COMMISSION OF THE EUROPEAN COMMUNITIES

COM(86) 235 final

Brussels, 6 August 1986

REPORT FROM THE COMMISSION TO THE COUNCIL

on the application of the Rules on Aids to the Steel Industry
1984-1985

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CORRIGENDUM

Brussels, 17 October 1986.

REPORT FROM THE COMMISSION TO THE COUNCIL

on the application of the Rules on Aids to the Steel Industry
1984-1985

Replaces Tables 1, 2, 3, and 4 of the report on 1984.

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1984

1. Introduction

1.1. Article 10 of Decision No 2320/81/ECSC (the Aids Code) provides that the Commission is to prepare regular reports on the implementation of the Code for the Council and for the information of the European Parliament. These reports are also submitted to the Consultative Committee.

1.2. The present report covers the period 1 January 1984 to 31 December 1984.

1.3. The criteria and procedures established by the Code for aids to the steel industry have been described in earlier reports (see especially the fourth and fifth reports). In accordance with the time-table contained in this Code the Commission adopted on 29 June 1983 a series of decisions on the steel aids notified by each Member State. These decisions set out the conditions to be met before the aids could be paid.
The two main conditions were that :

(i) additional net capacity reductions of at least a specified amount must be carried out before the end of 1985; and

(ii) it must be demonstrated that the aided undertaking can be financially viable without further aid by the end of 1985.

The Member States were required to submit the final restructuring plans by 31 January 1984 so that the Commission could determine whether these conditions were met.

1.4. Most Member States managed to meet this deadline; in other cases there were delays. At the end of the year the Commission was still awaiting the identification of the capacity reductions promised by the Italian Government for the private sector of its industry and the Corporate Plan of the British Steel Corporation (which was held up by uncertainties due to the UK miners' strike).

2. Capacity reductions

2.1. The minimum additional capacity reductions required by the Commission's decisions were intended to bring the total reduction for hot-rolled products in the period 1 January 1980 to 1 January 1986 to at least 26.7 million tonnes. When it adopted its decisions the Commission stated that it expected that viability considerations would in some cases require additional capacity cuts to be made, so that the objective of a 30 to 35 million tonnes reduction which the Community had set itself in November 1982 should be attainable.

Table 1 gives details of the identified capacity reductions and also shows that the bulk of them (83 %) had been carried out by the end of 1984.

2.2. On the basis of prospective steel output in 1986, as forecast in the General Objectives for Steel, this capacity reduction should enable the industry to achieve an average capacity utilization rate of about 70 % in that year, which, while not sufficient to re-establish the viability of the industry on a really firm basis, should nevertheless be a high enough level to enable the industry to pursue its further restructuring without renewed support from the Member States.

3. Viability

3.1. In its appraisals of undertakings' prospects of returning to viability, the Commission faced a task which it had not previously been called upon to undertake. It was clear that the Commission could not predict whether a particular company would be viable. The Commission's task was rather to examine whether in the projected market circumstances and given their restructuring and rationalization plans, companies had reasonable prospects of returning to viability. Accordingly the Commission established certain ground rules which it has required all undertakings to respect. Thus their financial projections for 1986 must be based in particular on the following assumptions and contraints :

(i) sales volumes should not excede levels attained in 1980 (in order that the plans of undertakings should be consistent with each other and with the demand forecasts contained in the General Objectives for Steel);

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(ii) the forecasts must incorporate a given price cost squeeze for the period 1982 - 1986;

(iii) depreciation provisions must be sufficient in relation to turnover to provide for the maintenance and replacement of the assets retained after restructuring; and

(iv) a minimum return on capital must be earned so as to prevent discrimination between public and private undertakings.

The Commission required the financial projections to be submitted to it in a detailed financial questionnaire designed to enable the impact of each restructuring measure to be identified.

The projections were closely scrutinized and wherever there were doubts about particular aspects of a company's proposals, for instance on the financial impact of particular measures, the Commission had recourse to independent experts who were employed to verify the claims made by companies.

3.2. At the end of the year the Commission was still examining the viability of some companies in France and Germany and was awaiting the Corporate Plan of the British Steel Corporation.

3.3. It should be pointed out that in order to be considered viable for the purposes of the Aids Code companies were therefore required to earn sales margins sufficient to cover all their costs including depreciation and financial charges and to remunerate their capital at a minimum level. The net profit level required is therefore an absolute minimum so that a number of companies judged technically viable would nevertheless undoubtedly remain in a difficult financial situation and would need to pursue their rationalization process after the expire of the Aids Code on the basis of their own resources.

4. Release of aid tranches

As the capacity reduction and viability conditions were progressively met in the course of the year, the Commission continued its practice of releasing tranches of the aid conditionally authorized in the June 1983 decisions.

