

EUROPEAN COAL AND STEEL COMMUNITY

COMMISSION OF THE EUROPEAN COMMUNITIES

Financial Report

for the year 1971

No. 17

EUROPEAN COAL AND STEEL COMMUNITY

COMMISSION OF THE EUROPEAN COMMUNITIES

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The figures given in this report and in the attached balance sheet and statement of income and expenditure, together with the main features of loans contracted, summarized in annexes, are expressed in units of account of the European Monetary Agreement (EMA). All such amounts are the equivalent of sums in national currencies computed at the following rates and deemed still to have been in effect on 31 December 1971.

1 EMA unit:

US\$	1.00
DM	3.66
Bfr	50.00
Ffr	5.55419
Lit.	625
Lfr	50.00
Fl	3.62
Sfr	4.0841
£	0.41666

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LUXEMBOURG, JUNE 1972

This financial report covers the year 1971, the nineteenth year of the European Coal and Steel Community's financial operations.

It should be recalled that since the entry into force of the Treaty establishing a single Council and a single Commission of the European Communities (1967), the Commission exercises the powers vested in the former High Authority by the Treaty of Paris, each of the three Communities continuing to be governed by its own treaty. Consequently, this report refers only to the "Commission" of the European Communities unless the name "High Authority" has to be used.

I—SHORT OUTLINE OF THE GROWTH IN INVESTMENTS IN THE COMMUNITY COAL AND STEEL INDUSTRIES

In order to guide interested parties and help the Community in its own courses of action, means envisaged by the ECSC Treaty include the following, in addition to the general objectives which describe the broad outlines of investment policy:

- (i) the annual survey of investments conducted directly among the enterprises and the survey of investment financing, conducted among professional employers' and workers' unions;
- (ii) the prior submission of investment programmes in excess of certain estimated costs and the giving of reasoned opinions on these programmes.⁽¹⁾

The details below, collected by the Commission from enterprises or their employers' and workers' unions, relate to capital expenditure, method of financing and recent trends in the readiness of enterprises to embark on new programmes.

a) Capital expenditure by enterprises

During the year covered by this report, Community crude steel production fell by 5.9 million tons, from 109.2 million tons in 1970 to 103.3 million tons in 1971. At the same time, coal production continued to decrease, totalling 158.6 million tons as compared with 164.6 million in 1970.

Capital expenditure in the Community coal and steel industries in 1971 can as yet be estimated only on the basis of the forecasts supplied to the Commission by ECSC enterprises on 1 Januari 1971.⁽²⁾

According to these estimates, 1971 capital expenditure in the coal sector should have totalled some 193 million units of account and 30 million units in iron ore mining. In the case of the coal industry, this is scarcely higher than the lowest levels noted in recent years. Experience shows, however, that in general only 85-90% of expenditure earmarked for the ECSC mining industries at the beginning of the year is actually made. Actual capital expenditure in Community mining operations in 1971 may be expected to be some 10% lower than the forecasts referred to above.

After four years marked by high capital investment (averaging 1 300 million units of account from 1961 tot 1964), the years 1965, 1966 and 1967 saw a sharp downturn of investment in the iron and steel sector to 932, 848 and 730 million units of account respectively. 1968, however, marked the beginning of a recovery which again raised capital expenditure to 802 million units of account, followed by 1 039 million in 1969 and 1 688 million in 1970. This trend became more pronounced in 1971 when, according to the forecasts

(1) Articles 5, 46, 47 and 54 of the ECSC Treaty.

(2) Cf. "Investments in the Community's coal and steel industries: Report on the 1971 survey", published July 1971.

submitted by enterprises, capital expenditure should have reached about 2 500 million units of account. The marked slackening of activity in the iron and steel sector, however, reflected in the fall-off in crude steel production in 1971 as against the previous year, may have caused enterprises to hold over certain investment projects, thereby reducing the percentage of proposed capital expenditure actually made. Capital expenditure for 1972 estimated at about 2 130 million units of account, could also be affected by this situation. Total capital expenditure by the ECSC industries in 1971 should be some 2 500 million units of account as against 1 821 million in 1970.

The following table shows capital expenditure in the ECSC industries from 1954 to 1972.

b) Financing of investments by enterprises in the steel sector

The period of economic recovery in the iron and steel industry, which reached its peak in 1970, was marked by a considerable growth in the needs of the Community's iron and steel industry for financing. The survey of investment financing shows that for each year requirements were considerably higher than the figures given in table 1 above. This table in fact gives only expenditure on technical investments, excluding costs of repayment for debts incurred by the iron and steel industry.

