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STRENGTHENING CONVERSION POLICY IN REGIONS AFFECTED
BY THE STEEL CRISIS

(Commission **Staff** paper)

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by the steel crisis

I. Introduction

1. During its meeting on 23 June 1982⁽¹⁾, the Commission asked MM. GIOLITTI, DAVIGNON, ORTOLI and RICHARD to provide it, prior to the August holiday, with a general communication on measures which could be taken to assist regions affected by the steel crisis through the concerted use of all the Community funds and financial instruments in order to support development programmes and conversion and readaptation measures.

The Commission instructed the Task force for coordinating structural financial instruments to coordinate the work needed to prepare this communication.

2. The preparatory work had necessarily to take account of all the work in progress with regard to the financial instruments and all decisions which affect the conversion of the regions concerned: the preparation of the preliminary draft budget of the ECSC for 1983; the general targets for steel for 1985; changes in Commission proposals to revise the ERDF (amendments requested by the Parliament); proposals on the second series of specific measures of regional development under the quota free section of the ERDF (in particular reinforcing the measures taken in certain steel regions); the proposal concerning NIC III; the grant of interest rebates on Community loans for investments in the field of the rational use of energy (detailed rules governing cooperation with the EIB); and

(1) COM(82) Minutes 654 of 26.6.82.

proposals on re-examination of the Social Fund.

3. The need for and possibilities of reinforcing conversion policy in steel areas have been considered according to the following plan :

- Need to reinforce and extend the conversion measures.
- Reinforcement of ECSC instruments.
- The role of the Social Fund and the revision of this Fund.
- The revised version of the Regional Fund.
- Reinforcement of specific measures within the quota free section of the ERDF.
- Creation of new interest rebates on Community loans.

II. Need to reinforce and extend conversion measures in steel producing areas.

4. According to decisions taken at Community level, steel restructuring must be completed in 1985. New redundancies in this sector are therefore expected over the next three years. They will be added to the redundancies recorded from 1974 to 1981 inclusive (247 000 jobs). It is hardly possible at present to estimate these additional redundancies. It is only after examining restructuring plans that it will be possible to assess the consequences of restructuring for the level of jobs in the regions concerned.

An over-simple extrapolation, based on losses sustained in recent years, would lead to a figure of 70 000 additional redundancies.

A more rigorous calculation would need to take account of the complex character of restructuring operations, which may include internal compensating effects (vertical integration of production processes), of job losses resulting from increased productivity and of external developments which are in any case extremely difficult, if not impossible, to predict.

5. Whatever the figures, it is certain that substantial additional redundancies will occur within a relatively short time and under conditions aggravated by the economic crisis. It is therefore indispensable, if the chances of success of restructuring are to be increased, to increase efforts designed to offer other jobs to workers made redundant as a result of restructuring.

6. Redundancies in the steel industry are however only one part of the effects of restructuring the industry on the activities and level of employment in the regions concerned. A whole series of activities linked to steel, both "upstream" and "downstream", without counting activities created in the services sector, are also sustaining substantial losses of employment. This process is often aggravated by the fact that most active elements are leaving the region for lack of alternative work. In the end the whole social and economic fabric of the region is profoundly affected. Young people arriving on the labour market have fewer and fewer possibilities of finding work. Unemployment rises and there is a cumulative process of decline in activities throughout the region.

7. The economic crisis is aggravating this decline and decreasing still further the possibilities of creating new jobs fast. It is no longer possible, on the same scale as before, to attract substantial investment creating several thousand jobs at once. The tendency is rather towards closures of firms in other sectors, the rationalisation of firms also entailing redundancies and sometimes the relocation of business outside the Community.

8. It is not enough therefore to intensify efforts to offer a larger number of jobs more rapidly to labour made redundant through steel restructuring. Action must affect the whole social and economic fabric of the region, revitalize it and create new activities and jobs for the whole population of the region and particularly for young people, by having recourse to all national and Community instruments and means.