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Tables 2 to 5 summarise the Commission's positions on aids to the steel industry up to the end of 1984. Table 2 shows the total aid notified by each Member State, how much had been released by the end of 1984 and how much remained to be released. Table 3 shows the total aid notified broken down by form of aid, and Table 4 shows the same information by objective of aid. Table 5 shows aid payments released by the Commission during 1984.

5. Monitoring

5.1. The Commission monitors both the payment of aids and the progress of restructuring.

5.2. For aid payments, Member States are required to submit six-monthly reports detailing individual payments of each category of aid so that the Commission can check that the aid payments have in fact been approved by it.

In addition, the Commission has required Member States to supply at the beginning of each quarter a report on the investment aids payable during that quarter and on the expenditure expected to be incurred by the aided undertaking. The Commission reserves the right to intervene to suspend aid payments if it should find that investment aid is being used for purposes other than that for which it was intended. The Member States experienced some initial difficulties in preparing the data in the form required, but most appeared to have overcome the running-in problems by the end of the year.

5.3. As regards restructuring, the Commission monitors in particular the implementation of closure programmes and checks that investments do not offset the accepted net reductions. The Commission also began checking in 1984 that companies which it had found to be likely to be viable in 1986 were indeed making the progress necessary for this aim to be achieved. If there were to be any doubts about the return to viability of an undertaking, the Commission could require further restructuring measures to be implemented by it.

6. State shareholdings

6.1. The Aids Code specifies that the criteria and procedures it establishes also apply to any aid elements contained in risk capital advanced by the State to steel undertakings.

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On such questions it has been the Commission's constant policy to consider that purchases of new shares by the State only contain aid elements if they are made on terms which would be unacceptable to a private entrepreneur. On this basis the capital advanced to companies such as Cockerill-Sambre, Sacilor, Usinor, Irish Steel Ltd., Finsider and the British Steel Corporation has been treated as containing substantial aid elements and was conditionally authorised in the June 1983 decisions.

6.2. In the course of 1984 the Commission was called upon to make judgments on the following cases:

Sidmar (Belgium)

In its decision of June 1983 addressed to the Belgian Government the Commission prohibited the purchase of a State shareholding in Sidmar unless it were proven that no aid elements were involved. The transaction in question involved the acquisition of new ordinary shares for BFR 3.5 billion and of new non-voting preference shares for BFR 11.2 billion (the latter operation enabling the conversion of debt guaranteed by the State). Since Sidmar shares are not quoted their purchase price was determined by the Belgian authorities as the average of the net value of the company's assets and of the present value of the stream of its expected future earnings. The Commission considered that this method overvalued the shares since a company's stock exchange valuation is normally based on the present and expected yield of its shares. The Commission was, however, prepared to consider that a higher price could be considered normal for the purchase of a blocking minority. When the Belgian Government accepted these principles and adjusted its proposals accordingly, in addition to certain other minor modifications required by the Commission, the latter was able to conclude that the transaction did not contain any aid elements.

ALZ (Belgium)

The Belgian Government planned a similar operation for ALZ, the total sum involved in this case being BFR 2.6 billion. The Commission examined this case, also of an unquoted company, on similar principles. In particular it required the Belgian Government substantially to reduce the proposed purchase price of the shares and to increase the proposed preferential dividend on the preference shares from 2 % to 6 %. The Belgian Government having agreed to these changes, the Commission informed it that it considered that the transaction did not contain any aid elements.

Hoogovens (Netherlands)

This company is quoted. In its decision of June 1983 the Commission had specified that the proposed purchase of a State shareholding was to be considered as an aid to the extent that the subscription price exceded the stock exchange price of the shares. In the event the subscription price was somewhat below the price ruling on the stock market and the Commission, therefore, informed the Netherlands Government that it considered that no aid element was involved.

Arbed (Luxembourg)

The Luxembourg Government informed the Commission that in order to establish Arbed's viability on a really sound footing, it had decided to participate in a capital reconstruction involving the purchase of new voting and non-voting sharesin this company as well as the purchase from Arbed of part of the latter's holding in Sidmar. The Commission informed the Luxembourg Government that these measures could only be considered with certainty as excluding all aid elements if the acquisition price of the Arbed shares did not excede their stock exchange quotation and that of the Sidmar shares was no greater than the basic price the Commission had considered acceptable in the case of the Belgian Government's intervention.

Finsider (Italy)

The viability of this company rests, according to the Commission's analysis, on the provision by the Italian Government of capital additional to that conditionally authorised in the decision of June 1983.