These findings of the survey on investment financing, however, should only be considered as estimates. The survey in fact provides overall details of financing methods used, without distinguishing between the different branches of activity of the enterprises surveyed, most of which do not restrict their production to Treaty products. In these circumstances and in order to take account solely of the iron and steel activities of the enterprises, total

TABLE 1
Capital expenditure in the ECSC industries from 1954 to 1971

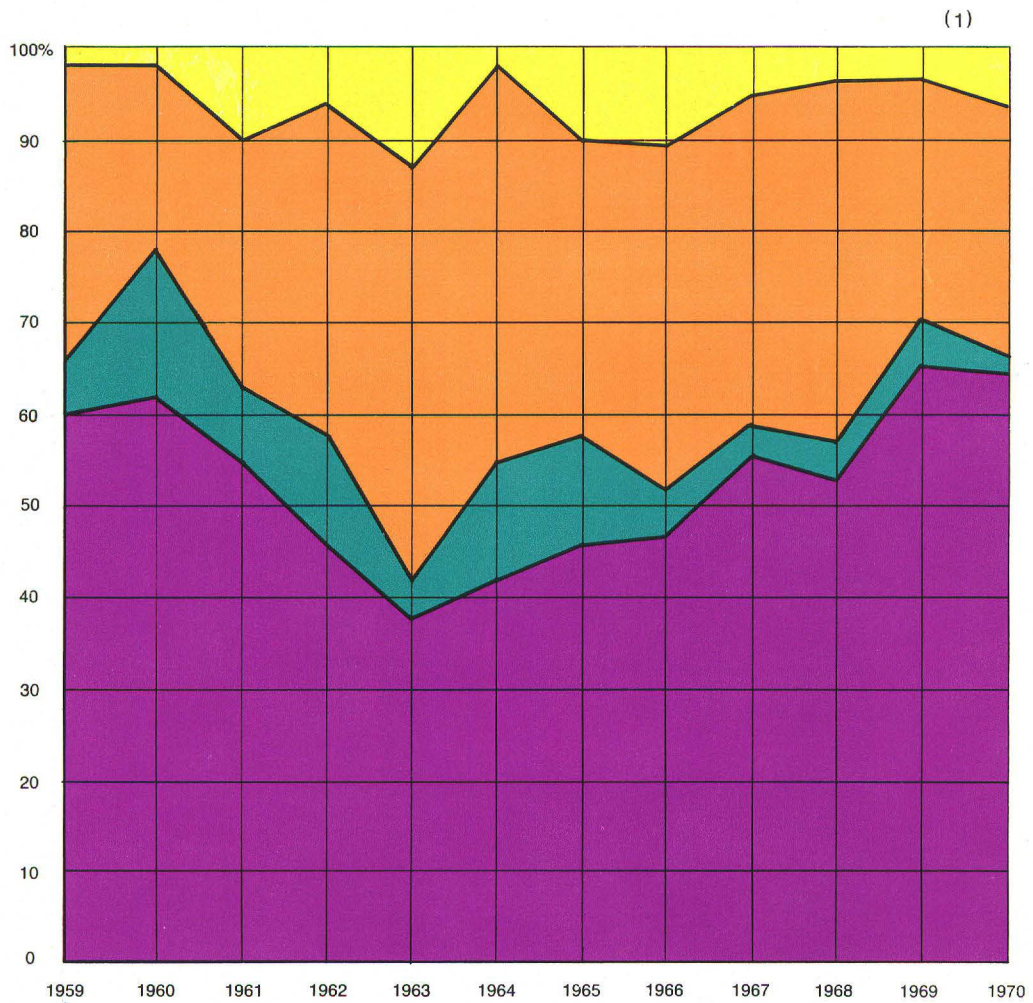
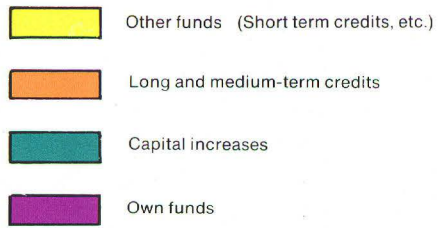
(in million units of account)

