 693 u.a. compared with the previous year due 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 similarly include the figure resulting from the entering as expenditure of interest and agents' fees payable by the institution.

**25 VII — Unallocated Balance**

There is no counterpart in u.a. for the unallocated balance of 605 EUA. This peculiar situation arises from the difficulties of reconstituting in u.a. a balance sheet drawn up in EUA, for part of which (allocation of the management surplus) this was the original unit used.

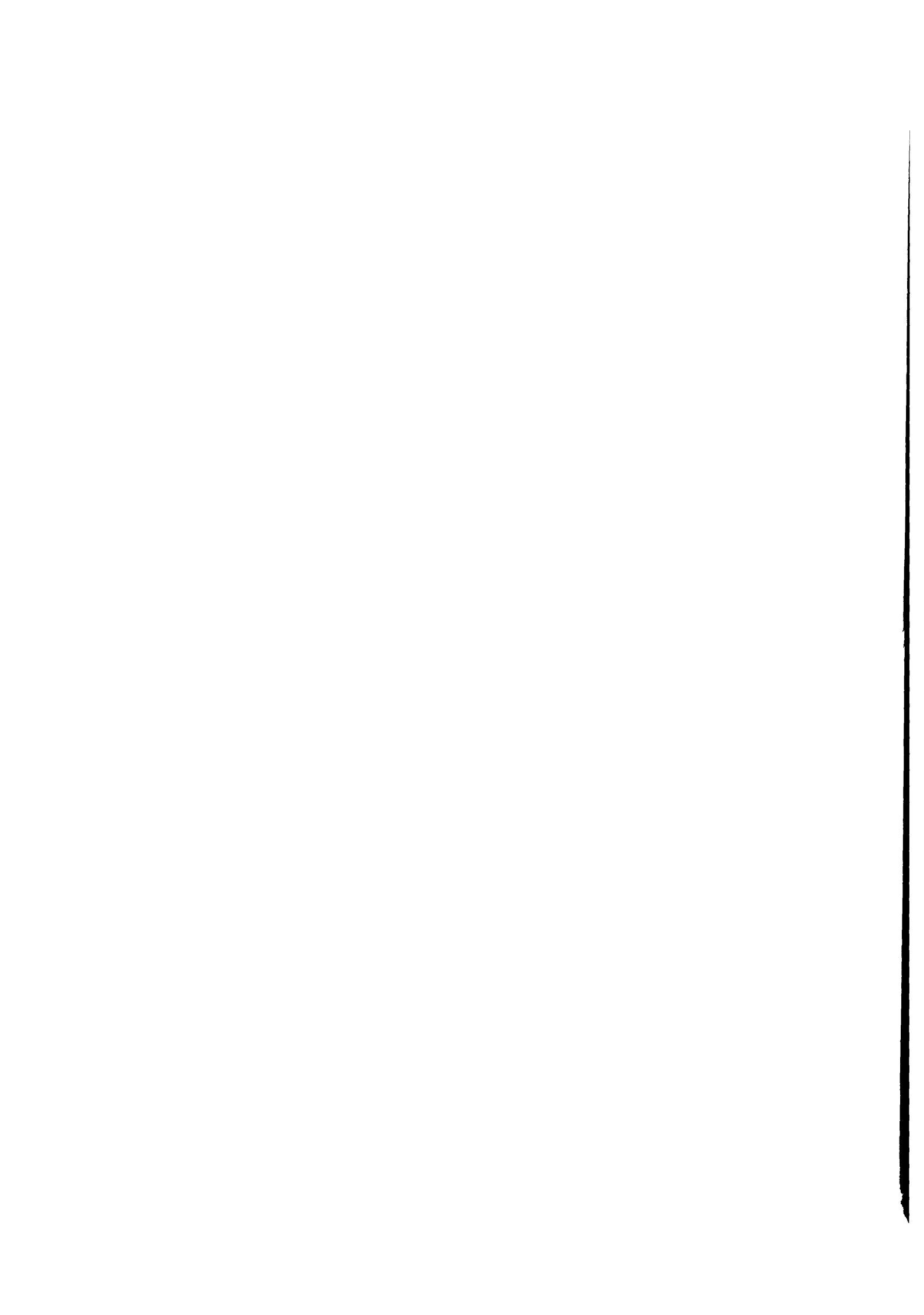
**26 SUSPENSE ACCOUNTS**

**26.0** The suspense accounts shown below the balance sheet at 31 December 1975 totalled 78 087 419 u.a. for both assets and liabilities.

**26.1** A sum of 16 693 687 u.a. represents the total of commitments undertaken by the ECSC and the rights of recourse open to it as a result of the securing of loans granted to Community enterprises under Article 51, paragraph 2 and Article 54 of the Treaty. In the present case, this concerns two loans granted to German enterprises.

The security obtained by the ECSC in return was a mortgage on the beneficiaries' land and plant. No new guarantees were given by the ECSC during 1975. Total loans secured by the ECSC decreased by the amount of scheduled repayments (5 823 379 u.a.).

**26.2** A second sum of 61 393 732 u.a. represents the product of two loans contracted at the end of the year but not yet received by the institution at 31 December 1975.



## **Notes to the statement of income and expenditure (Management account)**

### **EXPENDITURE**

#### **27 I — Service of borrowings and guarantees (146 100 544 u.a.)**

**27.1** Expenditure for the service of borrowings (146 100 544 u.a.) comprises interest due on the ECSC's borrowings (140 880 500 u.a.), fees to custodians and agent banks (1 421 795 u.a.), miscellaneous expenditure (331 198 u.a.) and repayments of issuing costs for borrowings (3 467 051 u.a.).

Miscellaneous expenditure (331 198 u.a.) includes :

**27.11** Exchange differences (58 185 u.a.) arising mainly from the loan of US \$ 20 million floated in Luxembourg in 1971 with a clause of reference to the Luxembourg franc (51 234 u.a.).

**27.12** The premium on the 1975 scheduled repayment (98 105 u.a.) on a French borrowing (12 % over the nominal value).

**27.13** The abandoning (81 298 u.a.), under the terms of an earlier agreement negotiated jointly 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 pay. At 31 December 1975 the accrued total of the claim abandoned by the institution was 1 369 236 u.a.

**27.14** Direct costs for printing, publication and stock exchange quotation (85 316 u.a.).

**27.15** — a loss on purchase and sale of ECSC securities (8 294 u.a.)

#### **28 II — 'Budgetary' expenditure (75 680 465 u.a.)**

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* (16 541 396 u.a.) represents the accounting equivalent of currency provided to meet the ECSC's annual flat-rate contribution to the administrative budget of the Commission of the European Communities. This annual amount was fixed by the Merger Treaty at 18 million u.a. to be paid in currency on the basis of the exchange rates applying at the time of the Treaty.

**28.2** *B — Rehabilitation expenditure* totalled 27 844 522 u.a. The percentage breakdown by country is as follows : Belgium 4 %, Germany 22 %, France 38 %, Italy 1 %, Netherlands 4 %, United Kingdom 31 %.

**28.3** *C — Research expenditure* totalled 19 693 529 u.a. and breaks down by sector as follows :

— technical research, iron ore	394 701 u.a.
— technical research, iron and steel	8 342 672 u.a.
— technical research, coal	6 605 834 u.a.
— research on industrial safety, health and medicine	4 086 465 u.a.
— expenditure on the dissemination of research findings	263 857 u.a.

**28.4** *D — Assistance granted under Article 56* (3 630 639 u.a.) was largely used to reduce the interest on ECSC loans for industrial structural reorganization (3 151 055 u.a.), while the rest (479 584 u.a.) was allocated to enterprises to reduce the rate of interest on loans obtained from other sources.

*Assistance granted* to reduce the interest on loans *under Article 54* of the Treaty (2 975 379 u.a.) 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 theoretically standard rate of interest on loans granted out of its borrowed funds. The reduced rates were 7 % up to 25 March 1975, 6 % up to 17 July 1975, 5.50 % up to 19 October and 6 % since then. These reduced rates were obtained by lowering by 3 points the rates normally applied by the institution during the year (1). In order to balance the loan service account, the institution draws the cost of this assistance from its own funds (so that it is charged to budgetary assistance) and transfers it to the loan service account, which is thus credited with the full standard rate of interest. Assistance payments for loans granted by other organizations are drawn directly on own funds and disbursed to the beneficiaries.

**28.5** *E — Community assistance to coking coal* (4 995 000 u.a.) comprises the Community contribution earmarked for 1975 on the basis of Commission Decision No 287/73/ECSC. Since Germany is the only country to export part of its coke production, it is the only country to receive this assistance. No payment has yet been made for 1975.

### **29** III — Other expenditure (296 873 u.a.)

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

**29.1** Exchange differences resulting from the use of exchange rates decided on by the institution for the drawing up of its balance sheet at 31 December 1974, whereas transfers from one currency to another are always made on the basis of the market rate for the day : 252 726 u.a.

**29.2** Portfolio management costs : 40 793 u.a.

**29.3** Sundry banking fees : 665 u.a.

**29.4** Legal costs for implementation of the 7th social housing programme : 521 u.a.

**29.5** Charges for the property in Washington (mainly taxes) : 2 168 u.a.

(1) See point 54.214 below.



## INCOME

### 30 I — Service of loans and guarantees

**30.1** A — *Revenue from the service of loans granted out of borrowed funds* (151 360 452 u.a.) is made up of interest levied on loans granted by the ECSC (133 328 252 u.a.), interest credited to the loan service account (10 416 877 u.a.) and sundry revenue (7 615 323 u.a.).

**30.11** The first item (133 328 252 u.a.) comprises all *interest* due for 1975 on loans granted out of borrowed funds.

**30.12** *Interest credited to the loan service account* (10 416 877 u.a.) comprises interest calculated on the basis of the average yield on borrowed funds received but not yet loaned (9 850 965 u.a.) and the yield on investments (565 912 u.a.) received by the loan service account through a variety of operations (receipt of borrowings, balances on interest transactions, opening of bank deposits to service ECSC coupons).

**30.13** *Sundry revenue* (7 615 323 u.a.) comprises :

- Assistance payments for interest on loans granted by the institution under Articles 56 (3 151 055 u.a.) and 54 (2 975 379 u.a.) of the Treaty. This assistance offsets, in the loan service account, the decrease in revenue arising from the temporary reduction in the standard rates of interest on these loans. It counts as budgetary expenditure in the same way as that granted for loans from other sources, and as such is discussed under point 28.4.
- A profit of 1 461 526 u.a. realized by the institution on redemptions of ECSC debenture bonds.
- An exchange difference of 18 216 u.a. from the servicing of three loans: one of Lfrs 300 millions floated in 1962 with a conversion option (270 u.a.), one of 20 million u.a. dating back to 1966 with reference to the exchange rate of the EPU unit of account (15 173 u.a.), and another of £ 50 million floated in 1970 with a conversion option (2 773 u.a.).
- Miscellaneous income amounting to 9 147 u.a. (adjustments, tax refunds, coupons become void, etc.).

**30.2** B — *Guarantee fees* (102 556 u.a.) are those received by the institution in return for acting as surety for loans contracted by enterprises in the Community.

### 31 II — Income from the levy

Income from the levy in 1975 was 70 198 954 u.a. and comprises all sums declared for 1975, including those due for December 1975 but not payable until 25 January 1976.

Table 13 gives a breakdown, by country and group of products, of levy amounts declared and recorded in 1975, together with the percentage of the whole accounted for by each of the countries for each group of products.

TABLE 13

## Income from the levy

Breakdown by group of products and country  
amounts declared and recorded in the accounts in 1975

Country	Coal		Steel		Levy total per country	
	Amount	%	Amount	%	Amount	%
Belgium	381 564	3.1	5 226 736	9.1	5 608 300	8.1
Denmark	—	—	247 400	0.4	247 400	0.3
Germany	5 260 204	42.1	18 653 026	32.3	23 913 230	34.1
France	1 141 132	9.1	10 027 539	17.4	11 168 671	15.9
Ireland	1 808	—	34 156	0.1	35 964	—
Italy	—	—	10 162 890	17.6	10 162 890	14.5
Luxembourg	—	—	2 009 691	3.5	2 009 691	2.9
Netherlands	48	—	2 371 144	4.1	2 371 192	3.4
United Kingdom	5 713 527	45.7	8 968 089	15.5	14 681 616	20.9
Community Total	12 498 283	100	57 700 671	100	70 198 954	100

## 32 III — Other revenue

This heading totals 42 615 164 u.a. and covers interest on bank deposits and portfolio (26 802 927 u.a.), interest on loans granted out of own funds (1 489 826 u.a.), fines and interest on arrears (2 931 u.a.), an instalment of accession contributions paid in by the new Member States (13 847 898 u.a.) and miscellaneous income (471 582 u.a.).

**32.1** *Revenue from bank deposits and portfolio* (26 802 927 u.a.) was down by 15 % on the figure for 1974. The annual average yield (1) overall for funds managed by the ECSC was 8,24 %, compared with 10.10 % in 1974.

Table 14 gives a breakdown by currency of revenue generated in 1975 by the ECSC's investments. This includes income from bank accounts and portfolio securities, together with the product of redemptions and sales of bonds held by the institution.

In the case of revenue from bank accounts and investments maintained by the ECSC :

- the interest amounts shown include, as well as amounts received during 1975, from which must be deducted the interest accrued at 31 December 1974, the accrued total *pro rata* at 31 December 1975 on fixed deposits and portfolio securities ;
- the revenues shown in Table 14 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 recorded separately under the heading 'Financial Costs'.

**32.2** *Interest from loans granted out of own funds* (1 489 826 u.a.), which are generally made at a very low rate of interest (1 %) for a fairly long term.

**32.3** The item for fines (2 291 u.a.) covers just one payment.

**32.4** Increases for arrears (640 u.a.) have only had to be imposed in one case this year.

**32.5** Contributions from the new Member States (13 847 898 u.a.) represent the third and final instalment, i.e. one third, of the accession contributions paid by the United Kingdom and Ireland, Denmark having already paid this final instalment in 1974.

(1) Based on the relationship between interest generated by funds not loaned and the arithmetical average of the ECSC's financial assets during the year.

TABLE 14

## Interest yields and income on investments

Breakdown by currency and type of income during 1975

Currency	Bank interest (current accounts and fixed deposits)		Income from various portfolio securities		Total per currency	
	Amount	%	Amount	%	Amount	%
German marks	2 738 866	13.8	4 526 656	64.8	7 265 522	27.1
Belgian francs	521 028	2.6	190 115	2.7	711 143	2.7
French francs	4 028 928	20.3	608 316	8.7	4 637 244	17.3
Italian lire	5 049 429	25.5	246 793	3.5	5 296 222	19.8
Luxembourg francs	443 780	2.2	85 600	1.2	529 380	2.0
Dutch guilders	537 361	2.7	150 757	2.2	688 118	2.6
Swiss francs	10 473	0.1	73 276	1.1	83 749	0.3
Pounds sterling	7 785 779	39.3	—	—	7 785 779	29.0
Units of account	— 5 457	— 0.0	33 204	0.5	27 747	0.1
US dollars	— 1 351 139	— 6.8	1 066 662	15.3	— 284 477	— 1.1
Danish kroner	62 500	0.3	—	—	62 500	0.2
Totals	19 821 548 (1)	100	6 981 379	100	26 802 927	100

(1) Less bank interest to be credited to the loan service account (9 850 965 u.a.)

**32.6** Miscellaneous income (471 582 u.a.) derives for the most part from exchange difference (429 582 u.a.), which must be seen in conjunction with the item 'Other expenditure' (252 726 u.a.) under point 29.1. These differences arise from the use of fixed exchange rates decided on by the institution for drawing up the balance sheet at 31 December 1974, whereas transfers from one currency to another are made at the market rate for the day. This item also includes the amount of the 1975 rent for the property in Washington (42 000 u.a.).

**33 IV — Excess of income over expenditure**

As shown in Table 30 ('Management account'), the excess of income over expenditure in 1975 totalled 42 199 244 u.a. (compared with 66 756 845 u.a. in 1974). This surplus, which corresponds to the figure of 65 564 016 EUA in the balance sheet given in Table 29, was allocated to the various provisions.

Table 31 shows changes in the allocation of overall assets managed by the ECSC from 31 December 1974 to 31 December 1975. These figures give a synoptic picture firstly of the way in which income was allocated to all the various provisions and reserves at 31 December 1975 and secondly of the transfers affecting these provisions and reserves during 1975. In addition to showing how the year's receipts and payments were allocated, these figures identify the transfers which resulted in the cancellation of certain earlier provisions or reserves (negative figures in column 2).

From this table it is apparent that the difference between income and expenditure for the year, i.e. the increase in ECSC assets (42 199 244 u.a.), breaks down between the reserves and provisions as follows:

<i>Net increases</i>	<i>65 277 341 u.a.</i>
— in the guarantee fund	20 019 416 u.a.
— in the special reserve	6 146 666 u.a.
— in the provision for technical research	22 012 159 u.a.
— in the provision for assistance to loans (Article 56)	31 041 u.a.
— in the provision for assistance to coke	910 100 u.a.
— in the former ECSC pension fund	289 092 u.a.
— in the provision for the ECSC budget	13 068 479 u.a.
— in the contingencies provision	2 800 388 u.a.

*Net decreases*

	<i>23 078 097 u.a.</i>
— in the provision for rehabilitation	10 560 454 u.a.
— in the provision for assistance to loans (Article 54)	459 670 u.a.
— in the provision for future commitments	3 185 832 u.a.
— in the provision for compensation of borrowing costs	2 294 590 u.a.
— in the provision for doubtful debtors in respect of borrowings	195 894 u.a.
— in the provision for portfolio depreciation	82 694 u.a.
— in the unallocated balance	1 575 163 u.a.
— in the provision for loan service	4 723 800 u.a.

The net result is thus an increase of

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42 199 244 u.a.

which corresponds to the difference between the two columns of Table 31.

**PART TWO**



## PART TWO

# REMARKS PROMPTED BY OUR 1975 AUDITING OPERATIONS

### Introduction

**34** In all sectors of the ECSC's financial activity audited by us we carried out either full or sample checks during and at the end of the year of audit.

During the year we maintained a close check on the financial activities of the European Coal and Steel Community, receiving and verifying the documents and vouchers which were sent to us regularly. These regular operations enabled us to exchange opinions with the competent bodies in the financial and authorizing sectors, which in turn enabled us to make the critical and analytical observations set out below. We were able to accomplish this task all the more thoroughly since the systematic transmission of the Institution's decisions accompanied by internal explanatory notes now enables us to discern the exact scope and political context of the texts to be applied.

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 previously satisfied ourselves, by the same method, of the correctness of the interim financial statement as at 30 June 1975.

We also checked that the ECSC's income, expenditure 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** Particular attention was paid this year to two chapters of this second part as well as to other subjects dealt with in Annexes II and III of this report. On the one hand, we have begun to study in an initial phase the Institution's lending operations with the aim of further expanding, over two financial years, those parts of the report which deal with this matter. On the other hand, in paragraphs 96ff a full account can be found of the final position regarding financial operations resulting from Decision 1/70 which had provided for aid to coking coal and coke for the period 1970-1972.





## Income from the levy

### 36 Extent of our audit

With regard to income from the levy, which is the ECSC's source of 'tax' 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 Office with those provided from the computer listings of the overall accounts department. The same comparisons are made regularly by the Levy Office.

We also satisfied ourselves :

- that supervisory operations required under Articles 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 1975 ;
- that the institution had taken due note of the auditors' findings in respect of corrections to incorrect or incomplete returns.

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

### 37 Remarks

**37.1** In accordance with its Decision No 3329/74/ECSC of 20 December 1974, the institution maintained the rate of the levy for 1975 at 0.29 % of the average values per tonne of the various categories of chargeable products. However, these values were redefined.

The updating of these production values takes account of new quantities of products subject to the levy and consumed in recorded chargeable production, which is diminished thereby. This consumption, by tonne and category of products, is fixed as follows :

Products	Consumption
Brown coal briquettes and semi-coke derived from brown coal	0.03 t brown coal briquettes and semi-coke derived from brown coal
Hard coal of all categories	0.14 t hard coal
Pig iron other than that used for making ingots	0.817 t hard coal
Basic Bessemer steel in ingots	0.817 t hard coal
Steel in ingots other than Basic Bessemer steel in ingots	0.333 t hard coal
Finished steel products	1.30 t steel

The average values <sup>(1)</sup> which constitute the assessment basis of the levy were brought up to date as follows :

Products	Average value per ton in u.a.
Brown coal briquettes and semi-coke derived from brown coal	15.45
Hard coal of all categories	20.47
Pig iron other than that used for making ingots	93.98
Basic Bessemer steel in ingots	116.55
Steel in ingots other than Basic Bessemer steel in ingots	132.19
Finished and end products of Basic Bessemer steel	194.25
Other finished and end products of steel	220.37

Consequently the net scale per tonne has to be modified. When drawing up the scale this year the institution did, however, exercise its right to limit to 15 % the increase in the scale for the previous year in the case of the last four categories in the table below.

Table 15 traces, for the six categories of chargeable products, changes since 1953 in the rate of the levy and the net scale per tonne.

TABLE 15

**Rate of the levy and net per tonne scale in u.a. from 1953 to 1975 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
1. 1. 1974	0.29	0.0395	0.0537	0.1615	0.2111	0.2870	0.1093
1. 1. 1975	0.29	0.0448	0.0594	0.2241	0.2895	0.3636	0.1386 <sup>(1)</sup>

<sup>(1)</sup> This sum was calculated with weightings for the average values for the two categories finished and end products of Basic Bessemer steel and finished and end products of steel other than Basic Bessemer steel.

**37.2** Levy receipts for 1975 totalled 70 198 954 u.a., 6.8 % higher than those for 1974.

Table 16 shows that for five countries (Denmark, France, Italy, the Netherlands and the United Kingdom) they rose by between 6.1 % and 29.7 %, whereas for the four other countries (Germany, Belgium, Ireland and Luxembourg) they showed a decrease of between 3 % and 9 %.

<sup>(1)</sup> Operation carried out annually since 1. 1. 1973 (Decision No 2691/72 of 18. 12. 1972), Official Journal of the European Communities L 286 of 23. 12. 1972.

TABLE 16

## Income from the levy

Changes (overall and percentage) by group of products and country in sums declared and recorded in the accounts for 1974 and 1975

Country	Currency	Coal		Steel		Total levy	
		Amount of change	% change	Amount of change	% change	Amount of change	% change
Belgium	BFRs	— 70 700	— 0.4	— 27 026 590	— 9.6	— 27 097 290	— 9.0
Denmark	Dkr			+ 429 200	+ 29.7	+ 429 200	+ 29.7
Germany	DM	+ 785 580	+ 4.9	— 3 127 720	— 5.0	— 2 342 140	— 3.0
France	FF	+ 444 960	+ 7.0	+ 3 365 650	+ 6.0	+ 3 810 610	+ 6.1
Ireland	£Ir	+ 133	+ 14.7	— 1 743	— 8.2	— 1 610	— 7.3
Italy	Lit			+ 1 806 146 100	+ 25.6	+ 1 806 146 100	+ 25.6
Luxembourg	Lfrs			— 8 277 610	— 7.8	— 8 277 610	— 7.8
Netherlands	Fl	— 127 680	— 100.0	+ 1 376 580	+ 20.9	+ 1 248 900	+ 18.6
United Kingdom	£	+ 791 543	+ 31.9	+ 791 350	+ 18.2	+ 1 582 893	+ 23.2

The difference between 1974 and 1975 in the percentage of total levy receipts paid by each of the Member States appears as follows:

	1974	1975
Belgium	8.9 %	8.0 %
Denmark	0.3 %	0.3 %
Germany	35.4 %	34.1 %
France	16.3 %	15.9 %
Ireland	0.1 %	—
Italy	13.9 %	14.5 %
Luxembourg	3.1 %	2.9 %
Netherlands	2.9 %	3.4 %
United Kingdom	19.1 %	20.9 %

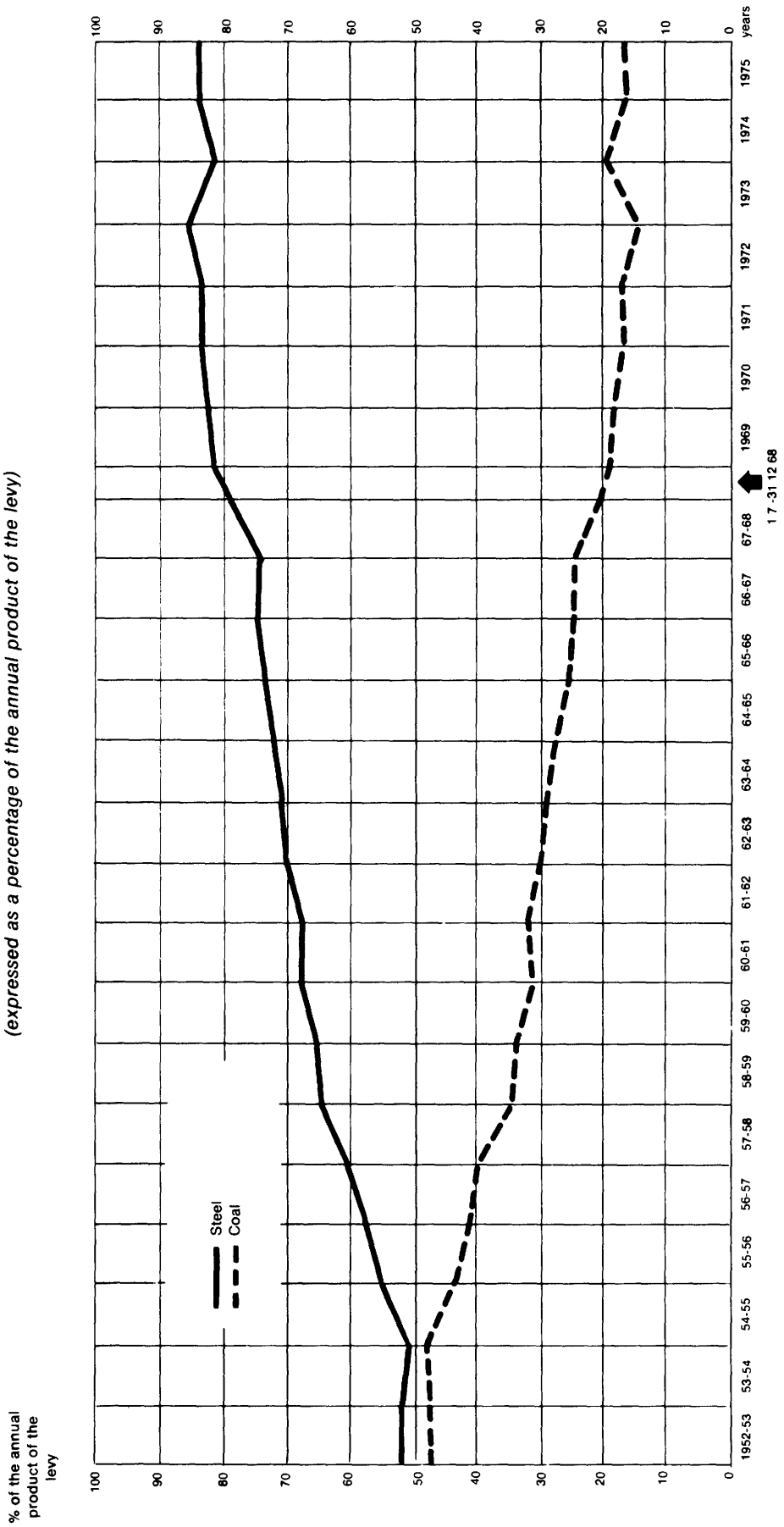
Despite the fact that since the coal crisis of 1958 the contribution of the steel industry towards total levy receipts continued to increase each year, while that of the coal industry diminished, this trend has undergone a reversal in certain countries (Belgium, Germany and Ireland) or has in any case been less pronounced, particularly in some coal-producing countries in which the increase in coal production is greater than that of iron and steel (France and the United Kingdom). The economic difficulties currently besetting the iron and steel industry, plus the energy crisis — resulting as it does in a tendency to turn towards more costly sources, such as coal — go a long way towards explaining these changes in trends.

**37.3** It can be seen from Table 17 that the percentage of total levy receipts contributed by the *steel industry* (83.5 %) and that of the *coalmining industry* (16.5 %) have remained the same as those for 1974.