In this case, although Finsider is a quoted company, the appraisal criteria cannot relate to its share price since the State already owns virtually all the shares. Appraisal must therefore be based on the prospective return to the extra finance made available. The Italian Government argued that the Commission, having found Finsider to be viable from 1986, could not logically consider the provision of new capital to the company as containing aid elements. The Commission did not accept this argument. It recognised that the aid elements were much less significant than in earlier financial measures, but since the viability of Finsider was fairly fragile and since the return on share capital would be at the minimum level required in the viability appraisals, it considered that some aid elements remained present.

7. Procedural matters

7.1. In November and December 1981 and in April 1983 the Commission initiated infringement procedures against Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the United Kingdom. In March 1984 a further procedure was initiated against Italy. These procedures concern cases in which aid was paid prior to its notification to the Commission or after the latter had initiated an examination procedure, whose legal effects is to suspend the payment of aid until the Commission has given its final decision. Virtually all the aids concerned by these procedures have since been released and the Commission has decided not to take further action on procedural grounds alone in respect of cases where the issues of substance have been resolved.

7.2. Two of the three cases brought to the Court of Justice against some of the decisions of 29 June 1983 have not yet been the subject of a judgment. In the third case the Court ruled that the five local authorities in Luxembourg, which challenged the Luxembourg decision, were not eligible to do so and dismissed the case.

8. Proposed amendments to certain time limits of the Aids Code

8.1. Although, as indicated above, it appears that Community's restructuring objectives can be achieved by the end of 1985, it is also clear that market developments have been more unfavourable than expected when the Aids Code was adopted.

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It appears that in a number of cases additional aid is required in order to ensure that the restructuring process is successful in restoring the viability of the industry in the Community.

In consequence four Member States have informed the Commission that they will need to grant aid additional to that authorised in the decisions of 29 June 1983. Moreover, these and at least two other Member States will require to pay aid to continued operation during 1985. For these aids to be payable three of the time limits established by the Aids Code have to be modified:

(i) the time limit for the notification of aid (originally 30.9.1982);

(ii) the time limit for the authorisation of aid (originally 30.6.1983); and

(iii) the time limit for the payment of aid to continued operation (originally 31.12.1984).

Article 12 (1) of the Aids Code empowers the Commission to alter the time limits with the assent of the Council which must be given unanimously in the first instance, but may after two months have elapsed, be given by a qualified majority. In November, the Commission made a proposal to the Council to modify the three limits listed above, emphasing however, that the deadline for the payment of all aid (31.12.1985) must be maintained.

8.2. The Council of Ministers discussed the Commission's proposal at two meetings but was unable to reach agreement on them, although progress was made on the amendment of the time limit for granting the operating aids authorised by the Commission on 29 June 1983. The Council, however, agreed on the importance of maintaining 31.12.1985 as the time limit for the payment of all aids and the end of the Aids Code. The Council also asked the Commission to prepare a report setting out the rules that would apply to any general or regional aids granted to the steel industry after the expiry of the Aids Code.

Table 1

AID TO THE COMMUNITY STEEL INDUSTRY SINCE 1.2.1980[1]

(ECU millions)

	A Total aid notified since 1.2.1980	B Total cleared to 31.12.1985	B as % of A	C Total not compatible with common market	C as % of A
BELGIUM	4 259	4 256	100*	-	-
DENMARK	81	81	100	-	-
F.R. GERMANY	4 522	3 844	85	-	-
GREECE	6	-	-	6	100
FRANCE	9 222	9 141	99	-	-
IRELAND	264	264	100	-	-
ITALY	12 105	12 068	100*	-	-
LUXEMBOURG	631	631	100	-	-
NETHERLANDS	456	456	100	-	-
UNITED KINGDOM	5 768	5 640	98	-	-
TOTAL EEC	37 314	36 381	97	6	0.01

1 Date of adoption of the first Aid Code.

* Approximately.

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Table 2

TOTAL AID TO THE COMMUNITY STEEL INDUSTRY CLEARED FOR PAYMENT SINCE 1.2.1980 BY FORM OF AID (ECU millions)

Country/Firm	Grants/ interest relief grants	Capital/ participatory loans	Conversion of debts into capital	Reduced interest rate loans	Guarantees/ market rate loans	Other	Total
BELGIUM							
Cockerill-Sambre	88	1 184	1 705	187	781	-	3 945
Others	78	32	35	-	166	-	311
DENMARK							
Danish Steel	-	39	-	-	-	42	81
F.R. GERMANY							
Arbed Saarstahl	843	-	-	1	174	29	1 047
Others	1 968	-	-	67	761	-	2 797
GREECE							
Metallourgiki Halyps	-	-	-	-	-	-	-
Sidenor	-	-	-	-	-	-	-
FRANCE							
Sacilor/Usinor	150	8 298	-	-	693	-	9 141
IRELAND							
Irish Steel	44	162	-	-	58	-	264
ITALY							
Finsider	802	6 711	-	2 920	510	-	10 943
Others	1 124	-	-	-	-	-	1 124
LUXEMBOURG							
Arbed/MMRA	211	165	-	27	226	2	631
NETHERLANDS[1]							
Hoogovens	89	222	-	-	137	-	448
Others	8	-	-	-	-	-	8
UNITED KINGDOM							
British Steel Corporation	228	5 346	-	-	-	-	5 574
Others	66	-	-	-	-	-	66
TOTAL EEC	5 699	22 159	1 740	3 202	3 506	73	36 381