III. Reinforcing ECSC instruments

A. Budget aspects

9. Reinforcing the conversion measures of the ECSC requires increased budget allocations to these measures.

10. Indeed, examination of the use of credits available in 1982 shows that the whole allocation (40 MECU) will be committed, of which 80 % will be for rebates on global loans on behalf of SME (small and medium-sized enterprises). Moreover, requests have been submitted which, if satisfied, would exceed this amount by nearly 25 %. The commitment decisions for these cases cannot be taken until the beginning of next year through lack of sufficient means.

Credibility in reinforcing conversion policy would however be compromised if, due to the distribution of ECSC resources, there were not to be some reinforcement of the most appropriate instrument for conversion in the

steel areas, i.e. interest rebates on loans granted pursuant to Art. 56 ECSC. The use of other financial instruments of the Community and in particular the adoption of new measures do not constitute a simple financial compensation for inadequate ECSC resources but a reinforcement and non-sectoral enlargement of the regional dimension of conversion policy.

11. There are three fields needing priority attention to reinforce conversion measures : preparatory studies, new conversion techniques and an increase in interest rebates.

B. Increasing the number of preparatory studies

12. The Interdepartmental Group thinks that studies should be improved and increased as well as preparatory measures for small projects related to new activities. These studies and preparatory measures would be carried out according to Art. 46 ECSC or by way of the ERDF. The cost of such preparatory measures for several thousand small projects is calculated at 3 MECU.

C. New conversion techniques

13. The recent report of the Commission to the ECSC Consultative Committee on conversion policy (1) refers to new conversion techniques for creating

(1) COM(82) 418 final of 29 June 1982

and developing the SME :

- regrouping workshops in a single building, usually a former steel works building;
- nursery factories with joint services for new concerns in process of formation;
- business and technology centres for small high-technology firms providing full access, thanks to computers and support from large firms, to modern management and production methods.

14. It should be noted that the necessary investments for creating centres of this kind are eligible for ERDF aids, quota section and also, in certain cases, for aids from the quota free section within the framework of specific regional development measures in certain steel producing areas, in the same way as certain costs of running or using these centres.

Whether these two sections of the Regional Fund cover all conversion areas will be examined presently.

15. In relation to these new conversion techniques, mention must also be made of experiences of training and development measures carried out by the Social Fund in favour of SME to promote the creation of new activities in certain regions. The impetus which it is intended to give to innovative measures in the field of vocational training and job creation when the Social Fund is next revised should enable this instrument to play a greater part in conversion measures by coordinating its interventions on the ground with those of other Community financial instruments.
16. It should also be mentioned here that, as part of the examination of the possibilities for better combined use of the various Community financial instruments in the field of innovation, departments are currently

studying the feasibility of launching a programme to create several hundred SME (or to develop existing SME) by way of technology transfers (better use of innovation). This would involve a programme subdivided in ten sub-programmes located regionally. At least one part of these programmes could concern conversion areas. Thoughts on a Community initiative of this kind are still in a preparatory stage.

17. The application of new conversion techniques there requires better use and better coordination of other Community financial instruments. However several conditions must be fulfilled.

- the revision of the Regional and Social Funds must be obtained,
- the coordinated use of these two Funds and the ECSC instruments must be considerably reinforced,
- the diffusion of information on possibilities offered by combined use of these instruments must be considerably intensified within and between the managing departments, at the level of the agents employed in steel producing areas to look for new initiatives, at the level of promoters and development agencies, and at the level of the local and national authorities of the Member States concerned.

In this context, it must be stressed that accelerated computerisation of the management of financial instruments, with better compatibility between the systems involved and with more attention to distributing more up-to-date regionalized details on Community measures would contribute much to facilitating coordination and the diffusion of information with regard to the possibilities offered by these instruments.

D. Increasing the rate of interest rebates on ECSC conversion loans

18. Independently of the problem of increasing the volume of resources

allocated to these interest rebates, it is necessary to increase the rate of interest rebates for global loans to SME. Such an increase is essential for the following reasons :

- (1) The more than satisfactory rate at which the available credits are committed^(*) disguises, as far as global loans are concerned, an occasionally unsatisfactory "take-up" rate at the level of the actual use of these credits. Some financial intermediaries are unsuccessful in finding takers for these loans (some global loans have had to be withdrawn) or only manage to dispose of the credits at a very slow rate. Investigation shows that these difficulties are due to the fact that the interest rebate is not attractive enough for the investor in view of the constraint imposed by the "social clause" (obligation when recruiting to give priority to workers from the ECSC sectors) and to the fact that the investor does not receive the whole of the rebate. A small part of this rebate serves to remunerate the services provided by the financial intermediary.