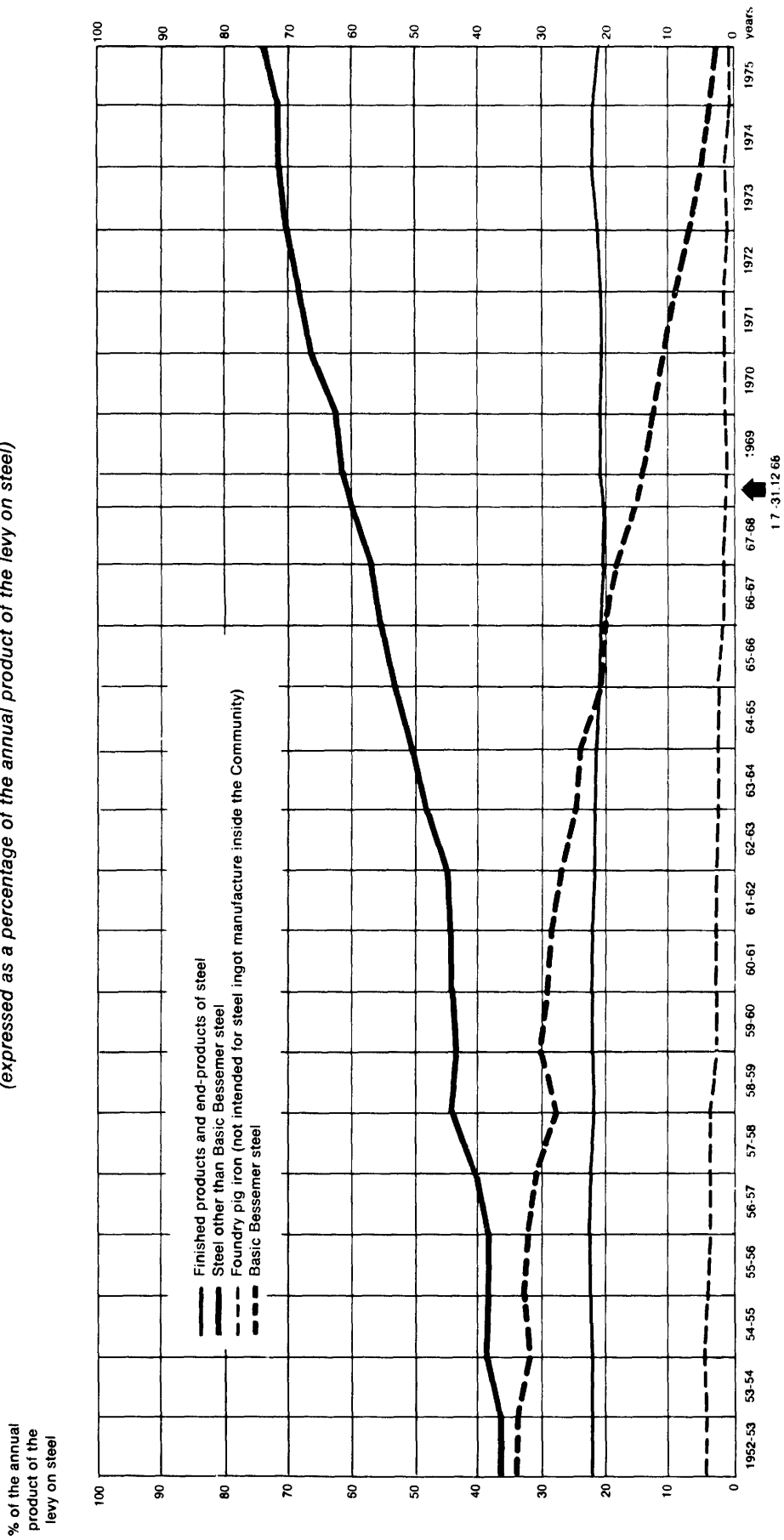
*Within the steel industry*, considerable shifts are also discernible as a result of changes affecting the products subject to the levy. Thus the contribution of Basic Bessemer ingots which, up to 1961-62, had accounted for over 28 % of total income from the levy on steel, fell to their present share of 3 %, whilst that of other ingots produced by 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.

**TABLE 17**  
**Changes by sector (coal-steel) in levy income from 1953 to 1975**  
*(expressed as a percentage of the annual product of the levy)*



**TABLE 18**  
**Changes in levy income for the four categories of steel products from 1953 to 1975**  
*(expressed as a percentage of the annual product of the levy on steel)*



An amendment of the conditions of assessment and collection of the levy, creating a single category for the charging of ingots, whether or not manufactured by the Basic Bessemer process, will be introduced on 1 January 1976.

The share of *finished products* in the total levy income from steel has remained relatively constant since 1952. The anomalies pointed out in the 1973 Report, <sup>(1)</sup> to the effect that the Treaty does not allow for technical progress in the concept of a finished product, still persist and discussions are under way to find a solution.

Lastly, the yield of the fourth category of steel products, i.e. foundry pig-iron not intended for steel ingot manufacture inside the Community, has remained stable since 1969, after having declined constantly during the period up to then.

Table 18 shows the changes in the proportions of total receipts from the levy on steel accounted for by the *four categories of chargeable steel products* from inception of the ECSC up to 1975. The contribution of each product is expressed as a percentage for each year of the annual product of the levy on steel.

**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 provided for 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 loan service account 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 873 million u.a. Of this sum, 100 million u.a. are tied up in the guarantee fund <sup>(2)</sup> on which the ECSC's credit-raising capacity on money markets is based. 266 million u.a. have been channelled into the rehabilitation of workers and 200 million u.a. into research. Operating expenses were covered out of the balance. <sup>(3)</sup> 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** *Late payments* were for a larger amount in 1975 than in 1974. They concerned, for the most part, levies owed by Italian steel enterprises and, to a lesser extent, levies owed by British steel enterprises. In the case of the former, the main reasons are the more or less permanent liquidity problems further aggravated by current economic problems and, incidentally, the very long time which Italian banks always take to send statements of account. The late payment of levies owing from British enterprises is due to incorrect interpretation of the regulations, resulting in supplementary returns. Two small amounts overdue, relating to levies due in 1974 in France and Italy, are the result of supplementary returns following on-the-spot inspections.

As in previous years, no use was made of the formal notice procedure owing to the time involved in taking and implementing the institution's decision, the high cost involved in this procedure in relation to the amounts outstanding and the economic difficulties which are currently besetting the steel industry throughout the Member States.

On the other hand, the institution collected *arrears increases* totalling 640 u.a. in 1975 without having to serve the formal notice provided for in Article 36 of the Treaty, a procedure which was last used in 1970.

It also collected a fine of 2 291 u.a. from an Italian enterprise.

Sums demanded as increases on arrears are recorded by the institution separately from the accounts and then entered as part of income as and when received.

<sup>(1)</sup> 1973 Auditor's Report, point 37.3

<sup>(2)</sup> This was 140 million u.a. at 31 December 1975 as a result of the allocation of 40 million u.a. (12 million in 1973, 8 million in 1974 and 20 million in 1975) collected in accession contributions and other investment

<sup>(3)</sup> This expenditure totalled 340.5 million u.a. at 31 December 1975

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

In the nine Member States, the institution carried out surveys of 431 undertakings comprising 573 works and pits, of which 56 were concerned with coal and 517 with steel.

This list is constantly updated. For the United Kingdom, as pointed out in previous reports, certain smaller coal and steel enterprises which do not form part of the British Steel Corporation and the National Coal Board or which are not affiliated to a national federation have not yet all been covered by the survey. Thus in 1975 there were surveys of 8-10 independent steel enterprises, of which only two reached the limit of liability to payment.

On 26 November 1975 the institution decided to defer indefinitely payment of amounts owing from three West Berlin steel enterprises in respect of the ECSC levy for their production prior to 1 January 1975. The reasons for this decision are, on the one hand, the statement made on 17 July 1967 by the Federal Republic of Germany establishing that the ECSC Treaty is applicable to the Land Berlin and, on the other hand, that the institution, which had never had any contact in this matter with the Berlin enterprises, was not informed until the end of 1974 that these three enterprises ought to be on the list of those subject to the levy.

Together with the responsible officials of the Levy Office, we compared the tonnages declared and paid on under the levy in 1974 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, productions by non-chargeable enterprises or non-chargeable finished products, we arrived at production tonnages declared and paid on for 1974 which were in general higher than those stated in the official statistics.

A summary of these findings is given in Table 19.

**37.7** Thirty-five checks, as against 12 in 1974 (the extent of the operation having thus almost tripled), were carried out in 1975 on enterprises subject to the levy (7 in Germany, 10 in France, 3 in Belgium, 13 in Italy and, for the first time, 2 in the United Kingdom).

By 31 December 1975 the reports for seven of these checks had not yet been submitted.

Of the 28 other reports, the institution's responsible departments were able to deal with and complete 18, as well as 5 inspection reports drawn up in 1974 (4) and 1973 (1).

These 23 reports showed that 13 cases called for no special comment: the returns submitted by the enterprises were confirmed by the inspectors, who established that they were correct. The other 10 required adjustments and resulted in supplementary returns yielding additional levy receipts of 83 238 u.a.

**37.8** In order to make our sample studies of these reports representative, we looked at 11 cases dealt with by 8 different inspectors and relating to 3 French enterprises (comprising several works), one German, 3 Belgian, 2 Italian and 2 British enterprises.

At first sight it is clear that in 1975 priority was given, on the one hand, to continuous casting enterprises which frequently omitted to submit returns and, on the other hand, to British enterprises which had not previously been inspected.

Also, generally speaking, the reports show that enterprises' statistics are always made to correspond accurately with the accounts. In most cases undeclared production — sometimes considerable — is recorded and gives rise to supplementary returns, though differences of less than 100 tonnes either way are ignored. These errors are often due either to failure to submit returns for head cropping in continuous casting or for sub-standard bars, or to the fact that the enterprise bases its calculations on the maximum theoretical consumption of the electric furnaces without taking account of actual consumption. In the case of the two British enterprises inspected for the first time, the incorrect returns are mainly the result of a still very incomplete understanding of how to apply the regulations.

Thus it was necessary to settle the case of a foundry technical bureau which had submitted a levy return starting from May 1974. At that time it had taken over a low shaft furnace which it had

TABLE 19

**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 1974 (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
Hard coal	223 850 — 31 339 (12 % for inplant consumption) <hr/> 192 511	203 034 + 520 (for stocks of coal granted 'temporary deferment of payment') <hr/> 203 554	Our figure 11 043 000 tonnes higher for production declared for the levy, not counting non-chargeable declarations for : — production by enterprises falling below the monthly declarable minimum of 100 u.a. — 18 % flat-rate reductions on production by enterprises which have no washing plant of their own
Brown coal briquettes	6 324 — 190 (3 % for inplant consumption) <hr/> 6 134	6 134	
Pig iron	5 896 broken down into : (a) phosphorus 400 (b) non-phosphorus 4 015 (c) spiegel and ferromanganese 1 150 (d) special pig irons 331	6 129	Our figure 233 000 tonnes higher for production declared for the levy despite the fact that : (a) ferromanganese containing more than 30 % manganese is not subject to the levy (b) non-integrated small and medium-sized foundries producing their pig iron in cupola furnaces are exempt from the levy.
Steel in ingots	153 468 comprising : Basic Bessemer steels : 11 270 Other steels : 144 256 — 2 058 (liquid steels for casting) <hr/> 142 198	153 828 Basic Bessemer steels : 11 279  Other steels : 142 549	Our figure 360 000 tonnes higher for production declared for the levy.
Finished products	115 474 — 125 (for cold rolled sheets over 3 mm) <hr/> 115 349	115 399	Our figure 50 000 tonnes higher for production declared for the levy.



hitherto used for research, and had further equipped this installation in order to begin mass production, to which its return referred. During the inspection the question was examined as to whether the whole quantity of pig iron produced by this cupola furnace ought to be subject to the levy and particularly whether the use of old pig iron exempted this part of production as being the product of a second smelting.

It was decided that the production of pig iron in cupola furnaces with a view to manufacturing cast iron is not subject to the levy, since it is a smelting operation. On the other hand, the same production in the form of balls or granulated metal and sold as foundry pig iron must be subject to the levy, as is all pig iron production.

It must be noted that, of the 11 inspection reports analysed, 6 present certain questions generally involving doubt as to the correctness of the returns in respect of situations prior to the inspection year, without any appropriate action being envisaged. This remark confirms the need to organize checks more systematically in order to cover periodically and settle all the situations relating to the entire period since the last check.

A final remark ought also to be made on the relation between the relatively short time devoted to these checks (on average 4-5 days, including travelling) and the volume of the operations checked, which often involve different kinds of production carried out at several works and pits. This relation between time and extent of the checks obviously varies according to the administrative and accounting organization of the enterprise and the experience of the inspectors, but the improvement which needs to be made to this system would supplement that which has been suggested with regard to the more thorough and systematic organization of checks.



## Expenditure for rehabilitation

### 38 Extent of our audit

In this sector, our audit was concerned with checking :

- the correctness of all payments made for rehabilitation during 1975, ensuring both that payments were properly supported by vouchers and correctly entered in the accounts and that they were in accordance with the official decisions taken ;
- the existence of new decisions for assistance to be given in 1975, the texts of which are regularly communicated to us, and the entering in the provision of the amounts concerned.

These checks were carried out mainly with reference to 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.

Finally, we compared notes with the Directorate-General for Social Affairs, which authorizes this expenditure, to satisfy ourselves that the mechanisms governing financial assistance for rehabilitation had been properly administered and checked.

### 39 Remarks

**39.1** New commitments subscribed by the Community for rehabilitation in 1975 amounted to 27.5 million u.a., compared with 39.6 million u.a. in 1974. They were primarily for the coal sector and the main beneficiaries were the United Kingdom (18 million u.a.), Germany (5.5 million u.a.), Belgium (2.6 million u.a.), France (1.2 million u.a.) and the Netherlands (0.2 million u.a.).

The provision for rehabilitation shown on the balance sheet at 31 December 1975 (112 654 883 u.a.) represents a net amount, arrived at by deducting assistance already disbursed, any repayments made and commitments cancelled for various reasons from total commitments current at the beginning of the year plus those specifically approved in 1975.

Tables 8 and 9 in the first part of this report give details, by type, country and sector, of new assistance granted during the year and of sums still held in the provision at 31 December 1975.

Assistance disbursed during the year totalled 27 844 522 u.a. and cancellations of previous commitments for assistance no longer required totalled 10 241 131 u.a. These cancellations are the result of an annual review of assistance estimates made jointly by the Directorate-General for Social Affairs and the departments responsible in each country. However, two amounts for assistance to two Italian enterprises, totalling 108 618 u.a., are still shown in the provision, although all disbursements have been made and the time limit for cancelling the remaining credit has passed. Delays in drawing up the final statement meant that these two cases, although practically settled, had still not been written off in the provision in 1975. (1). The final adjustment will thus be made in 1976.

(1) 1974 Auditor's Report, No 39.1.

Loans or advances granted to rehouse workers transferred to new jobs or for the deferred financing of hard coal stocks, though concerned with rehabilitation, are no longer dealt with in these notes and tables.

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

Disbursements were well up on the previous year, increasing from 9 524 765 u.a. in 1974 to 27 844 522 u.a. in 1975, of which nearly 8.7 million was for the rehabilitation of workers in the United Kingdom.

**39.3** During 1975 <sup>(1)</sup>, two changes were made to the agreement concluded on 2 February 1965 between Belgium and the High Authority of the ECSC :

- (a) the normal rehabilitation period of workers affected by closures of Belgian coal and steel enterprises was extended by two months ;
- (b) the tideover allowance for an unemployed worker was fixed at 100 % of the wage ceiling, less unemployment benefit, for the first two months of unemployment and then 90 %, 80 % and 70 % of the wage ceiling, less unemployment benefit, for the following three periods of four months each.

**39.4** After analysing the new decisions taken in 1975 and checking the accounting entries for commitments, subscribed cancellations and disbursements made, we are prompted to make the following remarks :

**39.41** The comments annexed to the decisions to grant increased credits do not always go into details about the reasons for the change.

Two such decisions were taken by the Institution on 24 July 1975. One of these was for an increase of DM 5 345 450 in grants totalling DM 31 191 200 made between 1968 and 1974 for 14 rehabilitation projects in Germany, and the other for an increase of DM 520 000 in a rehabilitation grant made to a German enterprise in 1973.

The only reason given was that, according to information provided by the Federal government, additional funds were needed to complete the rehabilitation projects. Further information had to be sought from the Directorate-General for Social Affairs. These increases are explained by the fact that at the time when these grants were made assistance for rehabilitation was calculated on a very strict basis and on forecasts which turned out to be over-optimistic, in that the average period of unemployment, which at the time was between 1 and 2 months, is at present from six to eight months. Moreover, faced with increasing difficulties, enterprises have followed a policy of dismissing the oldest workers, who are the most difficult to resettle, and this policy has led to an increase in flat-rate grants.

**39.42** Assistance of DM 120 000 was granted to workers in four *coal distribution* companies whose sales activities had to be cut back because the restrictive measures imposed on them, which were regarded as the result of 'fundamental changes in market conditions for the coal industry'. As such these were eligible to benefit from the provisions of Article 56, paragraph 2 (b) of the Treaty.

However, Article 80 of the same Treaty explicitly restricts the status of beneficiary enterprise to those 'engaged in production in the coal or the steel industry within the territories referred to in the first paragraph of Article 79', enterprises or bodies 'regularly engaged in distribution other than sale to domestic consumers or small craft industries' only being covered 'for the purposes of Articles 65 and 66 and of information required for their application and proceedings in connection with them'.

We thus have here a very broad interpretation of the basic provisions governing financial assistance by the ECSC.

**39.43** A decision of 13 May 1975 laid down the amount of Bfrs 7 500 000 for assistance for the rehabilitation of workers in a Belgian steel enterprise affected by the shutdown of one of its

<sup>(1)</sup> Unpublished decision (WP) No 3180/75 of 26 November 1975.

rolling mills. Originally, an allocation of Bfrs 9 million had been planned. But the Institution, in accordance with the policy followed in three other similar cases, reduced the basis for its intervention by 20 % by taking into account only 80 % (instead of 100 %) of the difference between the old and new wages in the case of workers transferred to a new job within the same enterprise. Community assistance was still fixed at 50 % of this basic amount.

**39.5** In 1975 the Institution organized six audits : one in the Netherlands, one in Belgium and four in Germany, which resulted in reports which we were able to analyse — with one exception, because the text of one of these reports could not be produced.

**39.51** In the Netherlands the audit was concerned with the affairs of the Administratie Kantoor Zuid Linburg (AZL), to which the Ministry for Economic Affairs has delegated the material tasks (disbursements, keeping accounts for and checking the various allowances and refunding expenses, except with regard to vocational retraining, which comes under the Ministry for Social Affairs). Since 31 December 1972, this body has communicated to the Institution, instead of the monthly computer listing of the amounts disbursed (for each plant closure and for each case), individual annual information sheets. This simplification of the procedure, under which auditing can be rationalized and carried out more economically, led to considerable delays when it was introduced (acquisition of a new computer, preparation of a new programme, trial runs, etc), and meant in particular that there was a delay in transmitting the evidence for 1973. The situation has, however, returned to normal for 1974 and 1975.

The audit, in the form of on-the-spot checks, was concerned, for 350 dossiers representing 5 % of the cases for which payments were made in 1973, mainly with the elements used as a basis for calculating the allowances granted to former mining workers, which include the eligibility of the case, the redundancy application, the worker's age and seniority, the reference wage, etc.

As a result of these checks it was possible to determine the correctness of the amounts claimed and the validity of the settlements, the amount of which, compared with the original estimates, led the AZL to introduce a supplementary estimate in 1974. A difference of Fl 103 747.65 between the amount shown in the vouchers and that of the monthly declarations is due to the fact that at the time when these declarations were drawn up payments to 85 beneficiaries had not yet been entered in the accounts. A supplementary declaration, implying Community assistance of Fl 50 602.92, was accepted, since the AZL was able to prove, from the individual dossiers, that the allowances had actually been paid during 1973.

**39.52** In Belgium, the audit was carried out at the headquarters of the Office national de l'emploi (ONEM) which disburses, keeps accounts for and supervises rehabilitation assistance. This body sends the Institution monthly declarations containing a summary of the eligible expenditure for each enterprise. All payments are made by computer (except for payments for resettlement and vocational training) and the statements submitted are accompanied by a copy of the debit note — the ONEM's accounting voucher — which constitutes proof of payment (the Institution uses these statements of expenditure per enterprise to enter in its accounts the amounts for each individual enterprise). At the end of the year the Institution repays the total amount declared from January to October, keeping the last two months in reserve by way of guarantee until on-the-spot auditing operations have been completed.

As a result of the checks carried out at the end of the year, the Institution established that the sum of the twelve monthly declarations correspond to the lists for each plant closure (comparing the totals obtained for each individual account and the total per enterprise). The comparison between the data drawn up by the semi-official Office and the Institution's own figures revealed a few material errors of no financial importance. Checks carried out on 2 794 individual dossiers revealed only a minute percentage of errors (30 dossiers, i.e. 1.07 %) and the relevant adjustments were made in 1975. No errors were found with regard to expenditure for resettlement or vocational training. Moreover, since 1969 considerable reductions have continued to be made in the percentage of errors (56 % in 1969, 20 % in 1971, 1.36 % in 1972, 1.23 % in 1973 and 1.07 % in 1974).

During 1974 (decision of 20 March 1974), the Institution decided to contribute to the flat-rate assistance paid in Belgium to workers leaving coal mines permanently, provided that they were either

at least 40 years of age with a minimum of 5 years' seniority in the coal-mining industry or physically handicapped with no restrictions on age or seniority. The Institution carried out an initial check in 1975 at the headquarters of the above-mentioned Office on 721 cases declared, which related to grants paid during 1974 amounting to Bfrs 25 343 823 (these grants varied from Bfrs 62 500 to Bfrs 100 000 depending on the seniority of the beneficiary, the ECSC contribution being limited to Bfrs 37 500). This on-the-spot check, which was concerned mainly with the personal factors in the dossiers (age, date of dismissal, seniority, certification of physical handicap, etc.) established that all the cases examined met the necessary requirements.

**39.53** Four audits were carried out in Germany: three reports were transmitted to us, albeit belatedly, while the fourth was no longer in existence but, according to the department concerned, had involved no particular observations.

According to these reports, checks were carried out on the spot in three regional employment offices which submit applications for reimbursement of the ECSC contribution to rehabilitation expenditure. The checks consisted of comparing, on the basis of samples, the lists of disbursements, quarterly statements and cash slips held by the Institution with the individual statements for each worker held by the regional employment office, with reference in particular to the individual dossiers of each worker (applications, decisions and calculation of assistance), reference lists and lists of disbursements. One of the cases checked (involving a sum of DM 3 848 475) did not call for any remarks. In the other cases, amounting to DM 11 544 092, a total of DM 58 000 will have to be repaid to the ECSC.

Furthermore, other cases of under- or over-payment were discovered and corresponding adjustments will be necessary, except in cases where this is no longer possible (decease of beneficiary, expiry of the time limit, errors on the part of officials but falling short of any serious negligence). In these cases the Member State concerned and the ECSC each bear a portion of the loss: in the present case, the Community has had to bear a loss of DM 5 510 in respect of 27 irrecoverable claims.

## **Expenditure for technical and social research**

### **40            Extent of our audit**

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

- that the amounts of all disbursements made during the year were correct, that they were correctly recorded in the accounts and that they were made in accordance with the agreements governing them ;
- the existence and validity of research agreements, and that the amounts legally committed under them tallied with the sums held in the corresponding balance-sheet provisions ;
- the financial inspection reports compiled by officials of the Directorate-General for Budgets, either during projects (interim reports) or on their completion (final reports) ;
- the progress of current research work conducted under 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 on the basis of information and documents received from 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 conducting financial inspections of subsidy beneficiaries in conjunction with officials of the authorizing technical departments.

We paid particular attention to :

- the register of research projects which the institution drew up at our request at the end of 1973 ;
- the new contracts and riders signed in 1975, which were communicated to us regularly ;
- the final reports drawn up the year and systematically sent to us ;
- the follow-up given to completed research projects under the measures to disseminate information promoted by the Directorate-General for Scientific and Technical Information and Information Management ;
- the findings of completed research projects which have been obtained and in some cases consolidated, thereby safeguarding the essential objective in the acquisition and dissemination of information.

### **41            Remarks**

Table 20 shows changes in the provision made between 31 December 1974 and 31 December 1975 for research projects overall and individually.

The amount still covered in the provision at 31 December 1975 represents the value of research agreements duly signed, less expenditure and any credits cancelled or repaid. It breaks down by sector as follows :

— Steel 18 651 025 u.a.  
— Coal 15 900 887 u.a.  
— Iron ore 1 126 043 u.a.  
— Social 9 160 395 u.a., comprising 9 089 105 u.a. for industrial safety, health and medicine,  
and 71 290 u.a. for the second experimental social housing programme.

**42** In the coal sector, 47 new contracts and 10 riders were signed in 1975 (49 in 1974) to a total value of 15 207 030 u.a. A further sum of 77 684 u.a. was allocated to cover related costs (publication and dissemination of reports and experts' travel expenses).

**42.1** From information over and above that given in the register, which is unfortunately incomplete, it appears that the time between the beneficiary's application and the final decision to grant assistance is showing a definite tendency to shorten (less than 6 months in 1975, compared with 8 to 13 months in 1974). The same is true of the time between the institution's decision and the signing of the contract, which was not more than 4 months, compared with up to 6 months in 1974.

In most cases the research work had already begun before the contract was signed (1 to 8 months beforehand in 1975, 2 to 10 months in 1974). This practice, accepted in principle by the institution, is not really admissible, yet 27 projects started prior to the date of the decision to financial assistance.

The preparation of riders — nearly always designed to extend the period of a research project, except in one case where the purpose was to change the amount of assistance — has always been a dilatory affair. It takes up to two years from the beneficiary's application for the document to be designed. A number of beneficiaries have even submitted their application for a rider after the date specified in the research agreement for completion of the work. Despite these anomalies, research has proceeded without any hiatus.

**42.2** At 31 December 1975, final accounts for all the earlier projects, except three which should have been completed on 31 December 1974 at the latest, had been drawn up by the deadline specified in the contracts, i.e. not later than 12 months from completion of the work. For two of the cases outstanding, the final checks have been carried out, one of them on 29 April, whilst that for the third project has yet to be made (an interim check was made in June 1973). For 15 projects which had been completed over 6 months previously the scientific report, which should, under the terms of the agreement, be submitted on expiry of these 6 months, had not yet been received. According to information received, 13 were under preparation at the end of the year, two were received at the beginning of 1976 and one has been postponed for technical reasons.

It should be pointed out that the financial report required within the same period had similarly not been received by the institution in the case of two projects completed on 30 June 1974 and 31 December 1974 respectively.

**42.3** All contracts signed in 1975 were for amounts expressed in the currency of the beneficiary's country. However, in one case requiring the translation of research literature of common interest for the coal industry, the financial terms stipulated that four research establishments were to be provided with a total of 100 000 u.a., broken down into the amounts necessary to cover each source language (Eastern languages, Far Eastern languages, Scandinavian languages).

**42.4** Total expenditure for the year (6 667 799 u.a.) included 61 965 u.a. for related costs incurred in making research findings available.