[1] A contingency loan facility of ECU 58 million was withdrawn by the Dutch Government.

Table 3

TOTAL AID TO THE COMMUNITY STEEL INDUSTRY CLEARED FOR PAYMENT SINCE 1.2.1980 BY OBJECTIVE (ECU millions)

Country / Aid purpose	Investment	Research and development	Closures	Continued operation	Emergency	Total
Belgium	719	-	118	3 408	12	4 257
Denmark	13	-	-	68	-	81
F.R. Germany	1 120	163	619	1 942	-	3 844
Greece	-	-	-	-	-	-
France	3 039	-	302	5 111	689	9 141
Ireland	-	-	-	264	-	264
Italy	1 791	54	1 053	9 171	-	12 068
Luxembourg	440	-	15	176	-	631
Netherlands	234	-	-	222	-	456
United Kingdom	1 788	49	1 036	2 767	-	5 640
Total EEC	9 144	266	3 143	23 129	701	36 381

TABLE 4

AID TO THE COMMUNITY STEEL INDUSTRY [illegible] IN 1980

Country/Firm	Grants/ interest relief grants	Capital/ participatory loans	Conversion of debts into capital	Reduced interest rate loans	Guarantees/ market rate loans	Other	Total
BELGIUM							
Cockerill-Sambre	50	201	35	-	13	-	299
Others	-	2	2	-	14	-	18
DENMARK							
Danish Steel	-	-	-	-	-	-	-
F.R. GERMANY							
Arbed Saarstahl	225	-	-	-	42	-	267
Others	54	-	-	-	-	-	54
GREECE							
Metallourgiki Halyps	-	-	-	-	-	-	-
Sidenor	-	-	-	-	-	-	-
FRANCE							
Sacilor/Usinor	-	2 835	-	-	-	-	2 835
IRELAND							
Irish Steel	-	33	-	-	-	-	33
ITALY							
Finsider	603	4 552	-	1 484	-	-	6 639
Others	58	-	-	-	-	-	58
LUXEMBOURG							
Arbed/MMRA	-	104	-	-	-	-	104
NETHERLANDS							
Hoogovens	-	-	-	-	-	-	-
Nedstaal	-	-	-	-	-	-	-
UNITED KINGDOM							
British Steel Corporation	60	1 003	-	-	-	-	1 063
Others	20	-	-	-	-	-	20
TOTAL EEC	1 070	8 730	37	1 484	69	-	11 390

Table 5

AID TO THE COMMUNITY STEEL INDUSTRY RELEASED IN 1984 (in millions of ECU's)

Country	Grants interest relief grants	Capital participatory loans	Conversion of debts into capital	Reduced interest rate loans	Guarantees/ market rate loans	Others	Total
BELGIQUE							
Cockerill-Sambre	38	329	1,122	110	498		2,097
Others	45	61	303		1		410
DEUTSCHLAND							
Arbed Saarstahl	142						142
Dillinger	54						54
Hoesch	320				160		480
Klöckner	225				200		425
Krupp	241				185		426
Maxhütte	80				42		122
Peine-Salzgitter	221				106		327
Others	677				11		688
FRANCE							
Sacilor/Usinor		805					805
IRELAND							
Irish Steel	129				6		135
ITALIA							
Finsider	388	2,085		1,512			3,985
LUXEMBOURG							
Arbed/MMRA	141	59		1	182		383
NEDERLAND							
Hoogovens	11	222					233
Nedstaal	8						8
UNITED KINGDOM							
Total	168	1,153					1,321
TOTAL EEC	2,888	4,714	1,425	1,623	1,391		12,041

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1. Introduction

1.1. Article 10 of Decision No 2320/81/ECSC (the Aid Code) provides that the Commission is to prepare regular reports on the implementation of the Code for the Council and for the information of the European Parliament. These reports are also submitted to the Consultative Committee.