These difficulties are the more worrying because the global loans help to create proportionally more jobs than other conversion loans since the SME are more labour intensive than larger concerns. Of course, the SME also use the most modern technology which does not initially create as many jobs as the older techniques. But the SME have more development potential and more potential for innovation and creating jobs in the future. The creation and development of SME diversify and reinforce the economic fabric of the region and introduce growth potential into that region with direct and indirect effects on the level of employment.

- (2) An effective social clause, which guarantees the employment effects of the investment concerned, is an essential element in the loan contract. An increased interest rebate is required to ensure that this necessary obligation does not render the loan package unattractive.

(*) The commitment takes place when the global loan contract is signed with the financial intermediary. The actual use depends on the granting of subsidiary loans.

(3) Finally, if new interest rebates from the resources of another financial instrument are introduced for Community global loans in order to reinforce the conversion measures and to create employment in the steel-producing areas, an increase in the rate of ECSC rebates becomes unavoidable.

19. A suitable rate for the ECSC rebates associated with global loans should be in the region of 5 points over 5 years. Without a corresponding increase in ECSC budget resources, this would entail a reduction in the proportion of global loans eligible for ECSC rebate which would be compensated by the volume of global loans that would become eligible for EEC rebates.

Appropriate formulae for combining or cumulating the two categories of rebate must be drawn up in order to make the best possible use of all the available budgetary resources. This will not be possible until the budget allocations have been fixed.

At the same time as the increase in the rate of rebate, there must also be a revision of the other conditions governing ECSC global loans (definition of investments, beneficiaries and ceilings) in order to align them with the conditions applicable to EIB and NCI global loans.

It is proposed that departments be instructed to examine all these points in greater detail in order to propose to the Commission before the end of the year a new draft ECSC decision on rebate for global conversion loans pursuant to Article 56 ECSC.

IV. The role of the Social Fund and the revision of the Fund

20. The Social Fund does not play a specific role in readapting redundant labour from ECSC sectors. This role is assumed by measures pursuant to Art. 56 ECSC, together with the social provisions. In so far as no unforeseen

events occur and provided the mechanisms for regulating readaptation expenditure according to Art. 56 ECSC give the results anticipated and the budget decisions with regard to the social provisions encounter no problems, it does not appear that further measures or resources, at least immediately, are needed in this field.

21. On the other hand, the Social Fund can play a considerable role in the process of converting the regions in question, by sharing in the costs of vocational training or of retraining other workers, particularly the young, in these regions. Although the Social Fund is active in these regions, no measure designed especially for the steel regions has yet been carried out by the Social Fund.

Reinforcing the link between Social Fund measures and Community policies is an accepted principle within the framework of preparing revised rules of procedure for this Fund.

However, special mention should be made of the increased role which it is intended to give to the Social Fund, in collaboration with the other financial instruments, in the fields of job creation, action in favour of SME and the creation of new economic activities, particularly in the conversion areas.

22. Of course, the role which the Fund will actually play depends on decisions to be taken by the Council on the proposals for the revision of the fund. It will also depend on the way in which the new provisions will be interpreted and applied, notably by means of the qualitative criteria which will be included in the annual guidelines. Finally, it will depend on the way in which the Member States will make use of the Fund.

V. Revision of the Regional Fund

23. This revision will markedly alter the possibilities of Fund aid for the conversion of regions affected by the steel crisis.
- 23.1. For the quota section, the most striking elements from this point of view are : the modification of the geographical scope, new forms of aid (financing for investment programmes and systems of state aid), the introduction of measures similar to those provided for in the specific measures (endogenous development factors), and the introduction of new interest rebates on EIB and NCI loans to SME and handicrafts. It will be necessary to take account of these changes from several points of view : coordination of the two sections of the Fund, most effective use of all budgetary resources, both EEC and ECSC, for the interest rebates on Community loans, and coordination with the other financial instruments.
- 23.2. For the quota-free section, the main changes concern : the growth in the size of this section in relation to the total allocation, a more precise definition of the tasks of this section, which makes it possible to combine the specific measures even more effectively with Community policies and especially with the policy for restructuring the steel industry, and also a simplification of procedure allowing the Commission (instead of the Council voting unanimously) to decide on the content of the specific measures (choice of areas, types of aid, beneficiaries, etc.). Taken as a whole, these changes will certainly make it possible to improve the contribution of the Fund to the conversion of the steel-producing areas.