**42.5** We have a few comments arising out of our examination of 12 final inspection reports compiled in 1975.

**42.51** During an interim check on a project due for completion at the end of 1976, we found overspending due to mistakes in the original estimate price of this apparatus which would be needed. Furthermore, the current price of this apparatus is far higher than it was at the time the application was made. Long delays were also recorded in the delivery of the equipment,



TABLE 20

## Technical, economic and social research

Changes, by sector and project, in the provision between 1. 1. 1974 and 31. 12. 1974

Description of research	Sums still covered in the provision at 31. 12. 1974	Changes in 1975	Sums still covered in the provision at 31. 12. 1975	Sums still covered in the provision at 31. 12. 1975 (EUA)
<i>Steel</i>				
Flame radiation IV and V	168 522	+ 126 674	295 196	316 301
Technical literature from eastern Europe	1 971	— 1 971	—	—
Calculation and construction method	99 137	— 72 986	26 151	27 572
Low shaft blast furnace VI	469 563	— 466 480	3 083	3 257
Automation of reversing mills	98 786	— 51 950	46 836	53 603
Service properties of steels	—	+ 254 264	254 264	277 257
Steel ingot structure	4 820	— 1 223	3 597	3 799
Joint programme on measurement in the steel industry	44 252	—	44 252	47 061
Continuous pig refining	161 575	— 161 575	—	—
Joint programme on the properties of steel in use	28 536	—	28 536	30 570
Joint programme on metal physics	3 925	—	3 925	4 493
Purofer direct reduction	229 053	— 229 053	—	—
Reversing mill for medium and heavy plate	15 203	— 15 203	—	—
Fire resistance of metal structures	63 412	+ 2 007	65 419	73 813
Joint programme on BF automation	47 655	— 47 655	—	—
Ausforming	21 206	—	21 206	22 359
Cold forming	41 816	— 34 162	7 654	8 673
Structure of sinter	9 248	—	9 248	9 770
Cast iron	4 890	— 4 890	—	—
Gamma-ray inspection	5 713	— 5 713	—	—
Thermomechanical treatment	11 027	— 11 027	—	—
High energy forming	8 592	— 8 592	—	—
Weldability	10 591	— 10 591	—	—
Corrosion	42 105	— 22 568	19 537	21 077
Drawability	1 951	— 1 951	—	—
Machinability	5 896	— 5 896	—	—
Fatigue and standard construction	177 634	— 62 127	115 507	125 248
Brittle fracture	390 488	— 159 814	230 674	249 829
Steel for high-temperature uses	8 023	— 8 023	—	—
Steel for heat treatment	112 920	— 24 838	88 082	94 211
Metal physics	185 914	— 65 786	120 128	123 366
Casting and solidifying of steel	559 798	— 190 304	369 494	393 811
Measurement techniques II	206 776	— 49 693	157 083	172 374
Wide strip hot rolling mill	339 738	— 111 348	228 390	244 190
Cooling of wire rod	18 635	— 18 635	—	—
S.E.P. III — drawability	4 795	— 4 795	—	—
S.E.P. III — weldability	20 135	— 12 979	7 156	8 190
S.E.P. III — corrosion	1 173	— 556	617	651
S.E.P. III — electrical sheet	15 661	— 12 911	2 750	3 008
S.E.P. III — fracture mechanics	48 669	— 22 265	26 404	28 035
S.E.P. III — creep	17 755	— 7 382	10 373	10 937
S.E.P. III fatigue and standard construction	16 389	— 752	15 637	16 770
Continuous electric melting shop	79 776	— 79 776	—	—
Hot compacting of iron ore	400 763	—	400 763	423 355
Automation of oxygen melting shop	110 179	+ 192 605	302 784	322 511
Documentation for architects	6 988	—	6 988	7 368
Measurements techniques III	749 230	— 295 487	453 743	474 854
Metal physics — thermomechanical treatment	5 009	—	5 009	5 733
Metal physics — quantitative metallography	39 948	— 39 948	—	—
Metal physics — metallography atlas	9 598	—	9 598	10 327
Metal physics — structural mechanisms	37 649	— 31 484	6 165	6 513
Dispersoids	115 743	— 100 308	15 435	16 675

TABLE 20 (contd 1)

Description of research	Sums still covered in the provision at 31. 12. 1974	Changes in 1975	Sums still covered in the provision at 31. 12. 1975	Sums still covered in the provision at 31. 12. 1975 (EUA)
<i>Steel (contd)</i>				
BF automation	129 484	— 36 431	93 053	101 449
Surface defects, semis	70 250	—	70 250	74 067
Automation of tandem cold rolling mill	194 299	— 103 734	90 565	95 487
Water-cooled steel supp.	36 338	— 36 338	—	—
Industrialized building	252 793	— 85 263	167 530	180 350
Measurement of heat transfer	2 775	—	2 775	2 930
Physical metallurgy — quantitative analysis	7 030	— 3 013	4 017	4 598
Physical metallurgy — order — disorder	5 783	— 5 783	—	—
Direct reduction of iron ore	—	+ 590 118	590 118	648 467
Rolling mills	—	+ 1 788 293	1 788 293	1 925 667
Physical metallurgy — Auger spectrometry	8 221	— 8 221	—	—
Physical metallurgy — precipitation phenomena	13 185	—	13 185	13 914
Counterbending of the rolls	9 876	+ 100 268	110 144	126 058
Element transfer	5 424	—	5 424	6 207
Radiant arch-roof furnace	6 026	—	6 026	6 897
Management of enterprises	142 225	— 85 721	56 504	60 465
Ladle steels	421 232	— 61 869	359 363	394 669
Ore prereduction, fluidization	8 816	— 8 816	—	—
Drawability	46 166	— 46 166	—	—
Sampling mechanisms	6 371	+ 1 129	7 500	7 924
Organization of slabbing mill soaking pits	149 385	— 48 041	101 344	111 143
Cold forming	139 483	— 11 048	128 435	138 295
Calculatro process control	356 220	— 142 189	214 031	226 025
Thermomechanical treatment	157 378	— 111 609	45 769	49 615
BF tuyeres	3 541	—	3 541	3 733
Structural mechanism	32 372	— 3 404	28 968	32 555
Creep in welded joints	310 192	— 97 377	212 815	230 392
Cold forming of steels	30 224	— 19 950	10 274	11 200
Cast iron	45 924	— 10 871	35 053	37 338
Creep	7 160	— 4 811	2 349	2 570
Corrosion	239 869	— 111 402	128 467	135 242
Sampling	42 731	— 10 715	32 016	35 596
Electronic monitoring	191 215	— 70 863	120 352	124 762
Electronic arc	241 373	— 172 653	68 720	73 756
Blast furnace	238 403	+ 1 055 305	1 293 708	1 382 529
Melting shop	126 164	+ 2 039 316	2 165 480	2 284 343
Measurements	49 835	+ 1 410 115	1 459 950	1 588 105
S.E.P. — corrosion	83 883	+ 146 849	230 732	251 034
S.E.P. — fatigue	124 458	+ 402 798	527 256	560 256
S.E.P. — brittle fracture	197 720	+ 75 890	273 610	278 005
S.E.P. — creep	52 407	+ 312 154	364 561	376 295
S.E.P. — heat treatment	83 235	+ 329 660	412 895	435 449
S.E.P. — drawability	—	+ 711 758	711 758	759 499
Service properties of steels	—	+ 578 255	578 255	616 406
Service properties of steels	—	+ 456 132	456 132	469 892
Physical metallurgy	—	+ 297 368	297 368	319 946
Physical metallurgy	—	+ 117 885	117 885	129 992
Uses of steels	—	+ 84 865	84 865	91 692
Direct reduction	—	+ 99 966	99 966	105 398
Physical metallurgy	238 911	+ 438 840	677 751	739 149
Quantitative metallurgy	316 721	— 188 627	128 094	133 023
Uses of steel	6 015	+ 437 290	443 305	486 774
Technical literature from eastern Europe II	308 279	— 54 104	254 175	268 504
Adjustement to the balance sheet exchange rates	4 223	— 4 223	—	—
<b>Total steel</b>	<b>10 422 446</b>	<b>+ 8 053 865</b>	<b>18 476 311</b>	<b>19 775 223</b>

TABLE 20 (contd 2)

Description of research	Sums still covered in the provision at 31. 12. 1974	Changes in 1975	Sums still covered in the provision at 31. 12. 1975	Sums still covered in the provision at 31. 12. 1975 (EUA)
<i>Coal</i>				
Firedamp control	—	+ 637 457	637 457	672 741
Outbursts of firedamp	30 130	— 30 130	—	—
Control of firedamp outbursts	60 672	—	60 672	64 024
General services underground	—	+ 412 003	412 003	435 882
Technical literature from eastern Europe II	44 363	+ 75 184	119 547	128 069
Production and efficiency in workings	679 978	— 398 293	281 685	291 748
Coke manufacture	345 528	— 174 618	170 910	183 558
Coal preparation	—	+ 523 351	523 351	520 163
Mechanized sinking and drivage operations	8 221	—	8 221	8 684
Ventilation improvement	28 201	—	28 201	29 733
Remote control and monitoring	7 533	—	7 533	8 622
Roadway drivage	133 093	— 7 070	126 023	134 542
Physical and chemical upgrading of coal and coke	499 246	— 262 830	236 416	239 676
Thick seams	147 215	— 72 676	74 539	78 590
Winning operations	55 239	—	55 239	63 221
Telecommunications, automation	16 544	— 16 544	—	—
Coke oven yields	81 372	—	81 372	85 794
Upgrading of coal	68 697	— 37 489	31 208	35 065
Pan trains	106 789	— 22 933	83 856	88 414
High-output face	31 307	+	31 307	33 008
Formed coke	29 963	— 29 963	—	—
Coal-getting equipment	24 536	—	24 536	25 869
Deformation of mine workings	10 482	—	10 482	11 072
Sintering and coking of coal	288 218	— 210 418	77 800	82 029
Rope and cable reliability	120 726	— 80 441	40 285	42 475
Method of preparatory work	625 303	+ 2 652 822	3 278 125	3 478 732
Winning methods	1 351 955	+ 1 498 196	2 850 151	2 932 674
Coal improvement and coking	688 743	+ 413 263	1 102 006	1 168 491
General services underground	505 722	+ 1 888 724	2 394 446	2 486 651
Upgrading of coal and coke	1 034 587	+ 1 887 334	2 921 921	3 018 037
Winning and drivage methods	251 879	— 53 628	198 251	200 348
Adjustement to the balance sheet exchange rates	— 266	+ 266	—	—
<b>Total coal</b>	<b>7 275 976</b>	<b>+ 8 591 567</b>	<b>15 867 543</b>	<b>16 547 912</b>
<i>Iron ore</i>				
Iron on extraction	—	+ 1 103 445	1 103 445	1 262 881
Iron ore mining techniques	104 328	— 104 328	—	—
Iron ore mining. Bassin Est, France	22 598	—	22 598	25 863
Iron ore winning, semi-hard	15 529	— 15 529	—	—
Difficult mining	37 265	— 37 265	—	—
<b>Total iron ore</b>	<b>179 720</b>	<b>+ 946 323</b>	<b>1 126 043</b>	<b>1 288 744</b>
<i>Industrial safety, health and medicine</i>				
Rescue by means of boreholes	114 663	— 62 653	52 010	59 197
Stone-dust barriers	266 830	— 1 146	265 684	276 002
Mine fires	67 804	+ 307 302	375 106	405 257
Occupational safety and medicine	73 066	— 43 782	29 284	30 914
Physiopathology and clinical studies I	99 821	— 56 301	43 520	48 471
Traumatology	108 084	— 84 287	23 797	26 529
Human factors — Ergonomics	181 435	— 105 562	75 873	83 288
Burns therapy and rehabilitation	77 604	— 47 710	29 894	33 038
Physiopathology and clinical studies II	1 079 949	— 380 407	699 542	723 963
Dust in mines	110 147	— 9 147	101 000	109 003
Steelworks dust	1 272 945	— 508 452	764 493	812 473

TABLE 20 (contd 2)

Description of research	Sums still covered in the provision at 31. 12. 1974	Changes in 1975	Sums still covered in the provision at 31. 12. 1975	Sums still covered in the provision at 31. 12. 1975 (EUA)
<i>Industrial safety, health and medicine (contd)</i>				
Health in mines	926 250	+ 1 489 427	2 415 677	2 575 399
Ergonomics and rehabilitation	—	+ 2 895 605	2 895 605	3 039 795
Pollution control in the iron and steel industry	385 168	+ 932 452	1 317 620	1 407 240
Adjustment to the balance sheet exchange rates	— 222	+ 222	—	—
<b>Total industrial safety, health and medicine</b>	<b>4 763 544</b>	<b>+ 4 325 561</b>	<b>9 089 105</b>	<b>9 630 569</b>
<i>Social housing</i>				
Second experimental programme	71 290	—	71 290	75 308
<b>Total social housing</b>	<b>71 290</b>	<b>—</b>	<b>71 290</b>	<b>75 308</b>
<i>Making available of research findings</i>				
Steel	94 788	+ 79 926	174 714	186 741
Coal	17 995	+ 15 349	33 344	35 323
Adjustment to the balance sheet exchange rates	432	— 432	—	—
<b>Total, making available of reserach findings</b>	<b>113 215</b>	<b>+ 94 843</b>	<b>208 058</b>	<b>222 064</b>
<b>Sum total</b>	<b>22 826 191</b>	<b>+22 012 159</b>	<b>44 838 350</b>	<b>47 539 820</b>

which meant a substantial credit interest gain arising from placing on deposit (6 %) during the interim of the initial advance of DM 750 000.

**42.52** In the case of an older contract in which no particular criterion was specified for justification of the overheads and in which it was simply stated that staff costs could be increased 'by an appropriate supplement deriving from the overheads', it was decided during our on-the-sport check to allow charging of these costs at a flat rate of 30 % of staff costs, which is the system adopted in new contracts.

**42.53** As a result of our investigations, corrections were made to the financial reports submitted by beneficiaries. In two cases in particular these contained sometimes sizeable discrepancies in relation to the estimates. These were charging errors research on forecasting and controlling deformation of mine workings) or errors in calculation (research on face ends). These errors were corrected.

**42.54** As a result of two research projects on new methods of up-grading and on formed coke production, two patents were filed on a 'method for the synthesis of aromatic amines and products resulting from the application of this process' and on 'refractory linings'.

**43** In the steel sector, 135 new contracts and 12 riders were signed in 1975 to a total value of 18 736 940 u.a., plus 333 319 u.a. to cover the dissemination of research findings and related costs.

**43.1** From the statistical data received from the authorizing department, it was apparent that in most cases (117 out of 135) there was still a period of 12 to 20 months between the application and the signing of the contract, and in two cases the intervals were 38 and 54 months. These, however, were exceptional cases where the approval procedure had been suspended pending the results of an earlier phase, of which the new applications were a continuation.

It was not possible to ascertain the position with regard to riders.

There are still extremely long intervals (15 days to 11 months) between the date of the decision and the signing of the contract. In most cases, moreover, these contracts were signed between 1 and 12 months after the proposed starting date for the work (13 and 14 months afterwards in two cases). As in 1974, this situation creates frequent anomalies, whereby the contract may even specify a starting date for the work which precedes by several months not only the signing of the contract, but even the decision to authorize conclusion of the contract.

From information over and above that given in the register, it appears that at the end of 1975 only one of the 13 projects which were due to be completed not later than 31 December 1974 (three of these were actually supposed to be completed in 1973) had in fact been subjects to a final check. However, the scientific and technical reports had both been received for seven of these projects. On the case of the six others, either the financial or the scientific report was still outstanding.

**43.2** Examination of the contracts signed in 1975 reveals a number of features which indicate how the relevant administrative procedures have developed recently.

**43.21** Between the beneficiary's application and the signing of the rider there is still a fairly long interval (7 to 13 months). In the case of one rider designed to extend the research period, an application by the beneficiary submitted one month before the scheduled completion of the work was not followed by the signing of a new contract until more than 2 months after the first contract had expired.

**43.22** Several projects were for research carried out jointly by research establishments in different countries. In these cases the institution added an appendix which set out in detail the tasks assigned to each of the participants.

**43.23** In one case, an appendix set out the terms for providing materials and equipment for the project where no expenditure of this kind was provided for in the contract itself.

**43.3** Expenditure for the year (8 939 265 u.a.) included 201 892 u.a. for related costs.

**43.4** The following remarks arise from our analysis of 73 final dossiers and related reports in the steel sector, and of 4 dossiers and reports for the parallel iron ore sector.

**43.41** A final report was submitted for one project on mechanical fractures carried out jointly by seven research establishments. This contained differences compared with the estimate, viz. expenditure beyond the limit set for operating costs, and above all the inclusion of a new item for sub-contracting costs. Although, as the report states, the estimates are not strictly binding, nevertheless Appendix 2 to the contracts, which forms an integral part of them, lists the categories of expenditure involved and thus precludes the possibility of introducing any new costs of a different kind.

**43.42** The same applies to the project on fatigue and standard construction. Here, an unscheduled item was introduced to finance modifications to the plant.

**43.43** The final report for a project on ingot structure was received seven years after completion of the work and gives no details of expenditure by category. It justifies the fact that no on-the-spot check was carried out on the grounds that inspections were carried out at the

same time on associated research projects and that moreover those responsible for the work, which went back as far as 1966, had in the meantime disappeared.

**43.44** A project on cold forming was wound up four years after the work had been completed, and the dossier includes an expenditure item of DM 21 831 incurred during the six months following that period. The final account also includes an entry relating to the purchase of a special measuring apparatus which was not provided for in the contract. The ECSC's contribution was DM 26 768.42, despite a declaration by the beneficiary that this apparatus was to be paid for entirely by the national government.

**43.45** The project on the automation of a four-high reversing mill, begun in 1962, was completed on 31 December 1970 and the file was closed four years later although the final technical report had not been received. There was some degree of confusion concerning the final statement for this project because of overlap with another which had always been regarded as a rider to the first, given that technically and scientifically speaking the two together formed a continuous whole. Regroupings and mergers between the steel companies responsible for part of the work further complicates the situation.

**43.46** In the iron ore sector one of the projects was concerned with the development of an underground ore conveyor (new model). This should have been completed in June 1968, but the final check was not made until six and a half years later. Two possible methods of financing had been envisaged in the contract : either an ECSC payment equivalent to 50 % of the research up to a maximum of FF 254 500 or, if the project was not successful, a maximum payment of FF 510 000. The beneficiary was taken over by another company before completion of the work, and the completion date was postponed for 18 months because of technical and administrative difficulties. However, it is worth noting in this connection that the institution was simply informed by letter and did not draw up the necessary rider. The final statement showed considerable spending in excess of the estimated amounts, but the final settlement was made on the basis of the maximum amount in view of the beneficiary's apparent 'meticulous management of ECSC funds and exemplary execution of research work'.

**44** In the industrial safety, health and medicine sector, provisions for 1975 totalled 9 071 531 u.a., comprising credits committed under contracts duly signed under various general programmes or as part of special initiatives, which break down as follows :

— mine fires		(979 641 u.a.)
— industrial safety		(3 067 000 u.a.)
— physiopathology	(1 <sup>st</sup> programme	3 000 000 u.a.)
— physiopathology	(2 <sup>nd</sup> programme	3 500 000 u.a.)
— traumatology		(1 800 000 u.a.)
— human factors — ergonomics		(3 200 000 u.a.)
— burns		(1 500 000 u.a.)
— dust in mines		(6 000 000 u.a.)
— air pollution control in the iron and steel industry		(4 000 000 u.a.)
— health in mines	(3 <sup>rd</sup> programme	6 000 000 u.a.)
— stone-dust barriers		(432 420 u.a.)
— pollution control in the iron and steel industry	(3 <sup>rd</sup> programme	10 000 000 u.a.)
— ergonomics and rehabilitation		(9 000 000 u.a.)
— rescue by means of boreholes		(218 299 u.a.)

In 1975, 90 contracts and 23 riders were signed. Most of the riders granted an extension of the research period, whilst some of them contained amendments to the financing schedule (rearrangement of the categories of expenditure).

**44.1** For most of the 1975 contracts, the starting date of the work preceded the signing of the contract by between one and nine months, compared to two to 13 months in 1974.

A large number of riders are in general concerned either with an extension of the research period or with changes in the amount of assistance. Application is sometimes not made until several

months after the end of the initial contract. In certain cases of extensions of the research period, the rider has not been signed until more than a year after the beneficiary's application.

A lump sum of FF 50 000 was made available to Charbonnages de France by means of nothing more than a letter in lieu of a contract for creation of an audio-visual display on dust prevention in mines. The projection equipment, which combines a number of slide projectors with a system for synchronizing pictures and sound, is intended for the training of mine workers.

**44.2** An analysis of the register shows :

- that 68 research projects were wound up and settled in 1975, although for 17 of them one or both of the two reports required under the contracts had not been received ;
- that in the case of 36 research projects that ought to have been completed between 1970 and 31 December 1975 at the latest no final check had been made because either the financial report or the technical report or both had not yet been received.

**44.3** Total expenditure for the year (4 086 465 u.a.) included 63 570 u.a. for related costs (dissemination costs and experts' travel expenses).

**44.4** The following remarks derive from the examination of the dossiers of 67 completed research projects and the corresponding final reports :

**44.41** A project on traumatology and rehabilitation, begun on 1 April 1971, was to run until 31 March 1975 but was actually completed before this, since the final check was carried out on 4 March 1975. However, although the scientific and financial reports purport to have been submitted by the beneficiary in November 1973, they are not in the dossier. The estimate for staff costs contained in the contract (FI 162 800) turned out to be quite unrealistic, since actual expenditure amounted to less than a quarter of this. The research was carried out with financial assistance from a foreign source.

**44.42** There were considerable delays in winding up more than 30 projects after the end of the work (from 2 to 4 years and in some cases even 5 to 7 years after the planned completion of the research). These delays are occasionally justified in rather vague terms. Thus a reorganization of the research centre meant that 'the sending of the final financial report was delayed and almost forgotten' ; industrial trouble (strikes, etc) postponed proper completion of the work ; it was decided to suspend work for scientific reasons without prior notification in good time ; the absence (death or departure) of those who had been responsible for administering the project led to difficulties in drawing up the belated final statement.

These time-lag problems also include numerous cases of projects which have been extended several times by means of riders signed several months after the beginning of the period they were meant to cover. In one case the work was extended for two years without being sanctioned by a proper rider.

**44.43** A number of projects have been wound up without a final on-the-spot check. In these cases, the institution has been content with an interim check made some years before the final statement was drawn up. In some cases the final statement has been drawn up and the final payment made although the final scientific report or the financial reports were not available.

**44.44** Several contracts signed before 1970 contained conventional provisions, since amended, it was possible when drawing up the final statement to apply procedures which favoured the beneficiaries at the institution's expense. These contracts provided for both an overall flat rate for the ECSC contribution and special rates for the various categories of expenditure (equipment, recurring costs, staff costs). The rate used to calculate contributions in each particular case was either the overall percentage applied to total recognized expenditure or was derived from the particular percentage applied to each category of authorized expenditure, the choice being dictated by the desire to reach the maximum laid down in the contract for the ECSC contribution.

**44.45** Material errors in calculation or cases of confusion in the final statements were pointed out to the relevant departments : application of a flat rate of 31.3 % in calculating recurring costs instead of 32 % of staff costs ; discrepancy between the amount shown in the summary financial report used to compile the final statement and the sum of the half-yearly financial reports.

**44.46** For some half-dozen projects, the ECSC contribution was applied to national taxes paid by the research establishment as well as to expenditure for equipment.

**44.47** In many cases the amount actually spent under certain headings differs very greatly from the estimates given in the contract, but clear explanations to justify such discrepancies are not always given.

**44.5** Despite the stress laid on this aspect in our previous report (No 44.53), the two cases in which proper use of the Community subsidy has been rendered impossible because of new national legislation have not yet been settled. The necessary studies have not been completed and consequently it has not been possible to draw conclusions from them with regard to future collaboration with university institutes in the country concerned.

**45** The ECSC assumes responsibility for the protection and dissemination of information gained in the course of research projects it has helped finance.

**45.1** It pays part of the costs of filing, defending and renewing patents arising out of research projects, in a proportion equal to its financial contribution to the work. In return, it is entitled to the same proportion of any royalties received by the beneficiary if he grants licences against payment.

In 1975, the institution paid part of the costs, amounting to 8 368 u.a., for filing and renewing ten patents in the coal sector, and 2 158 u.a. for 9 patents in the steel sector. It did not collect any royalties during the year.

**45.2** Beneficiaries of Community assistance who take out patents on the findings of joint research are under certain obligations with regard to supplying equipment and granting operating licences. The latter are to be applied for directly to the holders of the patents or via the institution.

**45.3** The list of patents concerned has started to appear in the specialist periodical published by the Directorate-General for Scientific and Technical Information and Information Management. Euroabstracts published, in February 1975, a list of 81 patents resulting from research in the coal sector, with an explanatory text on the subject of each patent. A similar list should have been published for the steel and iron ore sector, where some 71 patents had been filed up to the end of 1972. In view of the fact that extensive equipment is not much used in the social sector, no patents have so far been filed in that context.

**45.4** The new system for disseminating information, the aims of which were described in the last report (No 45), led to the publication of a first series of reports on Community research activities. In addition to information on new contracts the same periodical has contained a summary of the work of two symposia on steel and coal and abstracts of the findings of some 118 projects in the steel sector and 3 projects in the social sector.

**46** Our comments and criticisms on the three sectors must be seen in the context of the work done during the year. Once again, the technical and financial departments have spent the year auditing a previous situation which it is pertinent to examine in order to bring out the damaging consequences and urge the abandonment once and for all of any practices which could lead to its recurrence.

It is however, to be regretted that a complete register — so necessary from all points of view — has so far only been kept for the financial aspects. In order to obtain the necessary data for



compiling the overall picture which the present report aims to present, it was necessary to consult four different departments ; in connection with this the difficulty of producing complete data showed quite clearly the lack of organization in the administration of the steel sector.

There is a tendency for divergencies between estimated costs and actual costs to become general, and there is a danger that the effects of inflation, which will not be felt until the final settlements are made, will further reduce the relative importance of Community assistance : already for accounts closed this year the ECSC contribution, which represented some 75 % of the original finance provided for in the contract, has fallen to 30 % of the final cost. As to new contracts, it appears that following the rationalization noted previously the institution has continued to improve and simplify their content. Thus, the distribution of costs under the four customary headings (equipment, staff, operating costs and miscellaneous costs) is no longer worked out exactly but is dealt with in notes which set out the comparative importance of these items in the project.

Contracts for which the estimates contain expenditure for equipment are systematically accompanied by an Appendix 2 which contains the provisions concerning the equipment used, particularly the conditions for subsequent use.

Lastly, in Appendix 6, which lists beneficiaries' obligations, mention is no longer made of the final financial report, while the half-yearly reports are retained.



## **Expenditure incurred by the granting of reduced-interest loans for structural reorganization (Article 56) and industrial investments (Article 54)**

### **47            Extent of our audit**

Our audit is required to check :

- The existence of official decisions relating to the granting of the loan, its actual conclusion and the amount of the interest reduction granted.
- The calculation of the reduction as updated during its five-year period and the fact that it is covered adequately in the provision.
- The correctness of these assistance payments when these are disbursed, under Article 56, to beneficiaries of loans granted by non-Community bodies.
- The correctness of transfers out of the provision to the sundry revenue heading of the loan service account as and when interest on the loans falls due.

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

### **48            Remarks**

The amount of the interest reduction granted under Article 54 and 56 of the Treaty is entered in the balance sheet provision at the time when entitlement to it becomes effective, i.e. when the loan agreement carrying the interest reduction is signed or, in the case of a loan granted by a non-Community body, when the Institution decides to grant an interest reduction. This practice is the same as that observed for assistance to research and rehabilitation, where the appropriate amounts are put to provision when the two parties have signed and the contract and acceptance thereof have thus acquired legal force.

**48.1**            The *provision for interest reductions on loans for industrial structural reorganization* (Article 56) totalled 7 769 774 u.a. at 31 December 1975, New commitments approved during the year totalled 3 661 680 u.a. for 12 signed loan agreements. Sums disbursed totalled 3 630 639 u.a. of which 479 584 u.a. were interest reductions on four loans to a total value of 18 012 203 u.a. which were granted by non-Community bodies for the same purpose of industrial structural reorganization as those provided for in Article 56. In the case of these last four loans the reductions are paid out every year directly to the beneficiary enterprises and do not affect the ECSC's loan service account.

**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, taken on the basis of Article 54) totalled 8 707 288 u.a. at 31 December 1975. New commitments for the year totalled 2 515 710 u.a. and concerned 13 loans signed and totalling 24 148 633 u.a. Total disbursements were 2 975 379 u.a. and all related to loans granted by the ECSC.

**48.3** The accumulated amounts shown in these two provisions — 428 629 u.a. down on those for 1974 — represent binding commitments but no longer comprise exclusively the part of levy income for the year which is earmarked for this type of financial assistance.

In the same way as last year, 'future commitments' include a sum of 10 855 357 u.a. which is designed to cover the granting of interest reductions during the first six months of 1976.

Movements caused by this procedure, which is designed to reflect the institution's desire to maintain its estimates in relation to the 'operating budget', break down as follows :

Future commitments	Article 54	Article 56	Total
Position at 31. 12. 1974	— 396 718	4 429 466	4 032 747
Less sums earmarked in 1975	+ 396 718	4 429 466	4 032 747
Position at 30. 6. 1975	0	0	0
Allocation at 31. 12. 1975	4 087 571	6 767 786	10 855 357

**48.4** A number of conclusions may be drawn from the above :

- The new commitments for 1975 (6 177 390 u.a.) described under 48.1 and 48.2 thus include 4 032 747 u.a. financed out of levy income for 1974 which was recorded in the accounts at 31 December 1974 as future commitments, whilst the rest (2 144 643 u.a.) was drawn from levy resources during 1975.
- During the first six months of the year the Institution thus subscribed commitments for the entire amount of levy resources held over from 1974. However, it only completed 16.5 % of its programme of allocations scheduled for 1975 (2 144 643 u.a. out of 13 million u.a.), and this fact alone explains why the total for future commitments is so high.
- These explanatory facts are based on an attitude entertained by the Institution which is in no way governed by imperative rules, since the institution's operating 'budget' is merely an estimate which can be adapted at any time whenever the economic situation — which changes — so requires. We did not, however, have the impression that the situation had caused any particular concern to the institution.

## Assistance to coking coal and coke

### 49 Extent of our audit

Our audit of this sector for the financial year 1975 was concerned with checking firstly the whole operation of the first system for assistance to coking coal and coke instituted by Decision No 1/70 which lapsed on 31 December 1972, and secondly the contributions paid by the ECSC, the iron and steel industry and the Member States under the second system instituted by Decision No 73/287/ECSC, which came into force on 1 January 1973 and is to continue until 31 December 1978.

Broadly speaking, and in so far as all the documents were already available, the following aspects were checked :

- the accounting entries for and correctness of Community assistance payments with regard to the financial provisions of the above decisions ;
- that the elements used to determine the financial assistance given by the ECSC were correctly recorded, i.e. :
  - quarterly information from enterprise concerning their purchases of coking coal or coke from non-Community countries for supply to blast furnaces in the steel industry ;
  - quarterly statements from Member States of assistance to sales (by enterprise, coalfield and country of destination), which indicate, inter alia, the elements used to this sales assistance ;
- that the declarations made by coke suppliers were consistent with those made by consumers.