1.2. The present report covers the period 1 January 1985 to 31 December 1985, i.e. the final year of the Aid Code.

1.3. Aid authorized under the conditional decisions of 29 June 1983 concerning the various Member States continued to be cleared for payment up to the end-1985 deadline, as the capacity reductions and viability conditions - which had sometimes required a considerable intensification of the firms' initial restructuring programmes - were fulfilled.

1.4. As described in the Sixth Report, the unexpectedly sharp downturn in the market in the preceding years had left many steel firms in need of more radical restructuring - not least financial - if they were to achieve the objective of viability, and in a number of cases this was only possible if additional aid was provided.

Consequently, having obtained the unanimous assent of the Council, the Commission on 19 April 1985 adopted under Article 95 ECSC Decision No 1018/85/ECSC which, without altering the end-1985 deadline for aid payments, amended Decision No 2320/81/ECSC to allow under certain conditions additional aid to be notified to the Commission by 31 May 1985 and authorized by it by 1 August 1985 and to permit operating aid to be paid also in 1985.

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conditions additional aid to be notified to the Commission by 31 May 1985 and authorized by it by 1 August 1985 and to permit operating aid to be paid also in 1985.

2. Criteria for additional aid under Decision No 1018/85/ECSC

2.1. Under the terms of Decision No 1018/85/ECSC, additional aid could be authorized only for two purposes :

- for financial restructuring to reduce firms' debt-service charges to the level borne by firms that were profitable in 1984;

- to cover costs occasioned by capacity reductions.

2.2. The Commission established that the limit for aided financial restructuring according to the above criterion had to be set at a debt-service level of around 4% of turnover.

2.3. The authorization of additional aid remained subject to the criteria laid down in Article 2 of Decision No 2320/81/ECSC. In this context it was made clear that capacity reductions had to be required in particular where they were necessary for ensuring the viability of the aided undertaking or where they did not affect trade patterns. It was stressed that such reductions must not disturb current restructuring programmes in the course of implementation.

3. Application of Decision No 1018/85/ECSC

3.1. By the closing date of 31 May 1985 additional aid had been notified by six Member States : Belgium, France, Germany, Ireland, Italy and Luxembourg.

3.2. Except for a small part of the aid notified by Belgium and Italy, all the new aid was intended for financial restructuring.

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In calculating the maximum amounts of aid for financial restructuring for which individual firms were eligible under the 4% ceiling, the Commission was assisted by outside consultants.

3.3. All the notified proposals for additional aid were the subject of consultations with the Member States at multilateral meetings before the Commission took a decision.

3.4. By the 1 August 1985 deadline the Commission authorized the six Member States concerned to grant in the region of ECU 4.3 billion of additional aid to their steel industries.

Where the aid approvals were conditional, the aid was cleared for payment only later in the year when the Commission had established that the conditions were fulfilled.

In return for the additional aid, the Commission required close on 2.4 million tonnes of further reductions of hot-rolling capacity which, under the provision referred to in the last sentence of para 2.3., have to be carried out at the latest during 1986 (see Table 5).

3.5. Almost all Member States made use of the possibility of granting operating aid in 1985. This extension for granting operating aid included both aid which had been part of the packages authorized on 29 June 1983 and additional amounts authorized under Decision No 1018/85/ECSC.

3.6. In one case the Commission's authorization of additional aid under Decision No 1018/85/ECSC has been challenged before the European Court of Justice. The case concerns the additional aid authorized for the Italian public steel sector and has been brought to the Court by a private Italian steel firm.

4. Winding up of the 29 June 1983 aid package

4.1. As the two main conditions for granting the aid authorized by the 29 June 1983 decisions, viz.

1) net reductions of hot-rolling capacity of a minimum specified amount to be implemented at the latest by the end of 1985;

2) demonstration of the financial viability of the aided firm without further aid after 1985;

were fulfilled, the Commission cleared the aid for payment.

4.2. The two Member States which, as mentioned in the Sixth Report, by the end of 1984 had not yet identified capacity reductions of at least the minimum amount required in the 29 June 1983 decision did so in last half of 1985.

4.3. As had been the case with some Belgian, Italian and German steel firms in 1984, the viability prospects offered by the restructuring plans of other major steel firms in France, Germany and United Kingdom were scrutinized by independent consultants, which the Commission called in to assist it in its viability assessments.

In some cases substantial intensifications of the firms' initial restructuring programmes had to be agreed before the Commission was satisfied with their viability prospects.

4.4. By the end of the year not all the aid authorized by the 29 June 1983 decisions had been called up by all the Member States (see Table 1).

4.5. In 1985 the Court of Justice gave judgment in the two actions brought against the Commission by the Federal Republic of Germany and Hoogovens for the way in which the Aid Code had been applied in some of the decisions of 29 June 1983.