VI. Reinforcement of the specific measures of the quota-free section of the ERDF

24. Work on the present communication was carried out in parallel with the

preparation of proposals for a second series of specific regional development measures. This second series involves an increase in the total amount available for existing measures, the extension of the geographical scope of some of these measures, notably with regard to the steel-producing areas, the introduction of new provisions in the existing measures and the launching of new specific measures.

These proposals are based on the present ERDF-regulations. Nevertheless, they have been drawn up in the context of the revision of this Fund.

25. As far as the specific measures in favour of the steel regions are concerned, the increase in resources, the extension of the geographical scope and the new measures will play a decisive role.

The extension of the geographical coverage as envisaged in the new proposals is designed so as to make more allowance for the implementation of plans for restructuring the steel industry and for their repercussions on employment in the areas in question.

The new measures include incentives for the creation and expansion of economic development services in order to give a more active character to the management of the aid provided for in these specific measures and to help the economic agents to make use of this aid. The new measures also include aid for investment in SME. One of the forms given to this aid is that of interest rebates on Community global loans.

VII. The introduction of new interest rebates in the quota-free specific measures

26. The main aim of the reinforcement of the conversion measures in the steel

areas is the creation of employment in productive activities. Efforts are concentrated on the SME (1) because they offer greater potential for job creation, for innovation and for growth and because they are in the best position to contribute to revitalizing and diversifying the structures of production. The additional incentives are given by way of Community aid to investments which serve either to found new SME or to develop existing enterprises.

27. By making two forms of aid available to SME - capital subsidies and interest rebates on Community global loans - a flexible system is created, which in its application will make it possible to adapt the aid granted in the light of various factors : the financial needs of SME, the Member State's policy with regard to national aids, the differing possibilities for each country of granting Community global loans, etc. The proportion of resources devoted to each type of aid will therefore vary from country to country and as determined by the special programmes. The proportions could, incidentally, also vary over time for the same country.
28. The capital subsidies would only be granted on condition that they are additional to the most favourable national aid granted to the investor. Indeed, if such additionality were not possible, the subsidies provided for in the specific measures would be pointless.
29. The interest rebate of 3 points over 5 years would apply to global loans of the EIB, the NCI and the ECSC, without being linked to national aid. The cost of the rebate would be borne entirely by the EEC budget. It would be paid to the financial intermediaries, who would pass most of it on to the investors. Global loans granted by the EIB are not restricted to SME. They cover small and medium-sized investments, even if they are carried out by larger firms.

(1) This emphasis on the SME and the creation of new economic activities in the conversion areas is also to be found in the provisions envisaged for the revisions of the Social Fund. This common characteristic should make it possible to improve the coordination of the two Funds.

Appropriate agreements should be entered into with the EIB and each financial intermediary to regulate the granting and management of these interest rebates. Criteria other than those relating to the location of investments do not seem to be necessary. The conditions governing the granting of global loans and subsidiary loans, together with their management, are sufficient to ensure the viability and competitiveness of the investments and the solvency of the investors.

30. The application of EEC rebates to the three types of loans (EIB, NCI and ECSC) will, doubtless, pose a problem of resource distribution and also a problem of cumulation or combination of EEC and ECSC rebates, both applicable to ECSC global loans.

It is suggested that the Commission should instruct its departments and the Task Force to study these problems later when all the necessary information is available (resources available in the ECSC budget, possible changes in the ^{word-}_{ing} of the social clause, the changes in the conditions and upper limits for ECSC rebates, the resources allocated in each country within the specific measures to investment aid together with the distribution between subsidies and interest rebates, and also the resources allocated in the quota section of the ERDF to other EEC interest rebates together with the detailed rules governing their application). It will be necessary to find solutions which are legally correct and which enable the best possible use to be made of all the available resources.