These checks were carried out chiefly by examining documents from the Directorate-General for Energy, which administers the assistance/machinery for the institution, from the Directorate-General for Budgets with regard to contributions paid by the ECSC and from Directorate-General for Credit and Investments with regard to payments by Member States and enterprises.

### 50 Remarks

#### 50.1 *First system, instituted by Decision No 1/70*

**50.11** It was only during the 1975 financial year that it became possible to carry out a complete check of the operation of the first system for assistance to coking coal and coke, which was for a three-year period ending on 31 December 1972.

The final statement and the disbursements made by the Institution were already included in the reports for 1973 (No 50) and 1974 (Nos 50.1 and 50.2.)

However, in addition to assistance by the ECSC the system provided for financial contributions from Member States calculated in the same way as the community assistance according to a fixed scale on the basis of declared quantities of eligible products, adjusted if necessary by a coefficient designed to restrict assistance to the maximum amount laid down in the regulations.

Payments from the contributing parties were spaced out on the basis of provisional statements. Before the final statement was drawn up, it was necessary to correlate the amounts supplied by exporting countries with those declared as received by importing countries and check the exact

amounts actually consumed in Community blast furnaces in order to make a final assessment of assistance due. There was however a delay of some 18 months in closing the account until, at the beginning of 1975, Italy paid the balance of about 10% of its contribution for 1972.

**50.12** The following table sets out by country and for the ECSC the data from which the final amounts of assistance due or received were calculated.

It thus gives an overall view of the financial results of operating this system throughout the period concerned.

**50.13** The following remarks are the result of checking both sums paid out and received and the correct assessment of the assistance payable in respect of the amount of coal, up to a certain ceiling intended for the production of coke to be used in blast furnaces by the iron and steel industry. This amount has to be determined by using coefficients corresponding, for each coking plant, to the amount of coal consumed for the portion of coke production intended for blast furnaces and, for the iron and steel industry to the relationship between the tonnage of coke consumed in blast furnaces and that of the coal from which it was produced (ratio 1.33 :1).

**50.131** Our report for the year 1973 (No 50) had pointed out that although the Community contribution itself was not affected, it was noted that the conversion into FI of the debt expressed in u.a. had been calculated, as a result of bilateral agreements, on a slightly different basis (1 u.a. = FI 3.522768) from the one generally employed (1 u.a. = FI 3.62) %. This practice was rectified at the end of 1974.

**50.132** In 1970, Belgium was simultaneously entitled to assistance (71 953 u.a.) and liable to a financial contribution fixed in Decision No 1/70 at 20 %. In view of the fact that all assistance was systematically paid to Germany, Belgium retained the amount she ought to have received out of the amount owed to the latter country ; the final statement takes exact account of this special procedure.

**50.133** The checking of the exact amounts of coke and coking coal actually supplied (comparison of declared amounts supplied with those actually delivered) and of amounts supplied with those laid down in the contracts revealed only very slight discrepancies (representing, for example, 0.004797 % of the amounts supplied). This sort of discrepancy can, in fact, be explained by variations in weight during transport, due to changing meteorological conditions, by the fact that an enterprise has stocked or released from stock part of the amounts supplied, or by the time lag in cases where a shipment is despatched at the end of one year but not received until the beginning of the following year.

**50.2** *Second system under Decision No 73/287/ECSC*

**50.21** Since 1 January 1974, payments have been made under the new system, which will apply until 31 December 1978. As with the previous system, however, the final settlement will not be complete until considerably after that date.

Years	Beneficiaries	Tonnes (tonnes)		Community assistance		Contributions in u.a. (1)							Total (u.a.)		
		declared	eligible for assistance (subject to seeling)	ECSC (u.a./tonne)	Membre States (u.a./tonne)	ECSC	Belgium 20 %	France 40 %	Italy 16 %	Luxembourg 14 %	Netherlands 10 %				
1970	Germany Belgium	17 921 925	17 000 000	0.20	0.50										
			16 897 210 102 790			3 379 442 20 558	1 700 000 —	3 379 442 20 558	1 351 777 8 223	1 182 805 7 195	844 860 5 140	11 838 326 (2) 61 674 (3)			
	Total 1970		17 000 000	—	—	3 400 000	1 700 000	3 400 000	1 360 000	1 190 000	850 000	11 900 000			
1971	Germany	17 160 406	17 000 000	0.15	0.4	2 550 000	1 360 000	2 720 000	1 088 000	952 000	680 000	9 350 000			
1972	Germany	15 988 814	15 988 814	0.10	0.30	1 598 881	959 329	1 918 658	767 463	671 530	479 664	6 395 525			
	3-year total	51 071 145	49 988 814	—	—	7 548 881	4 019 329	8 038 658	3 215 463	2 813 530	2 009 664	27 645 525			

(1) Value of one unit of account in national currencies: DM 3,66; Bfr/Lfr 50; FF 5,55419; Lit 625; Fl 3,62.

(2) 1 897 210 tonnes x 0.7 u.a. = 11 828 047 u.a. + 20 % of 102 790 tonnes x 0.5 u.a. = 10 279 u.a., i.e. a total of 11 838 326 u.a.

(3) 102 790 tonnes x 0.2 u.a. (ECSC portion) = 20 558 u.a. + 80 % of 102 790 tonnes x 0.5 u.a. = 41 116 u.a., i.e. a total of 61 674 u.a.

The following table sets out the amounts of ECSC assistance for 1973 and 1974, with the final figures for 1973 but only provisional ones for 1974. The presentation of these figures in no way implies that all settlements between countries have already been made.

Countries	Tonnage declared	Tonnage eligible for assistance	Maximum tonnage eligible for assistance	ECSC contribution	
				u.a. (reference period)	u.a. (at time of payment)
<i>1973</i>					
Germany	18 201 149	16 889 519	14 796 692	3 935 920	4 474 053.43
Belgium	227 138	—	—	—	—
France	304 091	232 064	203 308	54 080	61 473.84
Community	18 732 378	17 121 583	15 000 000	3 990 000	4 535 527.27
<i>1974</i>					
Germany	17 110 000	—	15 000 000	4 995 000	4 995 000.—

**50.22** The column for the ECSC contribution comprises two sets of figures. The first, calculated on the basis of the exchange rates for the units of account applying at the time to which the operations relate, is the one used and recorded in the accounts by the institution. The second set of figures, in accordance with Article 6 of Decision No 3542/73/ECSC, is based on the exchange rates for the unit of account applying at the time when payment was made.

The difference observed for 1973 arises from the fact that in 1973, the reference year for the operations, the unit of account was worth DM 3.66, whereas in 1974 and 1975, the years during which the payments were made, the unit of account was worth DM 3.21978. There is no comparable difference in respect of the operations concerned in the 1974 statement, as these were carried out as before exclusively in DM but there was no change in the conversion rate.

To date, Italy has still not paid its contribution in respect of these two years.

**50.23** Decision No 3289/75/ECSC (1) of 18 December 1975 concerns the definition and the conversion rates of the unit of account to be used in decisions, recommendations, opinions and communications for the purposes of the Treaty establishing the European Coal and Steel Community.

Article 5 of this Decision provides that the rights and obligations determined in units of account but which before 1 January 1976 were converted by the Commission into national currencies on the basis of the rates in force at the time of their inception shall continue to be managed on the same basis.

Although it did not enter into force until 1 January 1976, this decision gives retrospective legitimacy to the practices which were criticized in the 1974 report (No 50.2), despite the fact that the expression 'shall continue to be' is inappropriate to a situation governed by previous texts which make no reference to the time of inception of the rights and obligations.

(1) OJ No L 327 of 19 December 1975



## **Administrative expenditure**

### **51            Extent of our audit**

Administrative expenditure totalled 16 541 395.72 u.a. This was the ECSC's annual contribution to the administrative operating costs of the Commission of the European Communities under Article 20 (2) of the Treaty merging the Executives. As an integral part of the budget of the 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 obligation to pay the contribution of 18 million u.a. laid down in the Merger Treaty was not affected by recent decisions (1) amending the conversion rules for the ECSC unit of account. It is because of a double conversion that the real amount shown in the ECSC accounts is different from that specified in the Merger Treaty. In fact, the payment in currency of the sum of 18 million u.a. is based on the parities of the various currencies as declared to the IMF, a system which ended for the ECSC on 31 December 1973 but which is still applicable to the general budget of the European Communities. However, the Institution is obliged to reconvert the currency amounts actually paid at the exchange rate used in converting the balance sheet at 31 December 1974 and in drawing up the accounts of transactions in 1975.

In order to provide an objective assessment of any difference, we have proposed (2) that payment should be made in currency in proportion to levy receipts, since under the terms of the Treaty it is these funds alone which must cover the operating expenses of the Community.

Whereas it had hitherto been customary for the Institution to pay the full amount in Belgian francs — which had resulted for the ECSC in a larger difference in principal and exchange than that resulting from a breakdown of currencies in proportion to receipts —, this year it came very close to using the latter method, as can be seen from the data below.

This means that the various payments made by the ECSC amount to 18 305 681.19 u.a., while its contribution to the General Budget — estimated in u.a., the monetary unit officially used for this budget — is limited to 18 million u.a.

It is true that subsequent payments make it impossible — except by pure chance — to obtain identical amounts: it is thus merely a question of noting this excess amount so that next year's debt (18 million u.a.) is reduced by the corresponding amount.

**52.2**            During 1975 we again noted cases of erroneous and improper charging (FF 6 510.60) of administrative expenditure to financial costs relating exclusively to the ECSC's borrowing and lending operations. Thus the practice which we denounce every year is still far from being abandoned.

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(1) Decisions Nos 3541/73/ECSC and 3542/73/ECSC of 19 December 1973 (Official Journal of the European Communities No L 361/11 of 29 December 1973).

(2) ECSC Auditor's Reports for 1971 (No 107); 1972 (No 101); 1973 (No 52.1) and 1974 (No 52.1).

**Comparison of the percentage per currency of flat-rate contributions in 1975 to administrative expenditure with the percentage of levy receipts for 1974 (1)**

Member States	% of levy receipts at 31 December 1974	Amounts paid in individual currencies	Exchange value of the debt in u.a. (General Budget)	%	Exchange value entered in ECSC accounts in u.a. (2)
Belgium	8.9	Bfrs 75 000 000.—	1 500 000.—	8.2	1 541 395.72
Denmark	0.3	Dkr 230 380.62	30 717.41	0.2	30 400.—
Germany	35.4	DM 17 879 438.34	4 885 092.44	26.7	5 553 000.—
France	16.3	FF 17 506 268.21	3 151 903.01	17.2	2 930 400.—
Ireland	0.1	£ Ir 6 182.62	14 838.29	0.1	10 800.—
Italy	13.9	Lit 2 191 814 235.—	3 506 902.77	19.1	2 511 000.—
Luxembourg (3)	3.1	LFrs —	—	—	—
Netherlands	2.9	Fl 1 729 874.09	477 865.77	2.6	515 600.—
United Kingdom	19.1	£ 1 974 317.29	4 738 361.50	25.9	3 448 800.—
<b>Total</b>	<b>100.—</b>	<b>—</b>	<b>18 305 681.19</b>	<b>100.—</b>	<b>16 541 395.72</b>

(1) The reference to percentage per currency of levy receipts is the only one which can be used to determine the percentage of flat-rate contributions paid over the whole of 1975.

(2) See No 28. 1 Statement of revenue and expenditure.

(3) Belgium and Luxembourg together make up 12% of the 1974 levy, with payments in their common currency amounting to 8.2%.

## **Borrowing, lending and guarantee operations**

### **53 Scope 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 related 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 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 service 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 in respect of 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 surety and ensured, more especially, that amounts still guaranteed under the repayment schedule for loans contracted by enterprises were correct.

## **54**            **Remarks**

### **54.1**            *Borrowings*

Table 21 shows, in currency and EUA, the main characteristics of each loan contracted by the ECSC from its inception to 31 December 1975, with the initial amounts borrowed and the balance outstanding at the end of 1975 financial year.

The ECSC has contracted 123 loans on the international market and various national markets since its inception, to a value of 2 653.6 million u.a. Less repayments, this sum was 2 217.8 million u.a. at 31 December 1975 (including loans not yet paid).

With the 21 borrowings to a value of 596.8 million u.a. which were collected during 1975, the Institution had available to it borrowed funds totalling 830.3 million u.a., including a residue from borrowings contracted before 1975 but not yet reloaned (233.5 million u.a.).

**54.11**            ECSC borrowing activity was particularly intense in 1975: 23 loans were floated in the various currencies of the places concerned, 11 on the open market in the USA, Germany, the Netherlands, the Grand Duchy of Luxembourg, France, Belgium, Switzerland and on the international market, and 12 private loans in Germany, Luxembourg, Switzerland, the USA the Netherlands and Italy. The total amounted to more than 658 million u.a., mostly in US \$ (283 million u.a.), DM (140 million u.a.) and SFr (112 million u.a.). These loans carried various interest rates between 7.75 % and 10 %, the highest rates applying to two operations in FFr and Lit. (10 %) and two operations in US \$ (9.25 %).

**54.12**            Our audit of loans floated in 1975, a summary of which is given in Tables 7 and 21, requires no particular comments or observations. The two operations involving DM 56 000 000 and DM 20 000 000 respectively cover, in fact, seven contracts: five for DM 7 000 000 one for DM 20 000 000 and one for DM 21 000 000. Their conditions are all identical, apart from the periods to maturity (from 3 to 10 years). In such cases it would be preferable to consider each contract separately since the redemption tables refer to each one individually.

**54.13**            The Institution keeps a loan service account intended to record both interest to be paid and interest due. The balance has always been positive and until 1973 was entered in the balance sheet, where it formed an unallocated reserve.

In 1974, since 8 loans had been granted at rates of interest lower than those of the loans raised to cover them, the Institution had provided the total amount of the deficit on these loans, i.e. 8 828 828 u.a. largely by using this floating reserve. Loans floated in 1975, on the other hand, were invested at rates which, with two very small exceptions, were covered by the corresponding loans granted. In fact, it was not a real deficit when placed in the context of the said account, the overall balance of which, before any allocation, is still positive.

The maintenance of a provision to offset loan charges simply takes the form of a reserve. It is dealt with as such in the present balance sheet, in which the amount contained in the reserve has been rounded-off to 7 000 000 EUA — a sum which at the moment does not represent any risk.

**54.14**            This year, no recoverable issuing costs were written off in respect of borrowings contracted in 1975. This means that we have moved further towards the realization of the intentions expressed in our previous reports (1). The Institution should reach a final settlement of this item, in which the differences are becoming smaller and smaller.

### **54.2**            *Loans*

#### **54.21**            A — Loans granted out of borrowed funds

Compared with the previous year, loans granted out of borrowed funds in 1975 (702 000 000 u.a.) showed an increase of 74 %.

(1) Auditor's Report for 1974, No 54.14.

TABLE 21

## ECSC borrowings

Characteristics, initial amounts and balances outstanding for each borrowing at 31. 12. 1975

Floated, maturing in	Initial amount currencies	Description of loan	Balances outstanding at 31. 12. 1975 currencies	Balances outstanding at 31. 12. 1975 (EUA)
	in \$		in \$	
1954/1979 <sup>(1)</sup>	100 000 000	3-875 % private loan	25 000 000	21 454 071
1957/1975 <sup>(1)</sup>	25 000 000	5-5 % debenture loan	—	—
1957/1962 <sup>(1)</sup>	10 000 000	5 % bearer bonds and private loan	—	—
1958/1978 <sup>(1)</sup>	35 000 000	5 % debenture loan	7 400 000	6 350 405
1958/1963 <sup>(1)</sup>	15 000 000	4-5 % bearer bonds	—	—
1960/1980 <sup>(1)</sup>	25 000 000	5-375 % debenture loan	8 500 000	7 294 384
1960/1965 <sup>(1)</sup>	10 000 000	4-75 % to 5 % bearer bonds	—	—
1962/1982	25 000 000	5-25 % debenture loan	11 800 000	10 126 322
1964/1984	30 000 000	5-25 % debenture loan	18 000 000	15 446 931
1966/1986	15 000 000	6-5 % debenture loan	11 000 000	9 439 791
1966/1986	20 000 000	6-5 % debenture loan	14 600 000	12 529 178
1967/1987	25 000 000	6-5 % debenture loan	19 900 000	17 077 441
1967/1987	20 000 000	6-62 % debenture loan	15 950 000	13 687 697
1971/1986	20 000 000	7-75 % debenture loan	20 000 000	17 163 257
1973/1988	30 000 000	7 % private loan	30 000 000	25 744 885
1974/1989	50 000 000	7-75 % private loan	50 000 000	42 908 142
1974/1979	20 000 000	8-25 % private loan	20 000 000	17 163 257
1974/1982	100 000 000	9-25 % private loan	100 000 000	85 816 284
1974/1984	100 000 000	9-5 % private loan	100 000 000	85 816 285
1974/1984	200 000 000	10 % private loan	200 000 000	171 632 569
1974/1979	100 000 000	8-75 % debenture loan	100 000 000	85 816 285
1975/1983	150 000 000	8-375 % debenture loan	150 000 000	128 724 427
1975/1982	50 000 000	8-75 % debenture loan	50 000 000	42 908 142
1975/1980	30 000 000	9-25 % debenture loan	30 000 000	25 744 885
1975/1982	25 000 000	9-25 % private loan	25 000 000	21 454 071
1975/1980	125 000 000	8-875 % debenture loan	125 000 000	107 270 356
	1 355 000 000		1 132 150 000	971 569 065
	in DM		in DM	
1956/1981 <sup>(1)</sup>	50 000 000	3-75 % private loan	12 392 600	4 058 065
1957/1977 <sup>(1)</sup>	2 977 450	4-25 % private loan	404 933-19	132 599
1964/1976	100 000 000	5-75 % private loan	12 000 000	3 929 504
1964/1979	100 000 000	5-5 % debenture loan	33 600 000	11 002 613
1964/1976	30 000 000	5-75 % private loan	3 000 000	982 376
1965/1983	150 000 000	5-5 % debenture loan	92 500 000	30 289 932
1965/1970	23 000 000	5-5 % private loan	—	—
1967/1972	30 000 000	6-75 % private loan	—	—
1968/1978	120 000 000	6-5,6-75 and 6-875 % private loan	45 000 000	14 735 643
1968/1981	60 000 000	6-25 % private loan	36 000 000	11 788 514
1969/1984	40 000 000	6-25 % private loan	36 000 000	11 788 514
1969/1982	50 000 000	6-5 % private loan	35 000 000	11 461 055
1969/1984	50 000 000	6-75 % private loan	45 000 000	14 735 643
1971/1986	100 000 000	7-5 % debenture loan	100 000 000	32 745 872
1972/1987	100 000 000	6-5 % debenture loan	100 000 000	32 745 872
1972/1988	150 000 000	7 % debenture loan	150 000 000	49 118 809
1973/1988	150 000 000	6-75 % debenture loan	150 000 000	49 118 809
1973/1988	100 000 000	7-75 % debenture loan	100 000 000	32 745 872
1974/1979	20 000 000	10 % private loan	20 000 000	6 549 174
1974/1979	30 000 000	10 % private loan	30 000 000	9 823 762
1974/1981	50 000 000	10 % private loan	50 000 000	16 372 936
1974/1981	150 000 000	9-75 % debenture loan	150 000 000	49 118 809
1975/1985	56 000 000	8-5 % private loan	56 000 000	18 337 689
1975/1982	20 000 000	8-5 % private loan	20 000 000	6 549 174
1975/1985	150 000 000	8-5 % debenture loan	150 000 000	49 118 809
1975/1980	16 000 000	8-5 % private loan	16 000 000	5 239 340
1975/1980	60 000 000	8 % private loan	60 000 000	19 647 523
	1 957 977 450		1 502 897 533-19	492 136 908

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

TABLE 21 (contd.)

Floated, maturing in	Initial amount currencies	Description of loan	Balances outstanding at 31. 12. 1975 currencies	Balances outstanding at 31. 12. 1975 (EUA)
	in Lit		in Lit	
1963/1983	15 000 000 000	5.5 % debenture loan	8 000 000 000	10 027 965
1966/1986	15 000 000 000	6 % debenture loan	11 000 000 000	13 788 452
1966/1986	15 000 000 000	6 % private loan	11 000 000 000	13 788 452
1968/1988	15 000 000 000	6 % debenture loan	13 000 000 000	16 295 444
1968/1988	15 000 000 000	6 % debenture loan	13 000 000 000	16 295 444
1972/1987	20 000 000 000	7 % private loan	20 000 000 000	25 069 914
1972/1987	20 000 000 000	7 % private loan	20 000 000 000	25 069 914
1974/1989	10 000 000 000	7 % private loan	10 000 000 000	12 534 957
1975/1985	30 000 000 000	10 % private loan	30 000 000 000	37 604 871
	155 000 000 000		136 000 000 000	170 475 413
	in NFL		in NFL	
1961/1981 (1)	50 000 000	4.5 % debenture loan	19 850 000	6 339 423
1961/1966	10 000 000	4.5 % private loan	—	—
1962/1987	6 000 000	4.75 % private loan	2 880 000	919 775
1962/1982	25 000 000	4.75 % private loan	11 800 000	3 768 523
1962/1967	20 000 000	4.5 % private loan	—	—
1963/1968	10 000 000	4.5 % private loan	—	—
1963/1993	1 750 000	4.625 % private loan	1 054 000	336 612
1964/1984	25 000 000	5.75 % debenture loan	15 100 000	4 822 432
1965/1985	40 000 000	5.75 % debenture loan	26 750 000	8 543 051
1967/1972	20 000 000	6.375 % private loan	—	—
1975/1990	60 000 000	8.5 % debenture loan	60 000 000	19 161 983
1975/1985	20 000 000	8.625 % private loan	20 000 000	6 387 327
	287 750 000		157 434 000	50 279 126
	in FFr		in FFr	
1964/1984	150 000 000	5 % debenture loan	84 375 000	16 164 382
1971/1989	150 000 000	8.5 % debenture loan	150 000 000	28 736 678
1972/1987	150 000 000	7.25 % debenture loan	150 000 000	28 736 678
1973/1988	60 000 000	7.5 % private loan	60 000 000	11 494 671
1973/1980	50 000 000	7 % debenture loan	50 000 000	9 578 893
1973/1991	150 000 000	7.5 % debenture loan	150 000 000	28 736 678
1975/1982	125 000 000	10 % debenture loan	125 000 000	23 947 232
	835 000 000		769 375 000	147 395 212
	in SFr		in SFr	
1956/1974 (1)	50 000 000	4.25 % debenture loan	—	—
1961/1966	9 000 000	5.25 % private loan	—	—
1961/1966	2 290 000	4.5 % private loan	—	—
1962/1980	60 000 000	4.5 % debenture loan	24 000 000	7 862 691
1969/1987	60 000 000	5.5 % debenture loan	55 500 000	18 182 473
1972/1984	50 000 000	7.25 % private loan	50 000 000	16 380 607
1973/1988	80 000 000	6.25 % debenture loan	80 000 000	26 208 971
1973/1978	65 000 000	6.75 % private loan	65 000 000	21 294 789
1973/1980	75 000 000	7 % private loan	75 000 000	24 570 910
1973/1978	50 000 000	7.25 % private loan	50 000 000	16 380 607
1974/1979	20 000 000	9.25 % private loan	20 000 000	6 552 242
1975/1982	100 000 000	8 % private loan	100 000 000	32 761 213
1975/1990	80 000 000	7.75 % debenture loan	80 000 000	26 208 971
1975/1983	50 000 000	8 % private loan	50 000 000	16 380 607
1975/1983	100 000 000	8 % private loan	100 000 000	32 761 213
	851 290 000		749 500 000	245 545 294

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

TABLE 21 (contd.)

Floated, maturing in	Initial amount currencies	Description of loan	Balances outstanding at 31. 12. 1975 currencies	Balances outstanding at 31. 12. 1975 (EUA)
	in FLux		in FLux	
1957/1982 <sup>(1)</sup>	5 000 000	3.5 % private loan	—	—
1957/1982 <sup>(1)</sup>	100 000 000	5.375 % private loan	46 005 703	998 808
1961/1986 <sup>(1)</sup>	100 000 000	5.25 % private loan	65 359 012	1 418 979
1961/1986	100 000 000	5 % private loan	64 786 783	1 406 555
1962/1977	300 000 000	4.75 % debenture loan	60 000 000	1 302 632
1962/1987	250 000 000	5.125 % private loan	173 505 888	3 766 904
1964/1984	150 000 000	5.375 % private loan	90 000 000	1 953 947
1971/1979	150 000 000	6.5 % debenture loan	150 000 000	3 256 579
1971/1986	250 000 000	7 % debenture loan	250 000 000	5 427 632
1971/1983	300 000 000	7.75 % private loan	300 000 000	6 513 159
1972/1984	300 000 000	6.75 % private loan	300 000 000	6 513 159
1972/1987	400 000 000	6.75 % debenture loan	400 000 000	8 684 212
1973/1988	300 000 000	6.75 % private loan	300 000 000	6 513 159
1973/1985	800 000 000	7 % private loan	800 000 000	17 368 423
1973/1988	800 000 000	7 % private loan	800 000 000	17 368 423
1973/1985	300 000 000	8 % private loan	300 000 000	6 513 159
1973/1985	200 000 000	8 % private loan	200 000 000	4 342 106
1973/1988	500 000 000	7.25 % debenture loan	500 000 000	10 855 265
1973/1981	250 000 000	7.5 % private loan	250 000 000	5 427 632
1974/1981	400 000 000	10 % debenture loan	400 000 000	8 684 212
1975/1985	500 000 000	9 % debenture loan	500 000 000	10 855 265
1975/1984	100 000 000	9 % private loan	100 000 000	2 171 053
	6 555 000 000		6 049 657 386	131 341 263
	in UA		in UA	
1966/1986	20 000 000	5.75 % debenture loan	14 800 000	19 802 404
	in BFr		in BFr	
1957/1982 <sup>(1)</sup>	200 000 000	3.5 % private loan	75 600 000	1 641 316
1957/1982 <sup>(1)</sup>	20 000 000	3.5 % private loan	7 560 000	164 132
1962/1982	300 000 000	5.25 % private loan	147 000 000	3 191 448
1963/1983	300 000 000	5.5 % private loan	168 000 000	3 647 369
1968/1983	750 000 000	6.75 % debenture loan	630 000 000	13 677 633
1970/1990	500 000 000	8.75 % private loan	500 000 000	10 855 265
1971/1986	700 000 000	7.75 % debenture loan	700 000 000	15 197 370
1973/1985	1 000 000 000	7.75 % debenture loan	1 000 000 000	21 710 529
1975/1985	1 500 000 000	8.25 % debenture loan	1 500 000 000	32 565 794
	5 270 000 000		4 728 160 000	102 650 856
	in £		in £	
1970/1990	50 000 000	8 % debenture loan	50 000 000	59 924 950
			Total	2 391 120 491

(<sup>1</sup>) These loans were concluded under the 1954 Act of Pledge between the ECSC and the Bank for international Settlements.

Table 1, showing the use made of loans granted out of borrowed funds, reveals that the greater part of the 702 340 061 u.a. disbursed in 1975 was accounted for by loans to finance industrial investments under Article 54 of the ECSC Treaty (92.5 % of the total amount), followed loans for industrial structural reorganization (7.4 %) and social housing (0.1 %).

**54.211** *Industrial loans under Article 54* of the Treaty were made for coal and steel investments within the general objectives of the Community.

Of a total of 77 loans, 14 were granted, either totally or partially, at reduced rates of interest fixed at three points the normal rate, in accordance with the Decision of 18 June 1970 backed up by a Communication of 25 November 1974. These reduced rates of interest are granted on the grounds of the special benefits which the Community sees in environmental protection and the creation of coking capacities intended to offset anticipated closures.

The total amount of loans represents operations covering 649 818 346 u.a. out of 3 659 000 000 u.a. total investments in the two sectors of the Treaty. ECSC operations therefore account for 18 % of this total.

**54.211.1.** In 1975, thanks to the regular forwarding of relevant decisions by the Institution, it was possible for the first time to obtain a complete picture reasoned statements supporting the policy pursued and of the efforts made by the various departments in preparing these documents.

**54.211.11** The reasoned statements refer to the general objectives which the Community defines periodically in accordance with Article 46, paragraph 3 of the Treaty.

In its memorandum on the objectives for steel for the period 1975-1980 <sup>(1)</sup>, the Institution has stressed the need to adopt a policy which was sufficiently selective and spread out to obviate the risk of the newly erected plants creating a sudden increase in supply and thereby upsetting the market. It wished to see the spirit of innovation develop in the Community steel industry and showed its desire to concern itself with the problems of the environment of steel works by referring to the creation or improvement of joint facilities and to the solution of problems of pollution control.

In its 1975 loan policy, the Institution could clearly not ignore the work of adapting and forward planning carried out as part of the task of defining general objectives for the period 1975-1985. As things stand at present, a policy of suitable investments is moving towards product improvement, rationalization and cost reduction. In particular, the call to achieve these objectives remains valid for investments devoted to environmental protection, vocational training, research or industrial safety.