In both cases the Court held that in sharing out the burden of restructuring between the Member States' steel industries in return for the aid approved on 29 June 1983, the Commission had exercised its discretion fully in accordance with the principles of proportionality, equal treatment and non-discrimination.

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The Court also upheld the procedure the Commission had employed in applying the Aid Code. In the Hoogovens case, however, it ordered the Commission to revise its calculation of the capacity reductions made by the firm.

4.6. Over the entire period of the Steel Aid regime which was in force under Decisions Nos 257/80/ECSC, 2320/81/ECSC and 1018/85/ECSC from 1 February 1980 until 31 December 1985, the Commission authorized and cleared for payment aid totalling roughly ECU 38 billion for the Community's steel industry.

Table 1 shows for each Member State the total aid notified by the Member State and the totals authorized and cleared for payment by the Commission.
Table 2 gives a breakdown of the totals cleared for payment by form of the aid.
Table 3 gives the same information by objective of the aid.
Table 4 shows the aid cleared for payment by the Commission during 1985.

4.7. At the beginning of 1986 the Commission is checking that the end-1985 deadline for payment of cleared aid has been complied with.

5. <u>Capacity reductions</u>

5.1. By the end of 1985 net reductions in hot-rolling capacity totalling 28.6 million tonnes from the levels existing on 1 January 1980 had been carried out by the Community steel industry (see Table 5).

In several Member States the reductions exceeded the minima required in the Commission's decisions of 29 June 1983.

Around 550,000 tonnes of the reductions implemented by the end of 1985 were closures demanded in return for additional aid approved under Decision No 1018/85/ECSC.

A further 2,492,000 tonnes of capacity cuts have been committed for 1986, either in return for additional aid under Decision No 1018/85/ECSC or for viability reasons. This brings the total reductions resulting from the aid regime expiring in 1985 to more than 31 million tonnes (see Table 5).

5.2. Thus, the restructuring target of 30-35 million tonnes of reductions in hot-rolling capacity to be accomplished with the support of the aid regime, which the Community set itself at the informal meeting of Industry Ministers at Elsinore in November 1982, has been met.

It should be emphasized that this structural adjustment has been possible only at the cost of considerable social sacrifice, the repercussions of which have been particularly serious in regions where the steel industry is a major employer. A decline in employment of roughly 37%, or approximately 250,000 jobs, has taken place over the period 1980-85. This does not take account of jobs likely to be lost in 1986, which may bring the overall total to 280,000 jobs, or 42%, by the end of this year.

In its social and regional policy, the Commission has taken account of the possibility through its own funds of assisting the retraining of redundant steel workers and helping attract new industry to the areas that have lost a large number of steel jobs. In a number of cases, the Commission has adopted a favourable position on national regional aid schemes designed to create alternative employment in such hard hit areas.

5.3. The restructuring efforts of the steel industry will have to be continued in the coming years in order to ensure the long term competitiveness of the sector. To date, the Commission knows of over 2 million tonnes of closures planned for 1986 in addition to the obligatory 2,492,000 tonnes referred to above.

6. <u>Aid to the steel industry after 1985</u>

6.1. Now that the objectives the Community set itself for the restructuring of its steel industry by the expiry of the Aid Code at the end of 1985 have been achieved and the exceptional circumstances justifying aid have therefore ceased, a return to a market situation is called for where, in the main, steel firms will have to rely on their own financial performance to sustain their activities and to finance the further structural adjustments that are necessary to improve their competitiveness by bringing supply and demand into even closer balance.

Such a situation would result from a strict application of the aid prohibition in Article 4(c) ECSC, since the Commission has made it clear that it no longer endorses an interpretation of this Article as excluding aid under general schemes.

6.2. However, although the restructuring so far accomplished has raised the average capacity utilization rate in the industry to about 70% and has allowed the Commission to make positive findings on the various firms' prospects of viability without aid under normal market conditions, the fact remains that there is still considerable overcapacity in the industry which leaves a significant number of firms vulnerable.

This among other factors also influenced the Commission to keep the crisis market regime under Article 58 ECSC in place for a transitional phasing-out period of two years.

The Commission therefore considered that it was still necessary to provide, by application of Article 95, for limited possibilities of aid to the steel industry after 1985.

6.3. Such aid should, however, be confined to assistance for research and development and for bringing older plant into line with new environmental standards, so that the steel industry is not treated differently from other industries in this respect.

In view of the large amount of overcapacity still depressing the market, it was also thought advisable for the time being to allow certain incentives for further capacity cuts.

6.4. Apart from aid for these limited purposes, the Commission has stood by its determination not to allow government subsidies to the steel industry after 1 January 1986. To ensure equality of treatment between firms which normally have recourse to State financing for their activities and those which do not, the Commission has provided for compulsory notification of all transfers of State resources to steel firms to enable it to determine whether they involve aid elements.