VIII. Recapitulation

31. The publication of the general objectives for steel and the decisions which will be taken on restructuring the steel industry, make it essential that decisions should be made which will strengthen substantially the policy for the conversion of steel areas. The restructuring of the industry must be completed by 1985. In a relatively short time it will give rise to many additional redundancies in the steel industry, in a context of crisis and continued worsening of unemployment. Without this reinforcement of conversion policy, there is a risk that the restructuring will not be accomplished in the desired conditions and within the desired time. It is not only a question of creating more jobs for ECSC workers made redundant by restructuring but also of taking vigorous action, using all the Community's financial instruments, to create more new jobs and new activities for all the workers in the areas concerned, especially for the young.
32. The reinforcement of conversion policy involves making the following decisions, grouped thematically below :
- (i) Rebates on ECSC conversion loans (Art. 56)
- To increase, the resources allocated to interest rebates on ECSC conversion loans (Art. 56) when the ECSC draft operational budget is established.
 - To instruct departments to prepare a revised Commission decision on rebates, the revision to include :
 - an increase of 2 percentage points (from 3 to 5 points over 5 years) in the rate of rebate on ECSC global conversion loans,
 - strengthening the impact of the social clause,
 - amending other conditions (definition of investments and beneficiaries) to align them with the conditions for global EIB and NCI loans,
 - To adopt these modifications for 1983, if possible taking into account the result of the study (1) of the problems of coordinating EEC and ECSC rebates.

(1) The study of these problems depends on the decisions relating to the ERDF.

(ii) Aids for readaptation and employment forecasts

- To instruct departments to continue and, where necessary, complete the application of mechanisms to regulate expenditure on readaptation aid granted under Article 56 ECSC.
- To have improved forecasts of redundancies in the steel industry drawn up on the basis of an examination of restructuring plans and on the basis of the preparation of applications for readaptation aid (Art. 56 ECSC) and for aid under the social provisions.

(iii) Social Fund

- To adopt the proposals on the revision of the Social Fund while clarifying the role of this instrument in relation to training and job creation in the steel areas.

(iv) ERDF quota-free section

- To adopt the proposal for the second series of specific measures within the quota-free section while ensuring that :
 - account is taken of the proposals for revising the Fund so that the most effective, coordinated use will be made of the possibilities offered both by the new quota-free section (new aid techniques, endogenous development factors and interest rebates on EIB and NCI loans to SME) and by the specific measures for the conversion of steel-producing areas;

- the proposals allow for a real intensification of the efforts devoted to studies and preparatory measures to stimulate new economic activities and new employment in the steel areas as well as making provision for the investments and expenditure required by the new conversion techniques;
- the draft regulation on extending and reinforcing the specific measures in favour of the steel areas provides for the introduction of new interest rebates on Community global loans for small industrial projects in those areas as well as for a new type of aid in the form of capital subsidies for investments in SME.

(v) NCI

- To adopt the proposals concerning NCI III, which widen the range of possibilities for Community loans for industrial projects and SME.

(vi) EIB

- To prepare with the EIB the agreements needed on new interest rebates and the NCI III.
- Agreements with the EIB to be signed after the relevant Council decisions.

(vii) Council decisions

- Adoption of decisions on NIC III, ERDF revision and Social Fund revision.
- Adoption of the second instalment of specific regional development measures.

IX. Coordinating the follow-up

33. The use of all the appropriate financial instruments to reinforce conversion policy therefore requires a large number of decisions prepared by different departments and taken by different institutions according to very diverse procedures and with a timetable which cannot be determined by the Commission. Moreover, the results may be different from those anticipated for various reasons : procedural problems, new factors arising in the course of negotiations and unforeseeable events and circumstances. This may call for other measures to be taken to ensure that an effective conversion policy can be put into operation.

It therefore seems useful to maintain a constant overall view of the course of procedure, of the decisions which will be taken and the manner of their application so that the Commission may keep regularly up to date with the reinforcement of conversion policy and the results obtained.

To ensure that this follow-up is properly coordinated, it is proposed that the Commission should instruct the departments concerned and the Task Force to make regular brief reports on this subject (every three months).