The medium-term guidelines for coal for the period 1975-1985, drawn up after the oil crisis in 1973-1974, laid down that coal would have to play a more important part in Community energy supplied. Thus coal policy should be directed at stabilizing production and sales. Investments will have to be geared both to conservation, by being designed to rationalize winning methods, and to expansion, by being applied first and foremost to the extension of existing collieries, but also to ensuring the creation of new collieries.

The decisions taken during the year can be seen to reflect these tendencies, as is shown by the list of the main projects selected for Community, financing namely :

- the creation of vocational training centres
- the rationalization and modernization of collieries
- the creation of coking capacity
- the maintenance of supplies to utility or colliery-owned power stations
- the production of high-grade and special steels
- the rationalization of cast steel and rolled steel production
- the extension of coastal plants
- environmental protection to improve noise abatement techniques and to de-dust existing installations
- the production of minimum-cost peak current in the urban heating sector.

<sup>(1)</sup> OJ C 96 of 29. 9. 1971.



**54.211.12** Each decision is accompanied with a financial summary listing, for each applicant undertaking, the financial factors (turnover, profit, losses, reserve appropriations, cash flow, depreciation and participation interests, the coefficients or ratios (liquidity ratios, fixed assets and participation capital as a percentage of permanent capital, coefficient of short and long-term debt, own funds as a percentage of borrowed funds, etc), the economic and social factors (exports, production for the internal market, age of plant, size of labour force, etc.).

The project itself is examined in the summary from the point of view of its profitability and its conformity with the opinion delivered by the Community on the investment declaration previously submitted by the undertaking.

Obviously not all of these various data are available in the case of applications by nationalized undertakings, but the reasoned statement takes greater account of the economic and social objectives of the projects which, in any case, are guaranteed by the country concerned.

**54.211.13** These remarks, which are still of a general nature — since there is a certain time-lag between the decision and the loan agreement —, will in future deal more closely with the agreements and will enable us to shed a new light on the year's practical projects.

It is interesting to note one of the Institution's decisions, taken at the end of the year, which involves a contribution to the financing of an iron ore mining undertaking in a country associated with the Community. In doing so, it intends to help to improve supplies to Community steel companies, which also have financial interests in the mining company. This is the first case of this nature.

**54.212** In 1975 the ECSC granted 21 loans for *industrial structural reorganization under Article 56* of the Treaty. Sixteen of these were granted at reduced rates of interest. The projects financed in this way are in France, the Netherlands, the United Kingdom and Italy. On average, ECSC participation may be estimated at 30 % of total investments.

**54.212.1** As in the case of earlier loans, a study of the preparatory documents relating to the year's decisions gives rise to some initial comments.

**54.212.11** In this matter the ECSC participates in the policy of the Member States on whose behalf the applications are submitted. These applications have thus already been the subject of studies and are generally accepted after additional information has been obtained from the competent national public authorities. It is chiefly the departments more especially concerned with regional policy which examine the desirability of accepting each application for financing by the Community.

**54.212.12** The structural reorganization projects chosen are to permit the reemployment of some 2 170 workers made redundant in the coal and steel sectors. Their purpose is to extend and modernize production plants for white steel, the manufacture of bearings, the transfer of production units to other places (unemployment areas), the construction of foundries, the replacement of open hearth furnaces by new processes, the manufacture of secondary products, the construction of factories to manufacture slabs for sheet steel to be colour-coated.

**54.212.13** The annex to the draft decision lists both the social and financial data ; the former — to which greater emphasis is given — refer to the employment situation in the area under consideration and the reemployment possibilities offered by the projects ; the latter provide summaries of the thorough analyses drawn up by the financial departments concerned and list the economic and financial aspects both of the market for the proposed product and of the undertaking to be financed.

TABLE 22

**Loans granted out of borrowed funds**  
*Breakdown by country and type of security obtained*  
*Balances outstanding at 31. 12. 1975 (EUA)*

Type of security	Belgium	Denmark	Germany	France	Italy	Luxembourg	Netherlands	United Kingdom	Total
1. Government guarantees and negative clauses	1 739 525			4 832 315					6 571 840
2. Guarantees of Member States	69 768 126		97 700 086	82 702 667	22 255 522	1 058 125		324 880 301	598 364 827
3. Indemnity bonds of financial establishments	47 927 272		76 432 515	249 475 173	41 913 068		6 308 766	514 898	422 571 692
4. Indemnity bonds of financial establishments and mortgages			6 631 882				2 093 472		8 725 354
5. First mortgages	9 848		537 993 089	395 220	2 301 920		33 837 386		605 370 272
6. Second mortgages			21 163 184				7 536 066		28 699 250
7. Indemnity bonds of industrial groups and negative clauses	2 145 407			7 253 706	77 556 467			6 503 101	93 458 681
8. Indemnity bonds of industrial groups	21 711 075		16 197 653	50 054 421	211 836 523	651 316	6 437 600	2 667 089	309 555 677
9. Negative clauses and miscellaneous	1 218 717		7 780 442	3 451 337	111 561	2 157 298	6 672 296		21 391 651
10. Registered mortgage bonds			4 058 065				424 629		4 482 694
11. Bank guarantees			15 297 740	103 482 009			13 775 174		132 554 923
12. No guarantee				5 198 034					5 198 034
13. Subsequent public sector guarantees			7 720 833						7 720 833
<b>Total per country and for the Community</b>	<b>144 519 970</b>	<b>30 832 809</b>	<b>790 975 489</b>	<b>506 844 882</b>	<b>355 975 061</b>	<b>3 866 739</b>	<b>77 085 389</b>	<b>334 565 389</b>	<b>2 244 665 728</b>

**54.213** A loan of 493 247 u.a. for the *construction of social housing* was granted out of borrowed funds in 1975 as part of the seventh programme (for the normal portion) in Belgium (1).

**54.214** The interest rate of 10 % per annum, which had applied since the beginning of 1975, was changed three times during the year : 9 % from 26 March, 8 1/2 % from 18 July and 9 % from 20 October.

By its decision of 18 June 1970 (2), the Institution reduced this rate by three points, which meant that some industrial loans and most loans for structural reorganization could be granted at a reduced rate of interest which was fixed successively at 7 %, 6 %, 5 1/2 % and 6 %.

These rates, however, are no more than a pointer since, in view of the considerable fluctuations on the markets, the Institution had to adapt them to the costs of the corresponding borrowings. Thus in 1975 the interest rate applied was in 18 cases higher (by between 0.25 and 0.75 %) than the nominal rate in force at the contract date. In most cases it was between 0.125 % and 0.50 % higher than the nominal interest on the corresponding borrowings.

With regard to loans for the construction of social housing, the normal interest rate is still applied, but it must be noted that the beneficiaries receive more favourable conditions owing to the method of combining funds, whereby the greater part of the loan is provided from the ECSC's own resources, which carry only a very low interest rate.

**54.215** 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 22. 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.

**54.216.** No new disputes have arisen since 1968 (3). Under the terms of a rationalization plan agreed in 1968 between the ECSC and an enterprise receiving an industrial loan, the Institution took over during the year a sum of 81 298 u.a., representing 26.3 % of the repayment instalment (principal and interest) normally due at 31 December 1975.

The recovery of the debt from the second debtor, who has defaulted since 1968 and went bankrupt, by recourse to his security in the form of on a piece of land, is complicated by a decision of the local commune to expropriate him. The Institution has taken the necessary steps to pursue this matter, the solution of which is likely to be further delayed.

The third doubtful debt (47 147 u.a.) has proved unrecoverable even though it was guaranteed by a first mortgage on a building complex and a similar pledge in respect of a business. The recent sale of the property raised only a negligible sum which was barely enough to cover legal expenses.

At 31 December 1975 all loans still outstanding from defaulting debtors represented only 0.04 % of all loans granted out of borrowed funds.

The provision for doubtful debtors (1 568 218 u.a.) corresponds to the current risks involved in this dispute.

## **54.22** B — Loans granted out of non-borrowed funds

In 1975, 136 loans were granted to a total value of 18 396 886 u.a., bringing the loan total to 105 559 538 u.a. at the end of the year.

### **54.221** Allocations out of the special reserve

Nineteen of these loans are intended for the financing of social housing construction programmes and amount to 16 737 777 u.a. Current loans of this kind, totalling 91 129 814 u.a., represent 86 % of

(1) See No 58

(2) OJ C 73 of 18. 6. 1970.

(3) Auditor's Report for 1974, No 54.25.

TABLE 23

**Loans granted out of the special reserve***Breakdown by country and type of security obtained Balances outstanding at 31. 12. 1975*

Country	Government guarantee	Registered mortgage bond	Mortgage	Indemnity bound and other guarantees	No guarantee	Total (EUA)
Belgium	2 468 800	—	—	—	1 011 646	3 480 446
Denmark	—	—	—	—	690 391	690 391
Germany	1 301 681	27 434 259	—	14 314 181	12 824 487	55 874 608
France	1 044 674	—	612 896	11 985 276	7 390 401	21 033 247
Ireland	166 945	—	—	—	—	166 945
Italy	—	—	44 186	6 015 628	188 551	6 248 365
Luxembourg	2 248 344	—	—	—	—	2 248 344
Netherlands	—	1 720 648	—	3 574 724	—	5 295 372
United Kingdom	2 840 843	—	—	—	—	2 840 843
Total	10 071 287	29 154 907	657 082	35 889 809	22 105 476	97 878 561

total loans from non-borrowed funds. Since the methods used to finance form of activity are so varied, a special section has been devoted to them in order to give a better overall picture.

The repayment of the full amount (616 515 u.a.) of a loan granted before 1966 for industrial structural reorganization means that the special reserve is now exclusively allocated to loans for financing social housing.

Table 23 shows the various types of security required by the Institution.

**54.222 Allocations out of levy funds**

Earlier long-term loans at very low interest rates had been granted out of levy funds in 1959 and 1966 respectively for the social rehabilitation of workers (total now outstanding 311 668 u.a.) and research (total now outstanding 2 146 734 u.a.). Since then these activities have been financed exclusively by outright grants, on which our comments may be found in the relevant chapters of this report.

**54.223 Allocations out of the former pension fund**

In 1975, 117 loans were granted to officials of the Community Institutions for the construction of personal housing. The total at the end of the year was 11 971 322 u.a. or 11 % of total loans from non-borrowed funds. They are thus below the present ceiling of 12.1 million u.a.

We examined the records of 145 loans granted in 1972 to a total value of BFr 71 653 000. Before the subsequent introduction of a stricter selection procedure, the effects of which it is too early to estimate, a loan was granted to an official — already the owner of a house in which he was living with his family — to purchase an apartment as a second home. This remark applies to an earlier situation such as ought normally to be prevented from occurring by the priority selection criteria laid down in 1973 and strengthened since 1975.

During the year, new implementing provisions for loans were adopted owing to the difficulties caused by fluctuating exchange rates. Their purpose is to regulate the implementation of a new Decision laying down that, from 25 July 1975, all loans are to be expressed and paid in Belgian francs (this applies equally to the payment of loans as such, deductions from borrowers' salaries, interest payments or repayments of principal) (see Annex I).

### **54.3**      *Guarantee operations*

Under Article 52 (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 1975 of 19 799 489 u.a.

Our examination of these guarantees extended by the ECSC for commitments entered into by companies receiving non-Community loans does not give rise to special comment.



## Management and investment of funds

### 55 Scope of our audit

In this field, where operations are numerous and speedy, the objective of our auditing activities is to ensure at all times 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-term deposits and the various operations (e.g. arbitrage) connected with portfolio assets. We thus examine systematically all revenues other than levy income: interest, income from bank accounts and investments, interest on loans granted out of own funds, fines and interest on arrears miscellaneous revenue. For each account we check that the revenue amounts were correct, that their dates were fully respected and that they were correctly charged.

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** Between 1972 and 1975 the average annual return on liquid assets rose from 5.4 % to 8.24 %. This rate is based on the ratio between such returns and the arithmetical average of the assets which yield them. In 1975 the average liquid assets were 325 million u.a.

At 31 December 1975 the ECSC held liquid assets of 475 977 409 u.a., which are shown on the balance sheet assets under the headings 'cash and banks' (382 694 513 u.a.), 'short and medium-term investments' (27 105 613 u.a.) and 'portfolio' (66 177 283 u.a.). The greater part of these funds (409 800 126 u.a.) is held at banks in current accounts at sight and at notice, in fixed-term deposits running for less than one year or in the form of other short and medium-term investments.

Fixed-term deposits (FF 9 500 000) bearing a low rate of interest (3.785 % and 4.04 %), which were shown in the 1974 Report, still exist in 1975. These funds, deposited on these terms for a long period, were entrusted from 1963 to 1966 to a bank which was to reloan them to coalmining enterprises for boiler construction. The normal maturity date of these investments was to be 10 years after consolidation of the loans by the beneficiaries. Now that a considerably longer time has elapsed the first assistance payments were made, the institution should ask the agent bank why these loans have not been repaid.

By way of illustration, Table 24 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 25 gives a breakdown, by currency and interest rate, of bank holdings at sight and at notice (except for short and medium term investments and the portfolio). This twofold breakdown is clearly shown as a percentage of total liquid assets available at sight and at notice.

**56.2** It is interesting to compare the changes between 1974 and 1975 in both the size of investments and their interest rates for each currency.

TABLE 24

**Breakdown by country and currency of funds held by the ECSC at 31 December 1975**  
(in thousand EUA)

Country	Currency												Total per country	%
	BF	DKr	DM	FFr	£ Irl	Lit	LFr	NFL	£	SFr	\$	UA		
Belgium	10 771			1 035		5 829	1	381			145		18 162	3.51
Denmark		661											661	0.13
Germany			128 680					22					128 702	24.88
France				38 926		1 880				1 330	64 401		106 537	20.60
Ireland					63								63	0.01
Italy						57 850					19 995		77 845	15.05
Luxembourg	3 279		4 733	8 150		7 382	10 674			1 941	12 711	1 871	50 741	9.81
Netherlands								13 004					13 004	2.52
United Kingdom	1 320			1 916		19 518					27 461		114 294	22.10
Switzerland				1 916						1 518			3 434	0.66
USA											3 774		3 774	0.73
<b>Total per currency</b>	<b>15 370</b>	<b>661</b>	<b>133 413</b>	<b>51 943</b>	<b>63</b>	<b>92 459</b>	<b>10 675</b>	<b>13 407</b>	<b>64 079</b>	<b>4 789</b>	<b>128 487</b>	<b>1 871</b>	<b>517 217</b>	<b>100</b>
<b>%</b>	<b>2.97</b>	<b>0.13</b>	<b>25.80</b>	<b>10.04</b>	<b>0.01</b>	<b>17.88</b>	<b>2.06</b>	<b>2.59</b>	<b>12.39</b>	<b>0.93</b>	<b>24.84</b>	<b>0.36</b>	<b>100</b>	



TABLE 25

**Breakdown of investments held with banks in current accounts and fixed deposits at 31 December 1975, by currency and rate of interest**  
(in thousand EUA)

Rate of interest %	Currency										Total	%	
	DKr	£ IrI	DM	BFr	FFr	Lit	LFr	NFL	£	SFr			\$
<i>Current accounts</i>													
0 — 0.5	36	63	217	253	427	8	52	46	274	74	4 593	6 043	1.45
0.5 — 1.5			658	421	1	172	145	18		43		1 312	0.32
1.5 — 3			50	170	346	2 671	1	196				3 233	0.78
3 — 4					58							347	0.08
4 — 6					1 863							58	0.01
6 — 7.5												1 863	0.45
<b>Total current accounts</b>	<b>36</b>	<b>63</b>	<b>925</b>	<b>844</b>	<b>2 695</b>	<b>2 851</b>	<b>198</b>	<b>260</b>	<b>274</b>	<b>117</b>	<b>4 593</b>	<b>12 856</b>	<b>3.09</b>
<i>Fixed deposits</i>													
3 — 4	174		3 438	1 172	3 475			1 916		1 731		8 818	2.12
4 — 5	277		65 149	1 320	383			8 272		1 540		68 897	16.55
5 — 6			3 275	7 160	5 747							16 144	3.88
6 — 7					18 545							126 945	30.49
7 — 8					4 146							55 302	13.28
8 — 9					4 924							33 659	8.08
9 — 10					1 724							9 750	2.34
10 — 11	174				2 874				9 984			20 343	4.89
11 — 12									35 418			41 475	9.96
12 — 13									3 472			5 352	1.28
13 — 14									14 931			14 931	3.59
14 — 15												1 880	0.45
<b>Total fixed deposits</b>	<b>625</b>	<b>—</b>	<b>71 862</b>	<b>9 652</b>	<b>41 818</b>	<b>83 239</b>	<b>8 934</b>	<b>10 188</b>	<b>63 805</b>	<b>3 271</b>	<b>110 102</b>	<b>403 496</b>	<b>96.91</b>
<b>Sum total</b>	<b>661</b>	<b>63</b>	<b>72 787</b>	<b>10 496</b>	<b>44 513</b>	<b>86 090</b>	<b>9 132</b>	<b>10 448</b>	<b>64 079</b>	<b>3 388</b>	<b>114 695</b>	<b>416 352</b>	<b>100.—</b>
<b>% of Sum total</b>	<b>0.16</b>	<b>0.02</b>	<b>17.48</b>	<b>2.52</b>	<b>10.69</b>	<b>20.68</b>	<b>2.19</b>	<b>2.51</b>	<b>15.39</b>	<b>0.81</b>	<b>27.55</b>	<b>100</b>	

*Investments as % of whole*

*% interest yield*

Currency	1974	1975	Difference	1974 between	1975 between	Difference
DM	26.-	25,8	— 0,2	8 and 9	4 and 5	— 4
Lit.	7,8	17,9	+ 10,1	17 and 20	7 and 8	— 10
FF	9	10.-	+ 1.-	15 and 17	7 and 8	— 8
US \$	40,3	24,9	— 15,4	9 and 10	6 and 7	— 3
Fl.	2,2	2,6	+ 0,4	8 and 9	5 and 6	— 3
Bfrs	2,2	3.-	+ 0,8	11 and 12	6 and 7	— 5
Sfrs	1	0,9	— 0,1	10 and 11	3 and 4	— 7
Lfrs	2,8	2,1	— 0,7	11 and 12	6 and 7	— 5
£	8,3	12,4	+ 4,1	13 and 14	11 and 12	— 2

Investments in US \$ thus showed the greatest decrease, since at 31 December 1975 borrowings in this currency (US \$ 125 million) did not amount to even half of what they had been at the time of the previous balance sheet (US \$ 276 900 000). The exact opposite applies to investments in Lit., where borrowings in this currency, available as liquid assets, amounted to Lit. 328 554 000 and where the low level of withdrawals during the financial year and the incentive of a relatively high yield combined to maintain these assets.

The general fall in interest rates and income from securities which took place in 1975 particularly affected the Lit., the Sfrs and the FF (between 7 and 10 %) and explains the fall in the level of ECSC resources (see Table 14 for 1974 and 1975).

**56.3** To assist us in our audit we have been in regular receipt of monthly computer print-out statements of the ECSC's entire liquid assets (with dates and movements for all accounts, by currency and country) and of the securities portfolio, market prices, par values and interest due dates.

**56.4** During 1975 the institution used part of a loan in DM (45 981 250 u.a.) as an interim investment (103 days) by converting it into US \$ (swap credit) in compliance with the wishes of the Federal monetary authorities when is loan was issued on the German capital market (they wanted to have part of the funds obtained removed from the internal market).

However, in order that we should not be forced into entering an accounting loss by switching via the unit of account, the operation remained in the accounts as a foreign exchange investment (DM). In fact, if the conversion from DM into \$ and back into DM had been entered in the accounts in u.a., there would have been an initial exchange profit of 314 735-46 u.a. and then, on reconversion, an exchange loss of 405 271-34 u.a., which would have meant an overall accounting loss of 90 535-88 u.a.

With regard to the operation itself, the conversion from DM into \$ (at the rate of 2-346) and then from \$ into DM (at the rate of 2-3324) resulted in an exchange loss of DM 271 754, but this loss was offset by a higher investment return for \$ than for DM (6-8125 % for the \$ as against 4-74685 % for the DM).

In accordance with the statutory measures provided for by the Italian anti-inflation plan, 15 % of the interest on fixed-term deposits in Italy was withheld. The amounts frozen in this way, which represent a not inconsiderable sum, do not yield interest.

From time to time the regulations in force are designed basically to discourage speculation or, at the very least, movements of funds which cannot be controlled by the monetary authorities. In the case of the ECSC, this is neither valid nor conceivable (Article 3 of the Protocol on Privileges and Immunities).

**56.5** A certain number of points noted in the 1974 Report still apply in 1975.

**56.51** In the case of bank accounts requiring 48 hours' notice, interest is calculated in a number of different ways. In some countries, e.g. the Federal Republic of Germany, credit interest is calculated as per the day on which the capital invested or the current rate of interest changes. In banks in other countries, e.g. Luxembourg and the United Kingdom, interest is calculated at different fixed intervals, e.g. every quarter.

These procedures, which differ according to the banks or countries concerned, should be carefully considered by the institution when it is deciding where to invest funds.

**56.52** There were again instances of interest payments between two and five months overdue from banks on funds invested with them by the institution. One particular case is that of a French bank where interest credited on 3 February 1975 involves two investments, one of FF 13 000 000 at 3.3 % for the period 30 June 1974 to 1 August 1974, and the other of FF 11 970 000 at 3.3 % for the period 1 August 1974 to 31 December 1974. On 4 August 1975 the same bank credited the interest on an account of FF 11 970 000 at 3.3 % for the period 1 January 1975 to 30 June 1975.

**56.53** The Commission of the European Communities continued in 1975, as in previous years, to pay the ECSC the rent of the building in Washington at the rate of US \$ 42 000 instead of 42 000 u.a., as if the conversion rate of the US \$ against the u.a. had remained unchanged. However since 42 000 u.a. is now equal to US \$ 56 400.12, the ECSC suffers a shortfall of US \$ 14 400.12 or 10 723.47 u.a. This new shortfall follows those of the three previous years and thus shows that there is a lack of preparedness to change a state of affairs which each of our reports has criticized. While the full amount of insurance for the building — a large part of which is payable under common law by the tenant — has been borne by the ECSC and entered under its investment costs, the institution has not asked for reimbursement of the portion payable by the Communities.

Further, the sum of US \$ 536.22, used to replace the dehumidifier and to repair the air conditioning plant, was charged to the same cost account. Yet the Commission is responsible, under its operating budget, for a maintenance contract which should cover labour costs and spare parts, charges normally borne by the tenant and not the proprietor.

**56.54** In Belgium large purchases of ECSC securities were made by the Banque Nationale de Belgique (between 15 August and 31 December 1975) under a 'market regulating' service agreed between the bank and the institution's departments.

In that context purchases amounted to Bfrs 172 340 000 and sales to Bfrs 31 040 000 (balance at 31 December 1975 = Bfrs 141 300 000). Losses on sales amount to Bfrs 403 546 (8 293.65 u.a.).

This deficit, to which must be added, on the one hand, the loss of profit from the investment of the corresponding funds (rates 1 — 1.5 % lower than that obtained from securities) and, on the other hand, the costs incurred through purchasing and selling (Bfrs 206 785 or 4 249.83), does not in itself justify this new practice, which has not been the subject of any reasoned decision by the institution.

On the other hand, if it is a question of good management, i.e. an insurance against the risks to which one's credit standing would be exposed as the result of large fluctuations in the rates of one's own securities, it is pertinent to ask why this precaution was confined to the Belgian market alone.

**56.55** We once again noticed anomalies and differences in the method of calculating amounts of interest, particularly in determining the period which they cover, by banks in the Community, or indeed within a single country. These methods sometimes entail gains and sometimes losses in investment returns. In several cases it is striking that certain banks, when choosing between two procedures which they use concurrently, adopt the system which is more favourable to them.



## 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 supervise 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 financing period.

### **Remarks**

**58**            From its inception up to 31 December 1975 the ECSC has helped finance the implementation of eight standard programmes for the construction of social housing and three experimental programmes. The latter are designed to solve the pressing problem of housing for workers in ECSC industries and to help ease current housing problems in general.

The standard programmes are financed from loans granted out of the special reserve (72 %) and borrowed funds (28 %). 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, the three experimental programmes and the first instalment of the eighth programme currently being financed, 135 596 dwellings had been completed by 31 December 1975 out of the 142 208 receiving aid. The total cost of this housing is 1 689 thousand million u.a., financed both by the ECSC and other sources of funds raised by the ECSC. Of this amount, the ECSC paid 125.1 million u.a. out of own funds and 49.1 million u.a. out of borrowed funds.

Table 26 shows the amounts of assistance granted to the seven programmes financed, grouped according to the nature and origin of the funds disbursed. No sums have yet been disbursed under the eighth programme, either as subsidies or as loans.

TABLE 26

## ECSC assistance to social housing construction

Breakdown by programme and type of assistance  
Position at 31. 12. 1975

	Outright subsidies	Amounts disbursed (including repayments)			
		Loans out of borrowed funds	Loans out of the special reserve	Loans out of levy income, granted for technical and economic research	Loans out of levy income, granted for rehabilitation assistance
— <i>Social housing construction</i>					
— 1st programme		21 077 936			
— 2nd programme		2 799 874	15 166 641		
— 3rd programme		3 843 533	12 721 934		
— 4th programme		11 886 781	18 931 049		
— 5th programme (standard and special)		6 479 433	27 917 769		
— 6th programme		442 894	20 413 513		
— 7th programme (standard and experimental)		2 560 550	29 615 863		
<i>Housing for rehabilitated workers</i>					492 583
<i>Experimental social housing construction</i>					
— 1st programme	995 838				
— 2nd programme	904 176		334 098	3 121 901	
<b>Total</b>	<b>1 900 014</b>	<b>49 091 001</b>	<b>125 100 867</b>	<b>3 121 901</b>	<b>492 583</b>

During 1975 loans for the standard instalments paid out under the fifth, sixth and seventh programmes were taken from the special reserve and from borrowed funds (16 741 504 u.a.).

The breakdown of these loans by country is as follows: Belgium 1 183 730 u.a., Denmark 387 949 u.a., France 4 323 052 u.a., Germany 7 500 885 u.a., Ireland 167 696 u.a., Italy 763 921 u.a., Luxembourg 450 992 u.a., Netherlands 827 106 u.a. and the United Kingdom 1 136 173 u.a.

**59** On 15 November 1974 the Institution decided to implement an eighth programme in two instalments each lasting two years (1975/1976 and 1977/1978), to finance housing for workers in the coal and steel industries. A first instalment of 25 million u.a. for the first operating stage (1975/1976) was granted out of funds in the special reserve.

On 28 and 29 April 1975 the Council of Ministers gave its assent under Article 54, Paragraph 2 of the Treaty to this eighth programme, which pursues largely the same objectives as the previous one. The housing financed in this way will thus serve the new steel complexes in the coastal regions, as part of the restructuring of coalfields or traditional steelmaking centres. It will be used for migrant workers and the disabled and in town planning schemes for modernizing housing. As in the case of the other programmes the Institution, following a decision and assent by the Council, may grant loans to beneficiaries other than the producer enterprises specified in Article 80 of the Treaty. In the event these will be property developers or other institutions specializing in social housing construction.

**59.1** The decision to grant a first operating instalment of 25 million u.a. under the eighth programme was taken on 15 July 1975. The funds will finance the construction or modernization of some 9 000 dwellings, and break down by country as follows:

Country	Out of the special reserve 1975/1976		Number of dwellings proposed	
	u.a.	%	New construction	Modernization
Germany	9 075 000	36.30	2 000	800
Belgium	2 000 000	8.—	375	150
France	4 675 000	18.70	1 400	900
Italy	2 000 000	8.—	200	—
Luxembourg	550 000	2.20	120	—
Netherlands	835 000	3.34	250	100
United Kingdom	5 000 000	20.—	1 000	1 500
Ireland	365 000	1.46	80	90
Denmark	500 000	2.—	70	50
Total	25 000 000		5 495	3 590

**59.2** In 1975 three decisions to grant six loans (three in Germany and three in France) were taken under the eighth programme but no sums were disbursed.

The three loans granted to German financial institutions at 1 %, for a period of 25 years and totalling DM 28 million, are to be reloaned on the same terms, half to the coal sector and half to the steel sector, for the construction or modernization of some 3 600 dwellings. When the portion earmarked for Germany and expressed in units of account (9 075 000 u.a.) at the rate used for the ECSC balance sheet at 31 December 1974 was converted into national currency (DM 29 219 500), this left a surplus of DM 1 219 500 after these loans (DM 28 million) had been granted. It was thus decided that this surplus would be granted as a subsequent loan for a specific operation to modernize existing housing for migrant workers in Berlin.

The three other loans granted in France at 1 %, for a period of 20 years and for a total of FF 7 928 550, were given to coalfield building companies which must in turn reloan them on the same terms for the financing of some 1 200 new dwellings. These three loans represent the total amount earmarked for the French coal sector (1 327 170 u.a.) in the breakdown given in the table above for the various countries (4 675 000 u.a. for France).