6.5. A proposal on these lines was put by the Commission to the Council in July 1985 and after certain modifications received the Council's unanimous assent on 29 October 1985. On 27 November, the Commission adopted Decision No 3484/85/ECSC under Article 95 ECSC, which introduces the new aid rules for the three-year period from 1 January 1986 until the end of 1988.

6.6. The Decision allows aid for research and development and for environmental protection on the same terms as it is available in other sectors.

6.7. It also allows aid under certain conditions for additional closures, covering up to 50% of the social costs thereby occasioned to the firm, plus - where the firm is permanently giving up all ECSC steel activities - an amount equal to either the residual book value of the plant closed or the discounted value of its estimated contribution to fixed costs over the three-year period following the closure.

6.8. Finally, the Decision makes an exception to the ban on investment aid for firms located in a Member State which did not have any aid authorized for its industry under the previous aid rules, where the aid is awarded under general regional aid schemes and no increase in production capacity results from the investment.

.../9

6.9. The Decision provides for obligatory prior notification of all financial transfers of State resources to steel firms with the possibility of Commission intervention under the procedural rules if the transfers involve an aid element.

6.10. The Commission will use all the powers available to it under the Treaty to enforce the new aid rules, including the possibility provided for in Article 15A of the new quota rules contained in Commission Decision No 3485/85/ECSC of 27 November 1985.

6.11. Article 8 of the new aid Decision No 3484/85/ECSC provides for a continuation of the present regular reporting by the Commission to the Council, the Parliament and the Consultative Committee on the implementation of the Decision.

7. Spain and Portugal

7.1. The steel industry provisions of the Spanish and Portuguese Acts of Accession provide for a transitional period of three and five years respectively during which steel firms in the two new member countries will be able to receive operating aid and aid for investment, closures and research and development.

Before such aid is granted it will have to be notified to and authorized by the Commission under procedures and criteria similar to those applied up to the end of 1985 under the Aid Code of Decision No 2320/81/ECSC. The closing date for notifications of aid is 1 January 1987.

For this purpose, in the course of 1986 the Commission will assess the viability prospects of the firms likely to be aid recipients. In contacts the Commission has had with these firms and their national governments, it has already been possible to work out some of the arrangements for the analyses of viability that will be jointly made in 1986. By the end of February the Commission should have received all requested financial data from the firms.

The steel aid provisions in the Spanish Act of Accession do not affect the aid awarded under the restructuring programmes which the Spanish Government decided upon in March 1984.

7.2. Spain is required under the Act of Accession to reduce its MPP to 18 million tonnes by the end of 1988, plus any further reductions that might be necessary for viability reasons. Its pre-accession capacity, according to official Spanish estimates which were broadly confirmed in inspections which Commission staff carried out in late 1985, was 21 million tonnes.

Table 1

AID TO THE COMMUNITY STEEL INDUSTRY SINCE 1.2.1980[1].

(ECU millions)

	A Total aid notified since 1.2.1980	B Total cleared to 31.12.1985	B as % of A	C Total not compatible with common market	C as % of A
BELGIUM	4 259	4 256	100*	-	-
DENMARK	81	81	100	-	-
F.R. GERMANY	4 522	3 844	85	-	-
GREECE	6	-	-	6	100
FRANCE	9 222	9 141	99	-	-
IRELAND	264	264	100	-	-
ITALY	13 480	13 480	100	-	-
LUXEMBOURG	631	631	100	-	-
NETHERLANDS	456	456	100	-	-
UNITED KINGDOM	5 768	5 640	98	-	-
TOTAL EEC	38 689	37 792	97	6	0.01

1 Date of adoption of the first Aid Code.

* Approximately.

Table 2

TOTAL AID TO THE COMMUNITY STEEL INDUSTRY CLEARED FOR PAYMENT SINCE 1.2.1980 BY FORM OF AID (ECU millions)

Country/Firm	Grants/ interest relief grants	Capital/ participatory loans	Conversion of debts into capital	Reduced interest rate loans	Guarantees/ market rate loans	Other	Total
BELGIUM							
Cockerill-Sambre	88	1 184	1 705	187	781	-	3 945
Others	78	32	35	-	166	-	311
DENMARK							
Danish Steel	-	39	-	-	-	42	81
F.R. GERMANY							
Arbed Saarstahl	843	-	-	1	174	29	1 047
Others	1 968	-	-	67	761	-	2 797
GREECE							
Metallourgiki Halyps	-	-	-	-	-	-	-
Sidenor	-	-	-	-	-	-	-
FRANCE							
Sacilor/Usinor	150	8 298	-	-	693	-	9 141
IRELAND							
Irish Steel	44	162	-	-	58	-	264
ITALY							
Finsider	802	6 711	-	2 920	510	-	10 943
Others	2 240	-	-	297	-	-	2 537
LUXEMBOURG							
Arbed/MMRA	211	165	-	27	226	2	631
NETHERLANDS[1]							
Hoogovens	89	222	-	-	137	-	448
Others	8	-	-	-	-	-	8
UNITED KINGDOM							
British Steel Corporation	228	5 346	-	-	-	-	5 574
Others	66	-	-	-	-	-	66
TOTAL EEC	6 815	22 159	1 740	3 499	3 506	73	37 792