**59.3** All other decisions taken in 1975 concerned the financing of construction projects in all the Community countries (including Denmark, Ireland and the United Kingdom) under the fifth, sixth and seventh programmes (1st and 2nd instalments). In general, a full list of projects for each borrower is appended to the decision. This gives details of the developer, the site, the employer, details of the dwellings financed (number, type, intended use), the construction cost and the various sources of funds (ECSC, government, employer, personal contributions and loans various).

In general the ECSC's contribution is between 5 and 12 % of the total construction cost in the case of funds loaned out of the special reserve. It may, however, be up to 60 % for experimental programmes or when the loans are constituted by combining borrowed funds and funds from the special reserve.

**59.4** Two financial and building enterprises to which the ECSC gave two loans in 1974 under the seventh programme of social housing construction and modernization declined a part of the loans offered by the ECSC in 1975, keeping only that part which was granted out of the special reserve at the more favourable rate of 1 % and for a longer period (20 years). The original offer had carried average rates of 6 and 5.5 %, as a result of combining borrowed funds with own funds, and a term of 12 years, but the applicants had not considered these conditions attractive enough. Although the Institution finally agreed to reduce the amount of its assistance in this way, it insisted that the objectives pursued should remain unchanged, and the borrowers undertook to make up the additional funds required to complete the projects.

**60** The special reserve which guarantees these loan operations totalled 96 146 666 u.a. or 103 million EUA at 31 December 1975.

Under a decision of 22 December 1972 (1) the Commission made provision for the allocation of 60 % of the former pension fund, i.e. the part hitherto uncommitted, (2) as extra security on social housing commitments.

If we calculate the amount to be covered by adding total loans for social housing out of the special reserve at 31 December 1975 (91 129 814 u.a.) and amounts still to be disbursed at the same date for social housing programmes not yet completed (28 175 640 u.a.), we arrive at a figure of 119 305 454 u.a. or 127 804 196 EUA.

Allocations approved and paid are thus not entirely covered by the funds secured by the special reserve, far from it, since the deficit is 23 158 788 u.a. or 24 804 196 EUA. Furthermore, all loan decisions explicitly refer to this guarantee and do not mention the additional guarantee provided by the 60 % of the former pension fund. These 60 % would in any case be insufficient since, at the end of 1975, they were only equivalent to 22 305 610 u.a. (3) or 23 895 554 EUA.

TABLE 27

**Progress achieved in social housing construction projects at 31. 12. 1975**

*Breakdown by country (standard and experimental programmes)*

Land	Number of dwellings financed	comprising dwellings		
		in preparation	under construction	completed
Belgium	7 472	237	32	7 203
Denmark	126	32	21	73
Germany	87 618	807	1 564	85 247
France	27 427	1 853	1 001	24 573
Ireland	139	34	57	48
Italy	6 575	—	400	6 175
Luxembourg	995	18	5	972
Netherlands	5 329	418	72	4 839
United Kingdom	6 527	61	—	6 466
<b>Total for the nine countries</b>	<b>142 208</b>	<b>3 460</b>	<b>3 152</b>	<b>135 596</b>

Table 27 shows details of progress achieved in the first seven construction programmes financed by the ECSC at 31 December 1975, as revealed in the dossiers kept by the authorizing departments.

**62** No details of failure to perform work or to pay sums due were received by the authorizing departments from the banks and financial institutions responsible for distributing the loans. Under the seventh programme still under way in Italy, an instalment of 10 % is still to be paid to the borrower banks for final work on 800 houses which are behind schedule.

(1) Since this concerns a 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.

(2) 40% of the pension fund existing at the time of the merger of the Executives (25 509 351 u.a.) plus the interest added to it since guarantee the building loans granted of officials of the European Communities.

(3) This portion of the pension fund was increased on 31. 12. 1974 by the sum of 7 million u.a. taken from the contributions paid by the new Member States.



**63** In our previous report (1) we discussed the checking procedures followed for construction programmes. The only material item shown in the files here is still the postcard sent to each worker on the project via his employer. These documents, on which are entered the dates on which the work begins and ends, are returned, again via the employer and usually within a reasonable period of time, to the appropriate departments of the Institution which keep a record of them.

In recent years, and particularly since the beginning of the eighth programme, there has been a revival of cooperation with the 'regional committees' composed of representatives of the appropriate ministries, employers' associations and trade unions. This had been at a very low level after the restructuring of the departments which followed the merging of the Executives. Contacts with national officials within these committees and the contacts maintained by the authorizing departments with the bodies which borrow funds are extremely valuable and provide continuity which ensures that work in hand will be complete.

Nevertheless the independent auditor must be able to assess whether, quite apart from overseeing the material completion of the projects — a task largely performed by the national government departments and intermediary financial institutions — due attention is given to ensuring that the specific procedures required by the joint policy objectives are in fact followed.

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(1) 1974 Auditor's Report, No 63.



## General conclusions

**64** As a preface to these conclusions and in order to put them into a clearer perspective, we shall begin with a *summary* of the main features of the *ECSC's financial activities* in 1975.

**64.1** 1975 was marked by a steady increase in the volume of borrowings. The Institution floated 23 loans to a total value of some 660 u.a. (as opposed to 528 million u.a. in 1974), bringing total loan issues since the ECSC's inception to almost 2 600 million u.a. Loans granted out of borrowed funds totalled more than 700 million u.a. and were granted for the purposes provided for in Articles 54 and 56 of the Treaty (structural reorganization and industrial loans). The largest proportion of loans in 1975 were earmarked for industrial programmes under Article 54 of the Treaty.

Taking into account the steady increase in the rates of interest on the markets and without prejudice to the *ad hoc* decisions taken by the Institution to recover from its borrowers the real cost of the corresponding funds, the rate of interest on loans was fixed, for example, at 10%, 9%, 8.5% and 9% successively during 1975. Assistance for loans subject to selective decisions brought the interest to 3 points lower than the standard rate. Other loans granted out of ECSC own funds, as shown under the 'special reserve' totalled almost 17 million u.a. These were long-term loans granted at moderate rates of interest for purposes of a social nature (social housing construction).

**64.2** Levy resources reached more than 70 million u.a. in 1975, i.e. 600 000 u.a. more than in 1974. This slight increase, despite the fact that the levy rate had remained unchanged since 1972 (0.29%) and despite an adverse economic situation, is due to the updating of the average values forming the assessment basis for the levy (result of inflation). Interest yields on liquid funds, amounting to some 27 million u.a., were 15% down on 1974. This is due to the general decline in interest rates in the course of the year.

**64.3** The excess of income over budgetary and financial expenditure was about 42 million u.a., thus giving the ECSC substantial liquid assets even though this balance compares unfavourably with that of 1974 (66 million u.a.). The rate of outgoing budgetary payments (administration, research, rehabilitation and assistance for coke) and financial payments (finance and assistance, Articles 54 and 56) remained much the same as in 1974 except for rehabilitation where payments increased by almost 66%.

**64.4** As regards provisions for financial assistance the ECSC continued to set aside sums for which binding commitments had been subscribed, either in the form of contracts signed (research), agreements between the parties concerned (rehabilitation), contracts for loans in connection with interest reductions under Articles 54 and 56 or financial assistance officially approved for coking coal, although in this case the total at the end of 1975 does not correspond exactly with the financial impact of decisions that had been taken and were in force at that time.

'Other provisions', which are virtually reserves with no legally binding character, are still shown on the balance sheet, viz :

- those constituted out of the levy and reflecting commitments which the Institution had intended but was unable to subscribe in 1975 and which it now proposes to allocate in the first six months of 1976 (more than 14 million u.a.)

- Those drawn from other resources which :
  - are designed to enable the Institution to meet the risks inherent in its financial activity. This is the case with the provision for debtors in respect of loans granted out of borrowed funds, this being amply justified on account of the poor chances of recovering the debt in question
  - are designed to cover, as of 1975 such possibilities as compensation of borrowing costs (6.5 million u.a.) and depreciation of the portfolio (700 000 u.a.) which in the short or medium term cannot be covered by wide margins
  - set aside miscellaneous income which is to be allocated to assistance in 1976, whether it be the 13 million u.a. set aside for that particular purpose or the 2.8 million u.a. held to offset, if need be the effects of the economic downturn on levy resources.

The balance sheet also includes a total of 'unallocated reserves' which merely draw a dividing line between the two branches of activity: assistance — for which almost 30 million u.a. have been reserved — and the loan service account which acts as a kind of additional guarantee (7.2 million u.a.) to that provided by standard funds and reserves (guarantee fund, special reserve, former pension fund).

To place a figure on the potential funds available to the Community at the end of 1975 the assets paid back in excess (real estate and issuing costs) must be added to this liability which is not due.

**65** In meeting his obligation to assess the year's operations from the point of view of financial management while avoiding the danger of taking his reflections to the stage of political issues the external auditor must proceed carefully and accomplish his task in full without going beyond its limits.

However, management can only be understood in terms of a policy whose elements are completely accessible. Such a policy must therefore exist and must be explained in terms of its underlying aspects.

**65.1** Bearing in mind the institutional content of the ECSC, it is only at Institution level — High Authority with legislative, executive and regulatory powers — that the auditor must be informed of political aspects which, in accordance with the Treaty provisions, involve him and knowledge of which is indispensable.

We have already expressed our satisfaction with the regular transmission of decisions — in the form in which they are submitted to the Institution

**65.11** However, there are still major gaps, at the highest level, as regards the implementation of tasks of financial policy. We were hoping to find in the approval of the balance sheet the explanations normally associated with real 'decisions' irrespective of whether they relate to the setting aside of management surpluses, their distribution or the effect on certain provisions of the changeover to the European unit of account. The very fact that no correlation has been established between the new and old balance sheet prevented us from tracing the developments of the year.

Moreover, a draft decision on which a vote was to be taken by the Members of the Institution included an annex with an inaccurate description of a loan operation, although this did not prevent the approval of the arrangements which were based on inadequate background information.

**65.12** On another point concerning the management of the portfolio, we note that the objective of an agreement with the Banque Nationale de Belgique acting on behalf of the Belgian pension fund is to prevent peaks in the quotation of ECSC securities. Since we do not have the reasons for a non-existent decision our question is whether only the Belgian market presents such risks. If not, why limit this practice to one market if such a practice really is indispensable.

**65.13** Finally, the way things have developed has not induced the Institution to reflect on the state of funds made available to carry out or rather manage policies, the magnitude of which continues to increase at a rate unheard of barely a few years ago. If care is not taken both the preparation and updating of dossiers will suffer. This is what has happened in the case of the

dossiers on loans, where we have noted a lack of system in the recording of the effects of new investments on employment.

**65.2** We have repeatedly brought up the difficulties inherent in the spread of services and the lack of a complete centralization of responsibilities — especially financial — at the ECSC.

Now at a time when centralized accounting, which is slowly coming into being, is still lacking some of the coordinating elements, whose usefulness we thought had been recognized have also been abandoned. In the section on the analysis of research projects we have stated that a complete register has not been kept. How, under these conditions, can the higher authority be sure of always knowing exactly what it has undertaken and what it is about to undertake?

**65.3** In international conflicts resulting from the different areas of competence involved arbitration is often lacking. We have been asking without success for several years that the tenant/owner relationship between the Commission of the European Communities and the High Authority should correspond exactly to that defined by the lease agreement for the property acquired by the ECSC in Washington. We hope that this problem will finally be solved, like the settlement this year of a sum of 18 million u.a., which represents the ECSC flat rate contribution to the joint administrative expenses. A certain arrangement between services has also helped to reduce the time taken to transmit accounting documents showing details of the balance sheet.

**65.4** We have always maintained that the external audit should be complete and should draw on a well organized check of management operations. That is why, even if we take into account the positive side of the results obtained in certain sectors — increase in inspection visits to check the levy, auditing of former gaps in research, increased contacts in the sector of social housing — we regret that reports are still not sufficiently complete and are not the result of permanent and systematic action. Whatever the form of these checks, adequate reports must be filed in the dossier and must explain the approval or rejection by the inspector of details, amendments to agreements (especially research) or statements regarding the qualification conditions for financial aid from the ECSC (especially social housing). We should also be informed in good time of the dates of on-the-spot checks and should then be sent the internal reports (this procedure is particularly lacking in the case of rehabilitation).

**65.5** Finally, once again this year we wish to draw the attention of Member States — who receive this report via the Council — to the superfluous administrative and financial costs incurred by the ECSC because it is considered as being a potential speculator in the same way as legal persons in a country which has taken anti-speculation measures, which are in themselves perfectly justified. We take the view that the ECSC funds, as covered by the protocol on privileges and immunities, should not be treated like funds of those subject to the legislation but rather in the way in which funds of the State itself are treated.

**65.6** Finally we should like to recall certain technical points.

In section 39.42 we gave an interpretation of the concept of beneficiary enterprises qualifying for rehabilitation aid (Article 80 of the Treaty) which, in our opinion, is at variance with the terms of the express provisions of the legally clear text. In section 46 we expressed the hope of improved organization in the departments responsible for the administration of research projects on steel.

Finally, we would stress the importance of sufficient provisions, reserves or guarantee funds. Once again this year we had to point out (No 60) that the balance sheet refers exclusively to a special reserve which is appreciably below what is needed to meet commitments made in respect of social housing. As regards the former pension fund, its denomination in EUA (No 22) has led to a reduction in the corresponding amount in u.a., the same also being true of the fund for aid for coke and coking coal (No 21.15).

**66** As a result of our investigations and auditing activities conducted during and at the end of the 1975 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 income and expenditure) dated 31 December 1975 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 1975 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 single Commission under the terms of the Treaty of Paris is also correct and proper subject, however, to the reservations expressed 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 in French. It was translated by the translation department of the European Communities in Luxembourg and published in the various languages by the Publications Office. This year we were once again able to submit our report in all the official languages of the Community, having received all the assistance and cooperation necessary. Thus the authorities for which it is intended will receive our report by a date which will certainly permit them to use it at the most appropriate time.

**67** The annual completion of our tasks has, once again, been facilitated by indispensable support from the departments we audited, in the form of frankness and total cooperation, and from our own administrative unit, headed by Mr Planchard, in the form of untiring effort and unflagging interest in the problems of auditing.

Luxembourg, 30 June 1976



Paul GAUDY  
Auditor

## **ANNEXES**





## ANNEX I

# 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 States, 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 (social housing construction) and the field of investments or industrial structural reorganization. These are funds which the ECSC may borrow solely for reallocation 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 other sources.

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 an 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 mandatory, 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 income and expenditure which, because it is permitted to borrow funds, the Institution must 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

Under Article 49 of the Treaty establishing the European Coal and Steel Community the institution is empowered to raise the funds necessary 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). In no event may levy income be used to finance investments. However, Article 50 provides that the levy may be used 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 cover loans contracted directly by third parties, should any reserve constituted by the institution by adjusting 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 <sup>(1)</sup>.

(1) Official Journal of the European Communities :

- No 1 of 30. 12. 1952 (Decisions Nos 2/52 and 3/52 of 23. 12. 1952)
- No 18 of 1. 8. 1954 (Decision No 30/54 of 25. 6. 1954)
- No 21 of 28. 11. 1955 (Decision No 29/55 of 3. 11. 1955)
- No 21 of 28. 11. 1955 (Decision No 31/55 of 19. 11. 1955)
- No 4 of 22. 2. 1956 (Decision No 4/56 of 15. 2. 1956)
- No 5 of 27. 1. 1959 (Decision No 3/59 of 21. 1. 1959)
- No 5 of 27. 1. 1959 (Decision No 4/59 of 21. 1. 1959)
- No 5 of 27. 1. 1959 (Decision No 5/59 of 21. 1. 1959)
- No 39 of 22. 6. 1959 (Decision No 34/59 of 10. 6. 1959)
- No 94 of 12. 6. 1964 (Decision No 13/64 of 3. 6. 1964)
- No 46 of 22. 3. 1965 (Decision No 5/65 of 17. 3. 1965)
- No 46 of 22. 3. 1965 (Decision No 6/65 of 17. 3. 1965)
- No 104 of 14. 6. 1965 (Decision No 8/65 of 2. 6. 1965)
- No 108 of 16. 6. 1966 (Decision No 10/66 of 8. 6. 1966)
- No L 312 of 28. 12. 1968 (Decision No 2145/68/ECSC of 18. 12. 1968)
- No L 322 of 24. 12. 1969 (Decision No 69/490/ECSC of 18. 12. 1969)
- No L 284 of 30. 12. 1970 (Decision No 2650/70/ECSC of 22. 12. 1970)
- No L 282 of 23. 12. 1971 (Decision No 2733/71/ECSC of 15. 12. 1971)
- No L 286 of 23. 12. 1972 (Decision No 2691/72/ECSC of 18. 12. 1972)
- No L 297 of 30. 12. 1972 (Decision No 2821/72/ECSC of 22. 12. 1972)
- No L 299 of 31. 12. 1972 (Decision No 2853/72/ECSC of 29. 12. 1972)
- No L 299 of 31. 12. 1972 (Decision No 2854/72/ECSC of 29. 12. 1972)
- No L 361 of 29. 12. 1973 (Decision No 3543/73/ECSC of 29. 12. 1973)
- No L 357 of 31. 12. 1974 (Decision No 3329/74/ECSC of 20. 12. 1974).

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 regularly 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 lowered. 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 u.a. by 30 June 1956 and remained unchanged until 31 December 1972. Although this fund increased to 112 million u.a. in 1973, 120 million u.a. in 1974 and 140 million in 1975, the levy rate itself was not affected by these latest increases.

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.
- (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 and Acid 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 (OECC 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 No 2/52 defines the *average value* on which assessment of the levy is based.

The average per-tonne value applied to each of the products subject to the levy is that calculated on the basis of net receipts ex works. It is, however, reduced by the value of the average quantities of products subject to the levy used in producing one tonne of the product in question. This value is applied to the whole of production, whether sold or stocked.

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 onwards <sup>(1)</sup>, it must examine every year the basis for fixing a new average value. It may, however, 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 previously liable which have played a part in their manufacture.

<sup>(1)</sup> Official Journal of the European Communities No L 286 of 23. 12. 1972 (Decision No 2691/72 of 18. 12. 1972).

The conditions of assessment and collection are fixed in a general decision by the institution taken after consulting the Council.

## **71                    Statements of output**

The Levy Office maintains a list of addresses of Community enterprises which are liable to the levy. This list is constantly modified 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 computer listings (and an 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 enterprises 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 Office and for the internal inspectorate.

It frequently happens that, as a result of errors of calculation or interpretation, enterprises 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 enterprises coming under 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 less than 100 u.a.

The statement forms are sent by the Levy Office by the 5th of the month following that of the production in question. Enterprises must complete and return them by the 20th of the same 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 at 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 following that of the production concerned. Enterprises make their payments in the currency of the country where they have their registered headquarters into various accounts maintained by the ECSC in banking establishments in the nine countries of the Community.

On the basis of daily records, the Levy Office draws up two copies 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 Office for future checking operations.

Under Article 50 of the Treaty (Paragraph 3) the institution may charge enterprises not meeting their obligations arrears interest of up to 5 % per quarter overdue. Pursuant to Decision No 3/52 (Article 6), levies not paid are charged 1 % interest per month (i.e. 3 % per quarter) as 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 Office) which may be spread over three months.

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 and must be effected after the enforcement order in the form usual in that State 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.

As from 1 January 1959 <sup>(1)</sup>, the ECSC has authorized a number of coal mining enterprises to defer, without arrears interest or penalty, payment of sums due under the levy for tonnages stocked as a result of marketing difficulties which led in the Community coalfields to exceptional stockpiling of hard coal, coke derived from hard coal and hard coal briquettes. 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 : in fact it was from 1958 onwards that the coal crisis caused marketing difficulties which became widespread and led to exceptional stockpiling of hard coal, coke derived from hard coal and patent fuels.

However, with the accession of three other countries to the ECSC on 1 January 1973, changes in this temporary deferment procedure became necessary, as the reference date of 31 December 1957 could not be applied to the new member countries without subjecting their previous production to the levy. From this date,<sup>(2)</sup> therefore, the institution recognizes as normal any stockpiling up to 3 % of the production liable to the levy <sup>(3)</sup>.

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 ascertain the monthly fluctuations in their stocks and the amount of deferments or the amount of levies due should these deferments have lapsed.

It is also laid down that with effect from the same date <sup>(2)</sup>, in order to facilitate the transition from the old system to the new, any subsequent withdrawals from stock by undertakings which, on 31 December 1972, continued to hold goods in respect of which payment of the levy had been temporarily deferred shall, until such stocks have been totally disposed of, be set against the stocks to which these deferments relate, thereby making payment due in respect of the goods withdrawn from stock.

### **73 Levy collection procedure**

As from 1 July 1967, when the Merger Treaty establishing a single Council and a single Commission of the European Communities came into effect, the powers and competencies 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 structure.

**73.1** Since the executives were merged, the Levy Office has been attached to the Directorate-General for Credit and Investments, which administers the funds and financial operations entailed by the ECSC's policy of borrowing and lending. This department operates in the same way as 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 liabilities discharged.

<sup>(1)</sup> Official Journal of the European Communities No 5 of 27. 1. 1959 (Decision No 5/59 of 21. 1. 1959).

<sup>(2)</sup> Official Journal of the European Communities No L 299 of 31. 12. 1972 (Decisions Nos 2853/72/ECSC) and 2854/72/ECSC of 29. 12. 1972).

<sup>(3)</sup> This 3 % represents stocks held at 31. 12. 1957 in relation to total chargeable production in 1957.

- 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 Office, 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 Office gives the inspectorate broad guidelines as to the sectors it should examine.

Under Article 86 of the Treaty the officials who carry out these checks enjoy the same rights and powers as are granted by the rules 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 risen as to the correctness of the output statements 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 Office.

With effect from 1 January 1975, <sup>(1)</sup> iron and steel undertakings are required to make available to the institution's officials or authorized agents carrying out checks regarding the levy, technical and accounting documents, as exactly defined in the Decision, for the current calendar year and for not less than the three preceding calendar years.

**73.3** The *technical advisers* attached to the coal and steel directorates and representatives from the Levy Office meet periodically to process these inspection reports. The conclusions drawn by this group are put into effect by the Levy Office.

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<sup>(1)</sup> Official Journal of the European Communities No L 340 of 19. 12. 1974 (Decision No 74/618 of 4. 12. 1974).





## Rehabilitation

### 74 General

The only provisions of the Treaty of Paris which at present permit the ECSC to take action for 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 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 was carried out under Article 96.

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 not be foreseen by the authors of the Treaty prompted the addition, in 1960, of the present 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 established 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 thus grant assistance for rehabilitation only if a formal request is made by the government and if certain economic and technical conditions are met.

### 75 Types of financial assistance for rehabilitation

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

- for workers re-employed at a lower wage : guarantee, for a limited period, 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 market is in a difficult situation ; the criteria for fixing the rate of assistance given within the above limits include local differences and family circumstances ;

- for workers in the coal industry who are over 40 years of age or handicapped on dismissal : payment, in one or more instalments, of a compensatory lump sum, of which the ECSC will pay up to 750 u.a. ;
- for workers re-employed in or transferred to another region :
  - payment of a flat-rate resettlement grant and reimbursement of travel and removal expenses for the worker and his family ;
  - payment of a flat-rate resettlement grant and reimbursement of travel and removal expenses 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 ;
- for workers undergoing vocational training : ECSC contribution to costs of vocational retraining (wages of workers attending retraining 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 2 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 rehousing of workers displaced in France. Only one of these loans is still being paid off.

**75.2** Lastly, mention should be made of the special decisions taken under Article 95 of the Treaty (1) with 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 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 coal-mining enterprises in the Community. Assistance of this kind, both repayable and non-repayable, has virtually ceased since 1963-64.

## **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. Several changes have been made in the course of recent years to the method of calculating the sums to be entered in this provision.

Up to the financial year 1961/62, the Institution allocated to this provision each year the approximate sum it expected to pay out, in proportion to the social assistance which the various governments proposed to provide.

From 1962/63 onwards, the Institution was led to lay down and to follow a stricter policy aimed at financial equilibrium not just for one year but for a period of several years, by means of more rigorous limitation of the sums tied up under its commitments. This financial policy, under which the amounts allocated to the provision have been as listed below, is the result of the widening gap between the Community's revenues and requirements as determined by the economic situation, and of the difficulties inherent in estimating rehabilitation commitments precisely.

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

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

(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.

- a sum equal to the loans granted for rehabilitation. After 1965/66, 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 ;
- a buffer reserve fixed in the first instance at 10 million 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 periodically cancels commitments or parts of commitments subscribed for the benefit of workers affected by the closure of coal mines or 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** The procedure for the granting and disbursement 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 the United Kingdom, with which the ECSC concluded a general agreement in 1973 for a limited period of three years, in order to give that country a transitional period in which to adjust. General agreements are then supplemented 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 employees 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, date of dismissal, nationality, last gross wage, etc.) and enable the Institution subsequently to check that payments have been 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.

**77.11** The decisions taken under Article 56, Paragraph 2b of the ECSC Treaty for assistance to workers in the coal and steel industries who lose their jobs as a result of the final closure of a plant or a cutback in its activities, are accompanied by a memorandum on the overall position of the enterprise which contains the reasons for the application, details of the work force, the opinion of the various departments consulted within the Institution, and the details and amount of assistance. The Directorate-General for Social Affairs is responsible for proposing each decision, which must first be approved by the Legal Service and, depending on the particular case, by the competent departments of the Institutions — Industrial Affairs (Directorate for Steel), Energy (Directorate for Coal), Regional Policy, Financial Control, Budgets, and Credit and Investments.

**77.2** Procedures for ECSC rehabilitation assistance always involve the departments of five directorates-general : Social Affairs, Budgets, Financial Control, the Legal Service, and Credit and Investments.

**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 examined 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 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 of beneficiaries.

Checking operations also examine the efficiency of the assistance machinery and thus ensure a minimum of delay between the granting of 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. These rehabilitation estimates are based on data supplied by the Directorate-General for Social Affairs. The Directorate-General for Budgets cooperates with the latter department in a regular assessment of available Institution funds and may settle legal matters or disputes (debt collection, over-payments, etc.).

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

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

**77.25** The *Directorate-General for Credit and Investments* carries out all the financial operations (disbursement and reimbursement of assistance). It keeps accounts for these operations which also show changes in the amounts entered in the provision (commitments and cancelled credits).

## 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 funds received as gifts, or, subject to approval by the Council, by allotting levy resources. 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 producers, consumers and workers, and with the assent of the Council representing the governments of the Member States.

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 industry, 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 those enterprises.

Research programmes implemented since 1955 have covered the following sectors:

- *Coal, steel and iron ore* from the most varied of aspects: from economic and technical aspects of production methods to the perfection in use 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.
- *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 occupational 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 States and the making available of results via patenting) 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 other's work and have encouraged them to undertake projects jointly.

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

- They are not carried out in the European Institutions but in scientific and technical institutes or industrial enterprises.
- They are financed in part by contract assistance granted for the implementation of a specific planned project.
- 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.
- 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 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. This 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 the Community's objectives in that field. 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.

In every case, once the Institution has decided to grant assistance, the dossier must be sent first to the Consultative Committee for its opinion and then to the Council for its assent. Only after these procedures have been completed can the contract be signed by the beneficiaries and then by the Institution.

## **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. Most contracts, however, 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 always covers only part of the expenditure incurred directly by the research project itself. This expenditure may be recurring costs (staff, consumable

supplies, etc.) or capital expenditure (installation and plant) 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 equipment procured may be left for use by 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 cover the depreciation in value undergone by the equipment as a direct result of the project. In the event of total depreciation 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 licences in respect of industrial property or from the passing on of knowledge acquired from the research.

It also covers the cost of all other initiatives, e.g. conference, symposia, seminars and publications, whereby the results of research activities can be most widely, but above all most appropriately disseminated within the enlarged Community.

Decisions as to the form, content and usefulness of such initiatives are the responsibility of the technical officials in charge of research, who authorize the expenditure required. Since the merger of the Executives they have cooperated at all stages with the Directorate-General for Scientific and Technical Information and Information Management, which is the Community body responsible for centralizing information activities in all fields, for organizing them, ensuring their continuity and improving them.

In order to ensure publication not only of research findings but also of programmes undertaken and progress reached in current work, the competent technical officials in the three sectors regularly update the information needed by the Directorate-General for Information for the purpose.

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, and a budget allocation has also been envisaged to cover the cost of publications emanating from the Directorate-General for Scientific and Technical Information and Information Management.

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, an addition to the advantages yielded by the usual specific and final measures, active and frequent participation by the same research workers and the joint organiza-

tion of research work under 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 1970 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 resolutive 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, is the only body with 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. Moreover, Member States are not obliged to guarantee loans floated by the ECSC, even when the latter considers it necessary to seek such a guarantee after consulting the Council and the governments concerned (Article 51, paragraph 1, sub-paragraph 3 of the Treaty). In fact, the ECSC has always issued its loans without making use of a guarantee from 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 borrowings. This lien took the form of the holding in pledge of these claims (and the securities 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 safekeeping 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 and servicing of borrowings and of the corresponding loans granted by the ECSC. To this end the BIS obtained the assistance of financial institutions in each member country, which 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 proof of debt and the related securities. The same applied to the annual repayments on loans, which debtor enterprises paid directly 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 u.a. using its income from the levy, the rate of which had been set fairly high. This guarantee fund, however, which was increased to 120 million u.a. by the alloca-

tion of part of the new Member States' accession contributions, 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 relending, 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 ECSC's credit capacity, 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, paragraph 1, sub-paragraph 2 of the Treaty, the floating of ECSC loans on the market 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 are medium-term and more particularly long-term loans and are floated under the usual market conditions. Issue prospectuses contain the conditions governing the loan, viz. the amount borrowed, rate of interest, duration, payment and repayment terms and the applicable legal framework 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 loan is kept separate, so that the operating balance between these parallel operations can be ascertained at any time.

Recurring costs connected with the service of loans contracted by the ECSC (annual payment of interest and fees) 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 against the special loan operating account. The final 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 set aside on the liabilities side of the balance sheet (other provisions).

## **89 Use**

Under Article 51, paragraph 1, sub-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 from which they are provided. 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 ECSC pension fund.

### 90 Loans granted out of borrowed funds

**90.1** Apart from the fact that the proceeds of borrowings are 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, paragraphs 1 and 2, and Article 56, paragraphs 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 assent of the Council, works and installations which are primarily concerned with making a direct contribution to :
  - increasing production ;
  - lowering production costs ;
  - facilitating the marketing of products subject to the jurisdiction of the ECSC ;
- c) in the industries subject to the ECSC's jurisdiction or, with the assent of the Council, in any other industry, programmes to create new and economically sound activities capable of ensuring the productive re-employment of workers discharged following the introduction of new technical processes or equipment ;
- d) in the industries subject to the ECSC's jurisdiction or, with the assent of the Council, in any other industry, programmes for the creation of new and economically sound activities or for the conversion of enterprises, so as to ensure the productive re-employment of workers discharged as a result of far-reaching changes in marketing conditions in the coal and steel industries.

**90.2** From the *accounting* point of view, and to underline the fact that borrowed funds are used exclusively for granting loans as stipulated in Article 51 of the Treaty, the Institution, up to 1968, always showed separately in the balance sheet the arithmetical balance between, on the one hand, funds borrowed under liabilities and, on the other hand, the same funds under assets, whether they had 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 to finance particular loans.

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 is still respected and can be checked in the overall accounts. The 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 investment of funds'.

**90.3** In general, the *terms* of loans granted have been more or less identical to those of loans contracted (same currency, duration, principal, repayment terms). The rate of interest on loans granted has often been slightly higher than that on the corresponding loan contracted in order to offset its cost. Since 1969, however, the ECSC has set a standard rate for all loans granted out of borrowed funds. This single rate is subject to periodic adjustments and is the result of averaging out the cost of the various loans contracted over a certain period.

Loans for structural reorganization (under Article 56 of the Treaty), which are increasing considerably, were initially granted at more or less the same rate of interest as that on the corresponding funds borrowed, then at a lower rate thanks to the combining of funds from different sources (own funds at very low interest and higher-interest borrowed funds). Since 1967, loans for structural reorganization granted out of borrowed funds qualify for a reduced rate of interest for the first five years. These reduced rates have been fixed successively at 4.5 %, 5.25 %, 6.25 %, and 7 %. The resulting interest loss, shown in the loan operating account, is made good by an outright subsidy credited to this account in order to restore the balance between the costs 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 too are eligible for a reduced rate of interest similar to that for structural reorganization loans granted under Article 56 of the Treaty, provided they fulfil certain requirements. 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 regulations (nuisance control), multinational investments promoting the integration of ECSC enterprises within the Community, investments designed to eliminate bottlenecks affecting an entire ECSC industry, or investments for the establishment of research or vocational training centres within the scope of the ECSC's activities.

As regards the first category of loans granted at reduced rates of interest under Article 54 of the Treaty, the ECSC was prompted, as a result of the guidelines adopted by the Commission of the European Communities on environmental policy (and particularly the upholding of the 'pollutor pays' principle) (1), to set out in detail the conditions under which these should be granted (2). Accordingly, these reduced-interest loans may only be granted:

- a) for investments carried out by undertakings specifically for the purposes of environmental protection and in response to obligations imposed by the public authorities;
- b) for investments to be carried out in plants in existence on 1 January 1975, the proportion of the cost corresponding to extensions of capacity not, however, being eligible for reduced-interest loans;
- c) for investments meeting accepted standards of efficiency and for which the costs, for the production stage in question, are substantially higher than those which would be considered normal for the construction of similar plant;
- d) insofar as, before 31 December 1980, the investment decisions confirmed have given rise to firm orders and the corresponding loan applications have been made;
- e) up to a maximum of 50 % of the capital cost.

These restrictions do not, however, apply to the financing of investments relating to the industrial utilization of new technical processes, provided that the results of their introduction are made available within the Community to all those interested.

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 and guarantees from Member States, industrial groups and banks.

**90.5** All loans provided out of borrowed funds are granted in the *same currency* as that of the borrowings, whatever the nationality of the beneficiary.

**90.6** As regards the Institution's *policy* towards potential borrowers, this is essentially to guide investments in accordance with the general objectives periodically defined under Article 46 of the Treaty. These are also 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.

(1) OJ C 112 of 20. 12. 1973 and OJ C 68 of 12. 6. 1974, page 1.

(2) OJ C 146 of 25. 11. 1974, page 1.

Article 54 also provides for prior notification of individual programmes. Whenever the plan involves a basic investment, the Institution delivers, within three months, a reasoned opinion based on the general objectives. Approval means that Community loans may, in principle, be granted, 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 re-organization, these are the intermediaries responsible for submitting loan applications, or by circulars sent to professional organizations or even to individual concerns.

**90.7** For the management of loans for industrial investment and structural re-organization and of guarantees granted in accordance with Articles 54 and 56 of the ECSC Treaty, the Institution designates agent banks paid on a commission basis. Their task is basically to sign loan contracts on behalf of the ECSC — after checking the validity of borrowers' signatures and the existence of guarantees — manage the loans and keep the original contracts. The designation of the agent banks to carry out these operations is the subject of an agreement made for an indefinite period applying to operations in seven Community countries (Belgium, France, Germany, Italy, Luxembourg, the Netherlands and the United Kingdom). In the United Kingdom the agent banks' activities are concerned only with private concerns, loans granted to nationalized concerns being guaranteed by the government.

**90.8** Since 1975 the Institution may include in the contract an extension clause for the benefit of the borrower. This clause applies to loans which, because of the need to match the terms of the Institution's corresponding borrowing, had to be granted for a shorter period than that originally planned, and permits successive renewals of the loan so as to approximate to or equal the total period originally intended by the Institution.

## **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), from levy resources (for the social rehabilitation of steelworkers 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 *rehabilitation and technical and social research* are few in number and date from the years 1958-59 and 1965-66. The fact that operations in these areas have been reduced is mainly due to a change in the methods of financing projects in these two sectors: loans have given way to subsidies.

**91.2** Loans granted out of ECSC own funds are thus primarily used to *finance social housing construction*. These loans are usually granted to financial establishments or banks. In view of the very moderate rate of interest they bear (1 %), these establishments usually undertake in turn to lend the sums received from the ECSC to industrial concerns 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 financial establishments and banks 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 a government guarantee given by public sector construction companies specializing in moderate-rent housing or a guarantee from industrial groups given to construction companies attached

exclusively to those groups. When loans granted for social housing construction programmes are provided from borrowed funds, these are often combined with own funds so that the average interest rate can be moderate.

Loans of this type are always paid in the currency of the country in which the borrower is established. This eliminates all exchange risks for the borrower and makes the financing of building operations considerably easier.

**91.3** The third type of non-borrowed funds out of which loans are granted is that of the funds held in 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 pension fund was built up from ECSC and employees' contributions and managed by the Institution together 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 % for the purpose either of guaranteeing social rehabilitation commitments or of 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 elsewhere in this annex (Pension fund).



## **GUARANTEE OPERATIONS**

**92** Under Article 51 (2) and Article 54 (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 given in accordance with the terms of Article 54 of the Treaty, i.e. with due regard to the objectives envisaged (loans to assist the implementation of investment programmes, or with the assent of the Council, works and installations which contribute to increasing production, reducing production costs or facilitating the marketing of products).

In accordance with normal banking procedure, the ECSC receives remuneration for the guarantees it grants 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 all receipts from the levy in their country of origin in accounts maintained on the Institution's behalf 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.

To this end and in order to obtain access to the money market and thus to achieve sufficient creditworthiness, the new Coal and Steel Community set up a 'guarantee fund' by earmarking part of its levy resources collected during the first three years at a relatively high rate. By 30 June 1956 this fund had increased to 100 million u.a., and it remained unchanged until 1973, 1974 and 1975 when it received allocations (2 × 10 million u.a. and approximately 20 million u.a.) from Denmark, Ireland and the United Kingdom as part of their accession contribution. Converted into EUA this amounts to 150 million EUA.

As regards resources from borrowed funds, these must be used exclusively 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 which is generally spread over a number of years, the liquid assets corresponding to these provisions are placed in deposits of varying terms, depending on when they will be required. Income on the investment of these funds is placed in a 'special reserve'. The Treaty does not make any provision for a reserve of this kind, nor state 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 one 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 or 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 in the social sector 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 requirements by a suitable policy in the allocation of its resources.

So far it has always covered its loan requirements by sufficient advance borrowing on the market, after which these loans are paid out without any significant delay. The Institution earmarks other resources of a fiscal nature (levy income, fines, interest and increases on arrears) and those from banks (income on investments) to cover, all its commitments immediately after the relevant decisions are taken, even if the sums involved are to be paid out over several years. This system is supplemented by a policy of investment at varying 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 decisions which have guaranteed continuity in Community policy on this question.

A first decision (No 1/67) of 21 February 1967 established a system, 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 joint Community initiative the ECSC, without actually providing funds itself, set up a system of financial adjustments between 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 (No 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 (No 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. <sup>(1)</sup>

The paragraphs which follow describe the new system, with special reference to the differences between the old and new machinery.

### 96.0 Operation of the system provided for in Decision No 73/287/ECSC

96.1 The new system, like that introduced by Decision No 1/70, provides for two types of assistance :

- *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.
- *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

<sup>(1)</sup> 1972 Auditor's Report, Nos 200 to 202.

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 :

- In the case of national production aids. to the coking coal producers. When these pass the production aid to their buyers, this must not give rise to discrimination between the various long-term contracts to be performed by the producers.
- 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, is constituted from three sources :

- *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.
- *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 1.027 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.
- *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 0.560 u.a. per tonne, or not more than 8.4 million u.a., for the third 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 % and the Netherlands 6 %.

**96.4** No government contribution has been envisaged for the United Kingdom 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 sales 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 No 73/283/ECSC, particularly with 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 and supervision of administrative operations. A communication from the Commission dated 30 December 1974 to associations of coal of iron and steel undertakings states the scope of provisions relating to long-term contracts. (2)

(1) Rules for determination of the aid basis : OJ L 361 of 29. 12. 1973 (Decision No 3544/73/ECSC of 20. 12. 1973, and communication concerning the implication of provisions relating to long-term contracts : OJ C 160 of 30. 12. 1974.

(2) OJ C 160 of 30. 12. 1974.

**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 purchase 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 send their respective Member States the information needed by government departments in order to calculate coefficients for determination of the aid 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 communicated to them by the Institution, and pay their contribution into an account in each country designated by the Institution for the purpose

**97.2** For their part, *Member States* :

- Give financial assistance to coking coal procedures 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.
- In order to speed up Community financing operations, submit quarterly statements to the Institution of coking coal supplies which qualify for sales assistance, and pay instalments which are adjusted annually.

Using the information supplied by enterprises, the Member States calculate coefficients for each coking plant which take account of the proportion of coal consumed in production intended for use in Community blast furnaces. These are based on standard questionnaires drawn up by the Institution to ensure easy comparability and which ask for economic data (origin of supplies and breakdown of production) and financial details (calculation of the coefficient). In the case of an enterprise which operates its own blast furnace, the tonnage of coke used is converted into the tonnage of coal processed in this way by application of the ratio 1.33 : 1.

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 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.

**97.3** *The Commission*, for its part :

- Vets and then authorizes the rate of the aid per tonne 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.
- Checks declarations from enterprises for correct application of the rules governing prices, calculation of the aid basis and of the sum of assistance granted.
- 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.
- Draws up final statements for each country and each steel enterprise at the beginning of each year for the preceding year, mobilize the appropriate funds 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 own funds held in the special reserve.

### **99 General machinery**

Since 1954 the ECSC has designed or helped to finance eight housing programmes for coal and steel workers in Community countries, as well as three special experimental programmes.

In all the standard 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 and 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 appro-

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 the 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 of 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 is high.

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 on loans granted out of a combination of funds they vary between 3.5 and 6 %.

As these interest rates are so low, the establishments borrowing funds must undertake in turn to give loans, within three 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.

In social terms this means that employees in the iron and steel and coal mining industries — the ultimate beneficiaries — are able, thanks to the varying conditions on which the funds are raised, to 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 establishments extending the loans. Moreover, these procedures add a further dimension to the Community's loan operations, by providing financial assistance under its general policy of social housing.

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 Staff Regulations for Officials 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' service. The fund thus established formed part of the financial assets of the ECSC.

This fund, together with the Institution's liquid assets, was thus invested at medium and long term in a number of forms: either in fixed deposits of varying terms, in portfolio securities or even as loans to Community officials for the construction or purchase of housing.

The pension fund has remained on the balance sheet and is shown separately, under liabilities, among the ECSC's creditors, since it constituted a fixed-term debt of the ECSC towards its staff and was consequently credited with a rate of interest officially fixed at 3.5 % per annum.

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), but a full pension was granted only after 33 years' 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 interest yield on these (3.5 %), but decreased by the amount of retirement pensions paid out and severance grants provided for in the Staff Regulations for certain categories of employees.

With the merger of the Executives and harmonization of the Staff 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. The ECSC pension fund, which ceased to grow as a direct result, at this time totalled 25.5 million u.a. Now, however, the Council of the European Communities, acting by a qualified majority on a proposal from the Commission and after consulting the Staff Regulations Committee, was empowered to decide how the pension fund should be used (1).

This decision, taken on 2 March 1970, retained the ECSC pension fund (as it is currently known) as part of the own funds of the ECSC, at the same time allocating it to joint ventures of a social nature (loans to officials, *contra* or guarantee of commitments for rehabilitation or loans for social housing).

The portion granted as loans to officials increases every year by the amount of interest received on the service of these loans, which is matched by an equal increase in the amount of the former pension fund.

(1) Council Regulation (EEC, EAEC, ECSC) No 259/68, 29. 2. 1968 (OJ L 56 of 4. 3. 1968), Article 2 (11).

In 1974 it was further increased by seven million u.a. received as contributions from the new Member States.

### **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 of the form this investment should take.

In addition to investing it in fixed deposits and portfolio securities, managed as described 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. This diversification in the investment of the pension fund thus served a social purpose and at the same time enough liquidity was maintained to pay out to beneficiaries pensions due or shortly to become due.

The main features of this system of loans, which was open only to ECSC officials, are described below. It underwent a number of modifications and came to an end on 1 October 1968.

**103.1** The conditions governing this *first system of loans* granted out of the ECSC pension fund were as follows :

- Borrowers had to show that they could cover at least 10 % of the total cost (land, building, purchase and conversion and any other costs) from their own resources. Where property was being converted, this had to entail a minimum increase in value of Bfrs 250 000, excluding repairs.
- Annual interest of 4.5 % in the first instance, subsequently reduced to 4 % and 3.75 %, including the cost of insuring the balance outstanding.
- Beneficiaries had to have paid contributions for at least five years.
- Borrowers could obtain this loan to repay other loans contracted earlier for the same purpose, without any limit on interest already paid or on available assets.
- the maximum term of the loan was 20 years with the stipulation that loans had to be repaid by age 70.
- 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).
- The total financial burden on the borrower was not to exceed 25 % of his basic salary.
- Repayments were monthly, by deduction from the salary, with the option of unlimited anticipated repayment.
- 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.
- 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.

### **104 Use of the former ECSC pension fund**

On 2 March 1970 the Council stated that 'available sums carried on the ECSC balance sheet under the heading pension fund' and administered by the Commission, shall be used by the latter in the following way :

- (a) Up to a limit of 40 % for loans under a housing policy for officials of the Communities.
- (b) Up to a limit of 60 % to guarantee rehabilitation commitments (Article 56 of the ECSC Treaty) and to grant reduced-interest loans, with a view to fostering the social and economic objectives of the ECSC Treaty within the context of the financial operations provided for in this Treaty.

In a decision of 17 June 1971, which came into force the following day, the Commission set out the provisions for implementation of a new system of loans and amended a number of these provisions on 29 September 1971.

It should be noted that the 40 % of the former pension fund provides a kind of revolving fund into which the full amount of annual repayments, principal and interest, are paid.

**104.1** The main features of the second system of loans are as follows :

- 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*.
- Annual interest of 4.2 %, including the cost of insuring the balance outstanding (0.25 %). The sum of this interest is added to the former pension fund.
- Beneficiaries must have had five years' service and paid contributions under the pension scheme for the entire five-year period.
- Beneficiaries may obtain this loan to repay other loans contracted earlier for the same purpose on three conditions: (a) not more than 10 % of the funds available may be granted in this way, (b) the sum granted may not be more than 50 % of the balance outstanding on the date of application and (c) the rate of interest on the borrowings to be repaid must be at least 2.5 points higher than the one currently usual.
- The maximum term of the loan is 25 years, with the stipulation that loans must be repaid by age 65.
- 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 Belgian consumer price index.
- The total amount of the loan may not exceed a percentage (between 30 and 80 %) of the total cost (including purchase of the land). This percentage varies according to the employee's basic salary.
- The total financial burden on the borrower may not exceed 30 % of his *net* salary at the time the loan is granted.
- Repayments are monthly, by deduction from the salary, with the option of anticipated repayment of at least one-twentieth of the initial sum borrowed.
- 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.

**104.2** A number of measures were subsequently taken, either to establish and apply stricter priorities in the choice of beneficiaries since the funds available were insufficient in view of the number of applicants, or to amend certain aspects of procedure in the payment and repayment of loans in view of difficulties caused by monetary fluctuations.

The Institution gave priority to borrowers whose family income (total, if appropriate, of the net salaries of the applicant and his or her wife or husband) *per capita* (total income divided by the number of dependants) was lowest and thus justified the building of a first property at the place in which they were based. Exceptions were provided for in the case of officials aged over 55 and wishing to build at their place of origin. From 25 July 1975 onwards these selection factors have been weighted to give them their true importance and supplemented by the application to earnings of a coefficient rising in proportion to the salary.

From the same date the Institution also decided that loans would be expressed and paid in Belgian francs and that sums retained and interest payments and repayments due, plus any repayments made to the Institution, would be expressed in Belgian francs.

In the case of earlier contracts, expressed in another currency and under which the funds had been disbursed in whole or in part by the Institution, service of the loan continues as before, unless the official has asked for his capital debt to be converted into Belgian francs within two months of the new procedure's coming into force. Conversion into Belgian francs is done at the

average rate for the third currency on the Brussels foreign exchange market on the relevant transaction date.

#### **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' was constituted. Initially paid into this was the difference (1.25 %) between the yield on the pension fund calculated at the average rate of all Community assets invested and the fixed yield of 3.5 % on the fund itself, as laid down in the Staff 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 which has been used to meet expenditure incurred by the ECSC for assistance to coking coal. This provision was discontinued in 1972.

As regards the former pension fund, only that part of interest received as annual repayments on loans granted to Community officials is recorded separately and added to the amount of the pension fund.



## ANNEX II

### The iron and steel scrap compensation system

#### 106 General

The settlement account of the single Office in charge of the compensation machinery was instituted under Decision No 19/65 and has been in operation since 1 January 1966. It records the operations involved in winding up the system :

- the pursuit of claims against defaulting debtor enterprises for recovery of contributions in arrears<sup>(1)</sup> and against scrap dealers for compensation amounts improperly received for supplies which were not eligible ;
- the distribution of funds recovered to all enterprises subject to the system, in the form of refunds ;
- the adjustment of certain situations arising from changes in the basis for assessment of contributions.

We refer you to the condensed management account at 31 December 1965, <sup>(2)</sup> on the basis of which the final rates of contributions and of interest were set by Decision No 19/65 of the High Authority dated 15 December 1965.

#### 107 Scope of our audit

As regards operations for winding up the iron and steel scrap compensation system, our audit is confined to ensuring that the settlement account at 31 December 1975 is correct and balanced. To this end we conducted an examination, using documents and information from the Directorate-General for Industrial Affairs (Directorate for Steel), of the state of the settlement account as at 31 December 1975 and, in the case of bank holdings, checked that the balances shown in the ECSC's accounts tallied with the statements of account issued by the banks.

#### 108 Condensed account of settlement operations at 31 December 1975 and notes

The positions of the settlement account as at 31 December 1975 is as follows :

Assets		Liabilities	
	u.a.		u.a.
Enterprises' current account	54 256	Provision for debtor enterprises subject to a court order	47 681
Banks	619 293	Accounts payable	6 575
Temporary account	40 611	Unallocated balance	659 909
	714 160		714 160

(1) These amounts can be found on the assets side of the statement of account given in No 108 (enterprises' current account)

(2) 1965-66 Auditor's Report, No 99.

This statement of account combines units of account of different values and can thus not be regarded as a valid balance.

On the basis of the amounts given in the currency used for the operations and of the binding provisions of Decision 21/60 of 20 July 1960, (1) the following table can be taken as a precise and realistic presentation of the state of the account at the end of 1975.

Assets		Liabilities	
	u.a.		u.a.
Enterprises' current account	54 256	Provision for debtor enterprises subject to a court order	47 681
Bank deposits	790 500	Accounts payable	6 575
Temporary account :		Temporary accounts :	
amounts currently being collected	44 860	Expected administrative expenses	4 182
		Levy payments due to the ECSC	1 359
		Gross amount available for distribution	829 819
	889 616		889 616

**108.1** Five enterprises owed sums to the Office at 31 December 1974 ; four of them paid their debts in 1975, so that the above statement involves only one enterprise which is in fact bankrupt.

The remainder of its debt, amounting to 54 256 u.a. is regarded as being probably irrecoverable, and an equivalent amount (47 681 u.a. + 6 575 u.a.) has therefore been entered under liabilities. The first of these two amounts represents the net loss to be charged to the Compensation Office, while the second represents the Office's debt to the ECSC, which provisionally repaid the fines previously collected. This method of presentation is explained by the fact that it was agreed that successive payments should be used to discharge liabilities in the following order : interest on arrears, then the principal of the contribution and lastly penalties, while any deficit — as in this case — was to be charged in the opposite order.

(1) OJ 54 of 24. 8. 1960 :

*Article 2*

The amounts in units of account

(a) to be paid to undertakings established in

- the Federal Republic of Germany, excluding the Saar ;
- Belgium ;
- Italy ;
- Luxembourg ;
- the Netherlands, and

(b) to be paid by the undertakings referred to in (a) above,

... are converted to national currency at the following respective rates : DM 4.20, Bfr 50, Lit. 625, Lfr 50 and Fl 3.80 for one EMA unit of account.

*Article 3*

For undertakings in France and the Saar, statements are drawn up in French francs in accordance with the following procedure : ...

4 ... The parities to be applied for one EMA unit of account are as follows :

- for the period from 1 April 1954 to 31 October 1957 inclusive : FF 350
- for the period from 1 November 1957 to 31 December 1958 inclusive : FF 420
- for the period 1 January to 30 April 1959 inclusive : FF 4.93706

The bank deposits expressed in u.a. (790 500) differ from those in the official balance sheet only because they were calculated in EUA, whereas for the present purpose the use of this unit of account is specifically excluded under the terms of the decision which created it. (1)

As to the temporary account, for which there is a single entry in the first table because it represents the balance remaining after allowance has been made for various elements, this corresponds to the second dividend payment from the bankrupt concern, which for procedural reasons could not be collected until 6 February 1976, the value date being 30 September 1975. This brings the portion of the debt recovered from this concern to 70.7 % of the whole.

Apart from the liabilities already discussed, the temporary account contains only the equivalent in u.a. (4 182) of the estimated administrative expenses to be paid in SF and a sum of 1 359 u.a. which represents an erroneous payment of levy contributions to the Compensation Office instead of to the ECSC.

The current balance of 829 819 u.a. will thus be available for distribution at a later date, less the costs of the operation, particularly exchange differences for which it is impossible to make prior allowance.

**108.2** The bank deposits shown on the balance sheet can also be reconstituted from the table below which presents the various financial operations carried out since 31 December 1965, the date on which the iron and steel scrap compensation system was suspended.

**108.21** The payments of contributions outstanding (8 235 344.01) u.a.) represent the total amounts recovered from enterprises which owed sums to the Office on the date when its operations were suspended.

**108.22** The interest income of 498 439.85 u.a. was produced by the Office's assets during the winding-up period.

**108.23** The item 'regional offices' (54 457.62 u.a.) represents the transfer, when these establishments closed their accounts, of the remainder of the funds held for the purpose of execution the mandate given to these offices by the enterprises subject to the system.

**108.24** Recovery of compensation payments improperly received (1 664 675.30 u.a.) represents the total recovered out of the disputed amount, which is in general the subject of legal proceedings.

**108.25** The heading 'miscellaneous' is included under both income and expenditure because of the transitional nature of these operations, which cancel each other out after a certain time: amounts temporarily withheld by way of fines, legal costs and levy payments intended for the Commission or contributions incorrectly paid and refunded.

The difference of 1 411.88 u.a. between the two items can be explained as follows:

— fines received but not yet passed to the Commission	+ 4 650.98 u.a.
— advance paid to the Commission on sums currently being collected	— 3 239.10 u.a.

**108.26** The 'transfers from other banks' (14 529 049.31 u.a.) would balance against the 'transfers to other banks' (14 766 702.41 u.a.) if it were not for exchange differences which account for the discrepancy.

**108.27** The 'exchange difference on distribution payments in FF' (23 931.24 u.a.) results from the application of Decision 21/60 mentioned above. The parities laid down for operations in FF relating to the 3 periods concerned have been strictly adhered to for the purpose of making final refunds. Other items in the accounts expressed in FF have been converted on the basis of a

(1) Article 6 of Decision No 3289/75 of 18 December 1975 (OJ L 327 of 19. 12. 1975).

uniform parity obtained by calculation an overall weighted average of the three rates referred to in the Decision. This approximation thus only concerns the other items and the solo purpose of entering the difference is to reduce the refunds in 'FF' to the same terms for the sake of the uniformity that is necessary for any balance sheet or statement.

**108.28** The 'compensation payments for balances outstanding' (4 516 153.75 u.a.) correspond to the discharge by the Office of its obligations to enterprises which were in credit at the time operations were suspended.

**108.29** The total for 'final refunds' (8 285 380.28 u.a.) includes only the amounts reimbursed under the 7 distributions that have been made. In order to give an exact picture of these, the following table summarizes all amounts granted to beneficiary enterprises in this context, either in the form of cash payments or by way of writing off their debt to the iron and steel scrap Compensation Office.

Distributions per settlement period	Amounts actually distributed u.a.	Amounts credited to debtor enterprises u.a.	Amounts paid to other enterprises u.a.	Rounding-off of individual statements u.a.	Amounts shown in statement published in the Official Journal u.a.
1st 10. 3. 1967	1 549 991.79	97 118.40	1 452 873.39	8.21	1 550 000
2nd 8. 3. 1968	1 359 921.58	50 120.54	1 309 801.04	78.42	1 360 000
3rd 26. 4. 1969	664 885.—	12 555.51	652 329.49	115.—	665 000
4th 29. 6. 1971	959 058.65	14 684.50	944 374.15	— 58.65	959 000
5th 28. 1. 1972	1 917 867.37	27 250.77	1 890 616.60	132.63	1 918 000
6th 31. 12. 1972	1 167 286.84	14 716.01	1 152 570.83	13.16	1 167 300
7th 30. 4. 1974	891 339.29	8 524.51	882 814.78	60.71	891 400
Total	8 510 350.52	224 970.24	8 285 380.28	349.48	8 510 700

**108.30** The 'administrative expenses' (302 997.58 u.a.) are the combined total of bank fees and administrative costs during the winding-up period.

**108.31** The 'balances' in national currencies converted into u.a. amount to 790 500.25 u.a., which is the same as the amount given in the statement of account above.

**108.4** It has thus been possible, with the cooperation of the Commission's departments, to carry out successfully the difficult task of summarizing and reorganizing the information in the accounts.

It was important, before closing an account which now depends only on the outcome of legal proceedings, to be sure of the exact implications of the accounts and the situations to which they refer, and it is in fact to this task the Auditor has confined himself. (1)

(1) 1959-60 Auditor's report, No 91.