[1] A contingency loan facility of ECU 58 million was withdrawn by the Dutch Government.

Table 3

TOTAL AID TO THE COMMUNITY STEEL INDUSTRY CLEARED FOR PAYMENT SINCE 1.2.1980 BY OBJECTIVE (ECU millions)

Country / Aid purpose	Investment	Research and development	Closures	Continued operation	Emergency	Total
Belgium	719	-	118	3 408	12	4 257
Denmark	13	-	-	68	-	81
F.R. Germany	1 120	163	619	1 942	-	3 844
Greece	-	-	-	-	-	-
France	3 039	-	302	5 111	689	9 141
Ireland	-	-	-	264	-	264
Italy	3 993	43	227	9 216	-	13 480
Luxembourg	440	-	15	176	-	631
Netherlands	234	-	-	222	-	456
United Kingdom	1 788	49	1 036	2 767	-	5 640
Total EEC	11 346	255	2 317	23 174	701	37 792

Table 4

AID TO THE COMMUNITY STEEL INDUSTRY CLEARED IN 1985 (ECU millions)

Country/Firm	Grants/ interest relief grants	Capital/ participatory loans	Conversion of debts into capital	Reduced interest rate loans	Guarantees/ market rate loans	Other	Total
BELGIUM							
Cockerill-Sambre	50	201	35	-	13	-	299
Others	-	2	2	-	14	-	18
DENMARK							
Danish Steel	-	-	-	-	-	-	-
F.R. GERMANY							
Arbed Saarstahl	225	-	-	-	42	-	267
Others	54	-	-	-	-	-	54
GREECE							
Metallourgiki Halyps	-	-	-	-	-	-	-
Sidenor	-	-	-	-	-	-	-
FRANCE							
Sacilor/Usinor	-	2 835	-	-	-	-	2 835
IRELAND							
Irish Steel	-	33	-	-	-	-	33
ITALY							
Finsider	603	4 552	-	1 484	-	-	6 639
Others	1 328	-	-	243	-	-	1 571
LUXEMBOURG							
Arbed/MMRA	-	104	-	-	-	-	104
NETHERLANDS							
Hoogovens	-	-	-	-	-	-	-
Nedstaal	-	-	-	-	-	-	-
UNITED KINGDOM							
British Steel Corporation	60	1 003	-	-	-	-	1 063
Others	20	-	-	-	-	-	20
TOTAL EEC	2 340	8 730	37	1 727	69	-	12 903

TABLE 5

Reductions in hot-rolling capacity under the Aid Codes 1980-85

('000 tonnes)

Country	1 Capacity in 1980	2 Capacity 31.12.1985	3 Reductions as per 31.12.1985	4 Of which in return for aid under Dec. 1018/85/ECSC	5 Minimum required according to 29.06.1983 Decision	6 Demanded 1986 Reductions(1)	7 Total Reductions on expiry Steel Aid Regime (3 + 6)
Belgium	16 028	13 098	3 180(2)		3 155	256	3 436(2)
Denmark	941	875	66		66		66
F.R. of Germany	51 869(3)	45 140(3)	6 693	110	6 010(4)	36	6 729
Greece	4 317	4 710	+ 393		-		+ 393
France	26 869	21 469	5 400		5 311	745	6 145
Ireland	57	333	+ 276		-		+ 276
Italy	36 294	29 894	6 400	350	5 834	800	7 200
Luxembourg	5 215	3 920	1 045(5)	85	960		1 045(5)
Netherlands	7 597(6)	5 865	1 732(6)		950		1 732(6)
United Kingdom	22 840	18 064	4 776		4 500	655	5 431
Total	172 027	143 368	28 623	545	26 786	2 492	31 115

(1) Under Decision 1018/85/ECSC and/or for viability considerations.
(2) Incl. 250 kt "loaned" by Luxembourg.
(3) After corrections re. Klöckner.
(4) Not including reductions in return for aid to one undertaking.
(5) After deduction of the 250 kt "loan" to Belgium.
(6) After correction based on the decision of the European Court of Justice in Cases Nos 172/83 and 226/83.