**Banking operations for settlement of the iron and steel scrap compensation system from 1 January 1966 to  
31 December 1975**

			EXPENDITURE
<b>INCOME</b>			
Bank deposits at 1 January 1966	u.a. 3 654 425.06		
Payments of contributions outstanding at 31 December 1965	u.a. 8 235 344.01		
Bank interest	u.a. 498 439.85		
Regional offices	u.a. 54 457.62		
Recovery of compensation payments improperly received	u.a. 1 664 675.30		
Miscellaneous	u.a. 359 499.72		
(a) rapid refunds	u.a. 989.44		
(b) fines and penalties received	u.a. 44 816.40		
(c) legal costs	u.a. 1 133.68		
(d) erroneous payments (levy and other)	u.a. 305 093.96		
(e) contributions incorrectly paid	u.a. 7 466.24		
Transfers from other banks	u.a. 14 529 049.31		
Exchange differences on distributions in FF	u.a. 23 931.24		
Compensation payments for balances outstanding at 31 December 1975			u.a. 4 516 153.75
Final refunds			u.a. 8 285 380.28
Administrative expenses			u.a. 302 997.58
Miscellaneous			u.a. 358 087.84
(a) transfer of repaid refunds		u.a. 989.44	
(b) repayment of fines and penalties to the ECSC		u.a. 40 165.43	
(c) repayment of legal costs to the Commission		u.a. 1 133.67	
(d) transfer of amounts incorrectly received (levy and other)		u.a. 308 333.06	
(e) refund of contributions incorrectly paid		u.a. 7 466.24	
Transfers to other banks			u.a. 14 766 702.41
Balances			u.a. 790 500.25
— Germany	DM	1 673.59	u.a. 398.47
— Belgium	Bfr	2 244.—	u.a. 44.88
— France	FF	12 433.25	u.a. 3 374.74
— Italy	Lit.	491 676 353	u.a. 786 682.16
			u.a. 29 019 822.11



## ANNEX III

### 109 Reflections on the work of the external auditor

**109.1** The European Coal and Steel Community was the first-born of the European Communities, with its own complete institutional network — the High Authority, the Assembly, a special Council of Ministers and Court of Justice and it has a financial structure based on that of the public sector — as its resources from the levy are obtained by virtue of certain fiscal powers and the operational expenditure of the ECSC is managed along administrative lines — together with elements of the private sector, as it is free to have recourse to the capital market to supplement its fund and diversify its activities, and is autonomous in its use of all funds — levies, loans and income from investments — to grant various types of aid and loans subject to the conditions in the Treaty.

This was the framework within which the first Auditor, appointed by the Council on 8 December 1953, received the assignment defined in Article 78 of the Treaty, to 'make an annual report — within 6 months of the end of the fiscal year to which the accounts pertain — on the correctness of the accounts and of the financial direction of the various institutions'. He was to 'communicate it to the Committee of Presidents'. Moreover, the High Authority was to 'transmit this report to the Assembly at the same time as its General Report on the activities of the Community and its administrative expenditure, at least one month before the opening of the Assembly session'.

The main purpose of these duties was, therefore, that of 'reporting' to those persons in the Community organizational structure with powers whose application was liable to be influenced by the contents of the report.

The Committee of the four Presidents was responsible for issuing a general estimate of administrative expenditure only — grouping together the expenditure of each of the four institutions — and the external audit provided advice on the assessment and the ways of estimating expenditure in time for it to be taken into account when the subsequent estimate, following up that discussed in the report, was drawn up.

The Assembly has the right to pronounce a vote of censure on the High Authority. This is mentioned in the Treaty (Article 24), in connection with the discussion of the General Report submitted by the High Authority together with the Auditor's report.

In this setting, the task of 'reporting' therefore consists essentially in providing assessment data of a type that will assist a financial authority but, above all, in providing material for a true evaluation based on an overall policy view of the financial management as a whole.

The sphere of competence of the external auditor was very broadly but very clearly defined, as the objects of his investigations were the 'accounting' and the 'financial management' of the institutions. Every part of the accounts could therefore be considered, and this determined the immediate and permanent nature of the audit. The reason why the Treaty included financial management in the Auditor's sphere of responsibility was to extend the auditing control beyond the rather more practical stage to cover the whole complex of management, including the motivation for financing activities, their compatibility with the regulations in force (the Treaty and decisions), commitments undertaken or concluded and the stage they have reached, and the results expected and obtained. In a Community where legislative and executive powers were virtually unseparated, it was often difficult to incorporate all these elements — as a rule, they were still

internal matters and the external auditor could only gain access to them by penetrating even further into the personal channels of the Institution.

In any case, the ECSC was not encumbered with a detailed and complicated set of rules ; these were reduced to a minimum and the financial machinery functioned, at a more general level, according to the principles commonly accepted in comparable operations. A genuine dialogue was initiated with the Authorities and the management departments and it would be unthinkable, today, not to continue improving it. Moreover, in view of the special situation just described, this represents the prime means of going beyond the purely 'accounting' aspect of the audit while avoiding any judgments as to advisability, although such judgments should of course be possible for people who are competent to pronounce them in the light of the policy aspects of the financial management as a whole. It is therefore necessary to draw closer to this dividing line.

In this connection, the first Auditor wrote, in his report for the financial year 1963-64 (No 193) :

'Certain difficulties arise when one attempts to draw a factual distinction between an assessment of advisability and an assessment of management. It is impossible to establish precise criteria in this connection which can be applied generally without being contested. Depending on one's point of view, interpretations may range from more or less restrictive to wide and the — often tortuous — discussions can hardly lead to positive conclusions. Such discussions are futile from the point of view of attempting to formulate general conditions for applying a principle which is in itself somewhat vague.

There is another aspect of the problem which should be emphasized. We personally consider that some control or judgment of the advisability of expenditure should not be completely lacking, or, to put it another way, that such judgments should not be made solely by the institution responsible for the expenditure. Short of acknowledging that there is a serious gap in the Community's budgetary system, other authorities must be given an opportunity to state their opinion on any situation and problems affecting the advisability of certain expenditure. Surely, then, it is essential for these authorities to be informed, in a report drawn up by an independent body, of facts and circumstances enabling them to assume their responsibilities within their particular area of competence ?

In conclusion, we would state that we have always remained within the limits of a high but fair conception of our task, a conception that was inspired essentially by the higher interests of the Community. In the same spirit, we have always endeavoured, and with very substantial results, to keep our contacts with Community services and departments on a level of loyal and fruitful cooperation'.

These conclusions apply to the administrative expenditure of the High Authority and the same reasoning applies, *a fortiori*, to the other financial activities, which more clearly reflect a certain policy.

The European Parliament resolution of 11 July 1975 has also defined the scope of auditing of the ECSC's financial and budgetary activities. The European Parliament,

'1. Considers, as the recipient of the Auditor's report and as the institution first called upon to assess the financial activities of the ECSC — which the Commission of the European Communities determines and administers — that :

— external control by the Auditor should go beyond the purely accounting aspect of the subject matter involved, and should be strengthened in its capacity and ability to obtain all necessary information for providing Parliament with a complete assessment of the financial management and the results achieved.

2. Notes with satisfaction that the Auditor's report for 1973 reflects these needs and does enable Parliament to assess not only the accounting responsibilities but — and above all — the financial responsibilities linked to the administration of the policies laid down in the ECSC Treaty ;'.

*Consistency, coordination with financial transactions, a detailed view of the overall management and the collection of criteria for assessment are the underlying reasons for external auditing of the ECSC as advocated by the Treaty.*



**109.2** The provisions of the Treaty, as they affect the responsibility of the Auditor towards the institutions which are to receive his report have just been mentioned. The Treaty provisions do not deal with his status in any other way, except to require that the person who carries out the function of auditor must be completely independent and free of any connection with any institution or department of the Community.

These principles were both defined more precisely and put into effect by subsequent decisions, amongst which the following should be noted :

- the Special Council of Ministers' decisions of 9 and 10 April 1954, giving a ruling on a monetary issue, the Council considered that, taking into account the partial nature of the auditor's services (part-time), he could be compared to a member of the High Authority
- the decision of 9 June 1954 by the Committee of the four Presidents authorizing the Auditor to use a financial appropriation entered in the estimates of the Special Council of Ministers, budgetary independence being maintained after the merger of the three executives by giving to the Auditor a section attached to the Council part of the operational budget of the European Communities.
- the decision of 13 March 1962 by the Committee of the four President delegating to Auditor the power to appoint the employees who work with him.

This independence is in itself such as to imply a definite responsibility, but the latter also results from the situation peculiar to any ECSC structure, where there is always a great deal of flexibility. Thus, to confer this responsibility, within a Community context, on one single person means that the daily work of auditing can be carried out very quickly : this characteristic of the job has been maintained by the various holders of the office who have been helped by a very restricted number of assistants, making also for a certain permanence in the function. On the other hand, the absence of rules and a budget properly speaking has meant that the external audit has had to devise on its own initiative and with the help of the authorities and departments subject to the audit, a system of precedents the development of which can be inferred from the successive auditor's reports.

Although the administrative and legal aspects of a job are easier to describe, it is nevertheless true that the independence and the importance of the office have also become established in practice. In this connection, mention must be made of the importance which the authorities responsible for the management of the financial markets attach to the auditing of the accounts of the ECSC by the Auditor, particularly when public Community loans are being floated.

In fact, it should not be forgotten that, in the absence of a general guarantee by the Member States, the credit of the Community is based exclusively on the assets which it has built up by means of careful and prudent management of its affairs.

*Holder of a well-organized and independent office within the Communities, the Auditor is seen from the outside as the guarantor of the claimed financial state of the ECSC.*

**109.3** To draw up an assessment of the Auditor's activities from a quantitative point of view is not easy as his task is shaped primarily by volume, but also by the nature of the operations which are to be audited.

In this respect, three dates mark the main stages in the existence of the ECSC : on 1 January 1958, two other Communities were created to complete the process of European integration, on 1 January 1967 the executives were merged and on 1 January 1973 three new Member States joined the original six of the new Member States, the United Kingdom is a very large producer of steel and coal.

During the course of the initial auditing years (1954-1958), attention was naturally concentrated on what was by far the most important balance sheet entry : the operating expenditure, which had to be audited for each of the four institutions and the level of which gives a very imprecise idea of the volume of transactions. Resources derived from the levy and earmarked for aid for research and rehabilitation remained extremely limited (less than 2 million u.a. per year) whilst activities in the field of borrowing and lending got underway very slowly (nine loans for the whole period).

The creation of the two new Communities did not make any appreciable difference, except that the Auditor shared with the Audit Board — on a basis of geographical distribution — the work of auditing the common institutions and departments. Financially and quantitatively, administration remained the most important item, but recourse to the markets was stepped up (an annual average of 5 loans), whilst aid amounted, in good years, as in bad, to some 10 million u.a. The difficulties in the coal and steel sectors were quite naturally the reasons for the development of this new policy.

At the very moment that the Auditor found himself faced with this development, the merger of the executives removed from his sphere of competence the auditing of administrative expenses, which made it possible for him to concentrate his attention on the financial activities associated with the running of the ECSC.

What is more, within a few years (1967-1972), aid distributed by the ECSC doubled, whilst loans continued to be raised at the same moderate pace as in previous years with a marked trend in the period 1971-1972 towards a net increase.

This last stage in the history of the six-Member Community saw the gradual development of a report embracing more and more elements of an active policy. This tendency was confirmed and emphasized with the enlargement of the Community on 1 January 1973. The field of loans and borrowings began to expand, firmly this time, and reached a record of 21 loan issues in 1973, that is to say four times the annual average of the 20 previous years and five times the annual average of the first 18 years.

Under the combined influence of the increase in working capital and of the trend in interest rates, income from investments was higher than the income during the first ten years from the levy (approximately 25 million u.a.), which itself reached the level of 70 million u.a. in 1975.

This brief quantitative note shows the rapid growth in the financial activities proper of the ECSC, which has gradually involved itself in the complementary activities which the growth of its resources and the proportion of own resources not specifically allocated by the Treaty have made possible. In this context mention should be made of the promotion of social housing, reduced-interest loans granted by the Community or by third party providers of funds and the allocation of the former ECSC pension fund to a programme of loans towards the construction of houses for officials of the three Communities.

*Thus the task of the Auditor has become very widely diversified and after being initially concentrated largely on an administrative audit, has become involved with financial matters, which depend for success on practical criteria of good management rather than on adherence to precise regulations.*

**109.4** Set up by a Treaty between states, the ECSC appears at first sight to be a body incorporated under international public law, but, apart from the fiscal powers which is granted, its methods of financing and its expenditure procedures have much more in common with the methods of the common law, except for the early phase before the merger.

Before the merger of the executives, the external audit entailed the examination of a large number of financial transactions of the administrative type which were governed by only a minimum of regulations which had, moreover, been adopted piecemeal during the early years of the existence of the Community.

The first reports which in fact had the merit of really establishing the audit therefore contributed, through their many observations on administrative management, towards the expansion of this limited number of regulations, the application of which they also dealt with.

From that moment on there appeared the need for a 'permanent dialogue' with the authorities and departments being audited, as the above quotation from the report on the year 1962-1963 shows, — so as to be able proceed beyond the stage of simple accounting to grasp the real implications of financial management and make it intelligible to the recipients of the reports.

As a result of the initial efforts, audit methods and procedures were established and reasonable objectives assigned to the Auditor's task. The full effects of these efforts are still in evidence.

Since the merger, the Auditor's task has been limited to auditing the ECSC's operating expenditure, in which the situations — public and commercial — have an even more pronounced dual aspect.

The aim of the Community financing is to encourage beneficiaries to keep their projects or investments in line with the policy laid down by the ECSC for the whole of the coal and steel sector. The main features of his policy can be found in the periodic definition of the general objectives of the Community.

These then are 'principal points of Community policy' and the value placed on financial management must obviously be subordinated to them. Financing funds granted by applying not pre-established standards but a reasoned method based on examination of individual requests — ranging from an application by a private enterprise to the submission of a national programme — leading to the 'contract'. This contract is therefore the basis of the financial operation: it is the foundation stone of the audit file. The Auditor has therefore kept the various stages of the drawing up of the contract under constant scrutiny: the basic reasoning, which must show how it complies with the Institution's policy guidelines, a clear and precise statement of the financial commitments of the two parties concerned, accurate accounting on the basis of these elements, due regard for the contract in the management of the funds, attainment of the required objectives.

In assessing this contract management, the following major principles of external auditing were developed:

- an active role by the Institution responsible in the first instance for ensuring that the projects comply with the policy implemented (exact reasons for decisions taken)
- a management audit, which is all the more necessary and permanent because the beneficiaries using Community funds are hardly ever subjected to an internal or national external audit
- examination of and precise reasons for any amendments to the contracts (wording of riders), particularly from the point of view of good financial management
- the mandatory production of the results envisaged (scientific reports in the case of research) or mandatory proof of implementation (investment programmes).

Moreover, the Auditor is also called upon to certify the balance sheet and the accounts which are published in order to establish the credit standing of the ECSC on the financial and capital markets.

In this connection, efforts were made to present the position in accordance with rigorous standards of clarity and accuracy: thus it was immediately requested that the assets side of the balance sheet should be assessed at its true value excluding non-essential depreciation and that, on the liabilities side, provisions should only be made for sums committed contractually, with the other funds constituting either guarantees or amounts which were available immediately or awaiting allocation.

In his dealings with the departments audited, the Auditor has to accept that the very nature of certain operations (investment of funds, financial management), entails a considerable delegation of authority which precludes precise reasons for each operation; the extent to which this is true depends on the type of financial operation. However, acknowledgment of this flexibility does not mean that the officials responsible for managing the funds are released from their obligation to furnish, in the files to be audited, explanations which may properly be expected in order to be able to form at least an overall judgement of a public activity subjected to a detailed external examination.

As a result of the merger of the Executive, departments which until then had been solely concerned with the activities, — particularly financial — provided for in the ECSC Treaty were split up into sectoral units with general Community responsibilities. Apart from the fact that in too many cases these departments have to devote their time to tasks arising out of different policies — the ECSC share of which is certainly the most modest — the relative importance of their ECSC responsibilities has steadily declined. Although structurally a policy benefits by being placed in a more general framework, disparate activities must nevertheless be coordinated if a check is to be maintained on financial management and the implementation of the ECSC's own objectives for as long as the Treaties remain separate.

Community assistance may be granted via governments or public credit institutions in rare cases only (rehabilitation, social housing).

As pointed out a few years ago, it is very useful for the Auditor to find signs of national auditing of jointly financed projects, but so far this has only happened occasionally. It will not in fact be possible to systematize auditing until there is regular cooperation between national external and Community auditor.

To conclude this survey of the main lines of approach, it must be pointed out that the essential cooperation between the parties carrying out or undergoing the audit requires that the auditor be given all the information available, that he takes part in audit procedures or even that he be allowed to carry out on-the-spot investigations: certain experiments (although limited by the lack of funds) carried out in the past few years prove quite conclusively the usefulness of this.

*External auditing of the ECSC is thus closely bound up with efficient internal management auditing and with the existence of an infrastructure (documentation, coordination) which ensures that the financial activity is carried out in a manner consistent with the objectives to be attained.*

**109.5** This report ends at a time when the Auditor is about to make way for the European Court of Auditors, handing over to it a task which has clearly grown and is of a very special nature compared with Community auditing as a whole. To be sure, the permanent statute of this new body already obviates the increasing handicap placed on the Auditor by the part-time nature of the office, particularly as he is faced with the impossibility of working out, in an interim situation, a new way of organizing audit staff and methods.

However, what has been achieved so far must be safeguarded when interpreting new texts and on the incorporation of the ECSC in an entity so vast that its activities are likely to be dealt with in a more limited way. In the first place, therefore, the currently accepted meaning of the words of the Treaty must be preserved: — permanence and timing of external auditing —

The practices which made up so well for the lack of coercive regulations — which are moreover no longer acceptable in the structure of the ECSC Treaty — cannot be thrown overboard either. They are based on full information guaranteed by the automatic forwarding of documents and papers ranging from the decision file to the reports on the checks to ensure that the projects have been carried out, and including the contracts and other accounting documents and vouchers.

In the same spirit of cooperation, a permanent dialogue was initiated with the officials of the departments audited: these contacts, which were kept up both as a result of the personal action of the Auditor and his departments, must be maintained and developed. The Commission should also continue to be a party to an annual general discussion of all the comments made by the Auditor: this joint examination was very useful in bringing about any changes desired.

Steady progress is also the result of the increasingly detailed examination of the Auditor's reports by Parliament, especially in the last few years.

The frequent discussions which resulted in excellent preparation of the parliamentary debates by the Committee on Budgets and the conclusions of these meetings contained in the resolutions adopted, were 'the critical guidance and political support which are essential if the work (of the external Auditor) is to be used to maximum advantage' (Report for the year 1973, § 2).

TABLE 28

**Financial position of the European Coal and Steel Community at 31 December 1975**  
(Balance Sheet)

ASSETS	UA		LIABILITIES	UA	
I. <i>Disbursed loans</i> (1)			I. <i>Borrowings</i> (1)		
A. Loans granted out of borrowed funds			in US dollars	843 088 632	
— to finance industrial investments	1 734 843 439		in German marks	466 770 255	
— for industrial redevelopment and reconversion	271 994 346		in Italian lire	155 805 175	
— to finance social housing construction	20 732 824	2 027 570 609	in Dutch guilders	46 924 207	
B. Other loans			in French francs	128 786 814	
— out of the special reserve, to finance social housing construction	91 129 814		in Belgian francs	97 172 875	
— for readaptation	311 668		in Luxembourg francs	124 332 214	
— for research	2 146 734		in Swiss francs	221 952 411	
— miscellaneous (out of the former pension fund)	11 971 322	105 559 538	in units of account	56 836 266	
II. <i>Cash and banks</i>				14 800 000	
A. Current account	11 531 385	2 133 130 147	B. <i>Outstanding redemption premiums</i>	2 156 468 849	
B. Fixed deposits	371 163 128	382 694 513	in French francs		
III. <i>Short and medium-term investments</i>			in Belgian francs	10 125 000	
IV. <i>Portfolio</i>			(Bfrs)	1 720 528	2 158 189 377
V. <i>Real estate</i>			II. <i>Reserves</i>		
VI. <i>Recoverable issuing costs</i>			A. Guarantee fund	140 019 416	
VII. <i>Miscellaneous</i>			B. Special reserve	96 146 666	236 166 082
A. Debtors under the levy	4 297 348		III. <i>Provisions</i>		
B. Financial debtors	3 416 412		A. Financial assistance		
C. Deposits for coupons and bonds due but not yet presented	43 751 742	51 465 502	— Rehabilitation	112 654 883	
VIII. <i>Accrued income</i>			— Research	44 838 350	
A. Interest and fees accrued but not yet due on deposits, portfolio, loans and guarantees	53 807 751		— Assistance under Article 56	7 769 774	
B. Levy declared for December 1975 production but payable after 31. 12. 1975	5 614 294	59 422 045	— Assistance under Article 54	8 707 288	
IX. <i>Balance</i>			— Assistance to coke	5 910 100	
			B. Other provisions	179 880 395	
			— Anticipated commitments	14 004 455	
			— Sundry provisions	24 738 630	
			IV. <i>Former pension fund</i>	38 743 085	218 623 480
			V. <i>Miscellaneous</i>		34 238 818
			A. Coupons and bonds payable	43 751 165	
			B. Sundry creditors	107 060	43 858 225
			VI. <i>Accrued liabilities</i> (2)		
			Interest and fees accrued but not yet due on borrowings and guarantees		63 530 172
					2 754 606 154
I. <i>Enterprises' liabilities under guarantee</i>		16 693 687	I. <i>ECSC's liabilities under guarantees</i>		16 693 687
II. <i>Due on bonds</i>		61 393 732	II. <i>Bonds payable</i>		61 393 732

(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: 44 348 323 — Item II: 90 667 — Item VII: 845 134

(2) Borrowings secured by the Act of Pledge total 44 348 323 u.a.  
(3) Of which secured notes total: 799 405 u.a.



TABLE 29

## Financial position of the European Coal and Steel Community at 31 December 1975

(Balance sheet)

ASSETS	EUA		LIABILITIES	EUA	
I. <i>Disbursed loans</i> (1)			I. <i>Borrowings</i> (1)		
A. Loans granted out of borrowed funds			in US dollars	971 569 065	
— to finance industrial investments	1 926 654 609		in German marks	492 136 908	
— for industrial structural reorganization	295 954 223		in Italian lire	170 475 413	
— to finance social housing construction	22 056 896	2 244 665 728	in Dutch guilders	50 279 126	
B. Other loans			in French francs	147 395 212	
— out of the special reserve, to finance social housing construction	97 878 561		in Belgian francs	102 650 856	
— for rehabilitation	356 701		in Luxembourg francs	131 341 263	
— for research	2 304 662		in Swiss francs	245 545 294	
— miscellaneous (out of the former pension fund)	12 646 188	113 186 112	in units of account	19 802 404	
II. <i>Cash and banks</i>			B. <i>Repayment premiums to be paid</i>		
A. Current accounts	12 856 020	2 357 851 840	in French francs		10 125 000
B. Fixed deposits	403 496 054	416 352 074	in Belgian francs	1 966 864	2 393 087 355
III. <i>Short and medium-term investments</i>			II. <i>Reserves</i>		
IV. <i>Portfolio</i>			A. Guarantee fund	150 000 000	
V. <i>Real estate</i>			B. Special reserve	103 000 000	253 000 000
VI. <i>Recoverable issuing costs</i>			III. <i>Provisions</i>		
VII. <i>Miscellaneous</i>			A. Financial assistance		
A. Debtors under the levy	4 575 324		— Rehabilitation	118 966 689	
B. Financial debtors	3 848 656		— Research	47 539 820	
C. Deposits for coupons and bonds due but not yet presented	48 908 429	57 332 409	— Assistance under Article 56	8 356 206	
VIII. <i>Accrued income</i>			— Assistance under Article 54	9 513 155	
A. Interest and fees accrued but not yet due on deposits, portfolio, loans and guarantees	59 461 075		— Aid to coke	6 331 372	
B. Levy declared for December 1975 production but payable after 31. 12. 1975	5 967 097	65 428 172	B. Other provisions	190 707 252	
			— Future commitments	15 002 693	
			— Sundry provisions	26 502 000	
			IV. <i>Former pension fund</i>	41 504 693	232 211 945
			V. <i>Miscellaneous</i>		36 679 361
			A. Coupons and bonds payable	48 907 820	
			B. Sundry creditors	120 739	49 028 559
			VI. <i>Accrued liabilities</i> (2)		
			Interest and fees accrued but not yet due on borrowings and guarantees		70 540 687
			VII. <i>Unallocated balance</i>		605
		3 034 548 512			3 034 548 512
SUSPENSE ACCOUNTS					
I. Enterprises' liabilities under guarantee		20 875 494	I. ECSC's liabilities under guarantees		20 875 494
II. Due on bonds		65 499 415	II. Bonds payable		65 499 415

(1) Up to July 1961, claims and related surities 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: 49 852 181 — Item II: 101 496 — Item VII: 953 416.

(1) Borrowings secured by the Act of Pledge total: 49 852 181  
(2) Of which secured notes total: 901 284





TABLE 30

**Management account of the European Coal and Steel Community for the year 1975**  
(Statement of income and expenditure)

EXPENDITURE	u.a.	INCOME
I. <i>Service of borrowings and guarantees</i>		
Borrowings		
— Interest on borrowings	140 880 500	133 328 252
— Fees to custodian and agent banks	1 421 795	10 416 877
— Miscellaneous expenditure	331 198	7 615 323
— Payment of recoverable issuing costs	3 467 051	
— Total expenditure for borrowings	146 100 544	151 360 452
<i>Budgetary expenditure</i>		
— Administrative expenditure	16 541 396	102 556
— Rehabilitation expenditure	27 844 522	
— Research expenditure	19 693 529	
— Assistance under Article 56	3 630 639	
— Assistance under Article 54	2 975 379	
— Assistance to coke	4 995 000	
— Total budgetary expenditure	75 680 465	151 463 008
III. <i>Other expenditure</i>		
— Financial costs	296 873	23 913 230
IV. <i>Excess of income over expenditure</i>		
	42 199 244	5 608 300
		14 681 615
		247 400
		11 168 672
		35 964
		10 162 890
		2 009 691
		2 371 192
		70 198 954
		Total from levy
		26 802 927
		1 489 826
		2 931
		13 847 898
		471 582
		42 615 164
		Total other income
		Sum total
	264 277 126	264 277 126
		u.a.
		I. <i>Service of loans and guarantees</i>
		A) Loans granted out of borrowed funds
		— Interest on loans
		— Interest on borrowed funds not disbursed
		— Sundry revenue
		— Total revenue from loans granted out of borrowed funds
		B) Guarantees
		— Fees credited
		— Total revenue from loans out of borrowed funds and guarantees
		II. <i>Levy</i>
		— German enterprises
		— Belgian enterprises
		— British enterprises
		— Danish enterprises
		— French enterprises
		— Irish enterprises
		— Italian enterprises
		— Luxembourg enterprises
		— Dutch enterprises
		III. <i>Other income</i>
		— Interest on bank deposits and portfolio
		— Interest on loans granted out of non-borrowed funds
		— Interest on arrears
		— Contributions from new Member States
		— Miscellaneous income
		— Total other income
		— Sum total



TABLE 31

## Allocation of ECSC assets during 1975

Allocation of ECSC assets (reserves and provisions)	UA				Total assets (EUA)
	Total assets at 31. 12. 1974	Allocation of income	Expenditure	Total assets at 31. 12. 1975	
Guarantee fund	120 000 000	20 019 416	—	140 019 416	150 000 000
Special reserve	90 000 000	6 146 666	—	96 146 666	103 000 000
Rehabilitation	123 215 337	17 284 068	27 844 522	112 654 883	118 966 699
Technical and social research	22 826 191	41 705 688	19 693 529	44 838 350	47 539 820
Assistance to loans for industrial structural reorganization (Article 56)	7 738 733	3 661 680	3 630 639	7 769 774	8 356 206
Assistance to investment loans (Article 54)	9 166 958	2 515 709	2 975 379	8 707 288	9 513 155
Assistance to coke	5 000 000	5 905 100	4 995 000	5 910 100	6 331 372
Other provisions :					
1 — Service of borrowings	4 723 800	141 295 446	146 019 246	—	—
2 — Doubtful debtors (borrowings)	1 764 112	—	81 298	1 568 218	1 680 000
3 — 1976 budget	—	13 068 479	—	13 068 479	14 000 000
4 — Portfolio depreciation	850 000	—	—	767 306	822 000
5 — Compensation of borrowing costs	8 828 829	—	—	6 534 239	7 000 000
6 — Contingencies	—	2 800 388	—	2 800 388	3 000 000
7 — Future commitments	17 190 287	—	—	14 004 455	15 002 693
Former pension fund	33 949 726	289 092	—	34 238 818	36 679 361
Unallocated balance	15 817	15 263 106	16 838 269 (1)	—	605
<b>Total</b>	<b>445 269 790</b>	<b>264 277 126</b>	<b>222 077 882</b>	<b>487 469 034</b>	<b>521 891 911</b>

(1) Includes 16 541 396 u.a. as flat-rate contribution to administrative expenditure, 296 873 u.a. for financial costs.