Sector	Actual expenditure												1971 (estimates)
	1954-1959 (annual average)	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	
Coal industry	327	268	283	267	250	235	219	189	159	150	101	110	186
Briquette and low-temperature brown-coal coke works	5	6	4	6	9	8	8	4	5	4	4	3	7
Iron-ore mines	39	43	52	47	28	24	25	17	16	21	20	20	30
Iron and steel industry	581	775	1 123	1 230	1 480	1 315	932	848	730	802	1 039	1 688	2 500
Total	952	1 092	1 462	1 550	1 767	1 582	1 184	1 058	910	977	1 164	1 821	2 723

FIGURE 1

FINANCING OF INVESTMENTS IN THE STEEL INDUSTRY OF THE COMMUNITY

ECSC investments entered on the assets side of balance sheets and repayments of principal on bonds, loans and other forms of credit extending over more than one year.



(1) Estimate for the year 1970

financing obtained by them is reduced by each enterprise by a correction coefficient equal to the ratio between its investments in iron and steel and its investments overall. In this way the total financing taken into account was equated to the needs arising solely out of the iron and steel activities of the enterprise. Allowing for the approximate nature of these calculations, the financing requirements of the Community's iron and steel industry should have grown from some 1 300 million units of account in 1967 to 1 500 million in 1968, 1 700 million in 1969 and 2 400 million in 1970.

In absolute figures, enterprises' own corporate funds more than doubled over this period, from some 700 million units of account in 1967 to 1 500 million in 1970. Their share in the total financing of iron and steel investments rose from over half to almost two thirds. On the other hand, the proportion of financing requirements met by increases of corporate capital over the same period fluctuated, depending on the year, between 50 and 80 million units of account, i.e. a maximum of some 5%. Tight capital markets, the discrepancy between particularly high yields on bonds and those on certain stocks and the higher tax liability created by increases of corporate capital no doubt made it difficult for enterprises to draw on this source of financing, despite the favourable economic climate.

In 1971, for which only provisional figures are available as yet, financing requirements should reach an all time record, despite the fact that planned expenditure is lower than in the previous year.

The portion met out of corporate funds decreased as a result of an easing-off in the iron and steel industry and a rise in manufacturing costs. A number of iron and steel concerns, however, took advantage of easier conditions on money markets to increase their capital. They also sought credit more widely: the ECSC granted a greater number of loans to a considerably higher total value.

c) Recent trends

Although Community iron and steel enterprises decided on a large number of sizable investment programmes during the latest period of economic boom, their readiness to invest, as reflected by the number of programmes submitted to the Commission for prior consideration, decreased considerably in 1971.

Irrespective of their term of implementation, usually spread over several years, the total value of investment programmes thus submitted fell between the two years from 4 000 million to some 669 million units of account. Programmes submitted for the coal industry totalled 193 million units of account in 1971 as compared with 113 million in 1970.

The recent growth in planned expenditure for steel investment programmes submitted has once again demonstrated the close relationship, discernible throughout the last decade, between the level of readiness to invest on the one hand and the economic situation on the other. Periods of economic boom have in general led very quickly to a distinct increase in the number of investment decisions taken. Readiness to invest has even proved to be subject to variations far more accentuated than the economic climate itself.

This is illustrated by the following two tables which show movements since 1959 in total planned expenditure for investment programmes submitted on

the one hand and the average FOB prices for exports of iron and steel (Treaty) products per ton on the other.

TABLE 2

Planned expenditure for programmes declared

(in million units of account)

1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
503	1808	1371	553	131	501	509	338	697	669	1848	3994	669

TABLE 3

Average FOB prices for exports of iron and steel (Treaty) products per ton

(in units of account)

1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
113	129	118	113	108	114	108	106	105	105	117	147	134

The following graph 2 shows the number of programmes submitted on the one hand and variations in the average FOB prices of exported iron and steel (Treaty) products per ton on the other. The two curves are virtually parallel, but the movements of the two quantities are entirely different.

The experience of the past decade as illustrated in graph 3 has shown that actual investment spending reflects variations in the number of investment decisions themselves only after a certain interval and no doubt in reduced measure. Thus the peak reached in investment programmes submitted between 1960 and 1961 did not make its mark again in actual spending until 1963-1964, after an interval of some 3 years.

It is likely that the 1970 peak in investment decisions submitted will also reappear after a certain interval of time and that the next few years will be marked by an increase in applications for ECSC financial assistance.

FIGURE 2

INVESTMENTS IN THE STEEL INDUSTRY OF THE COMMUNITY

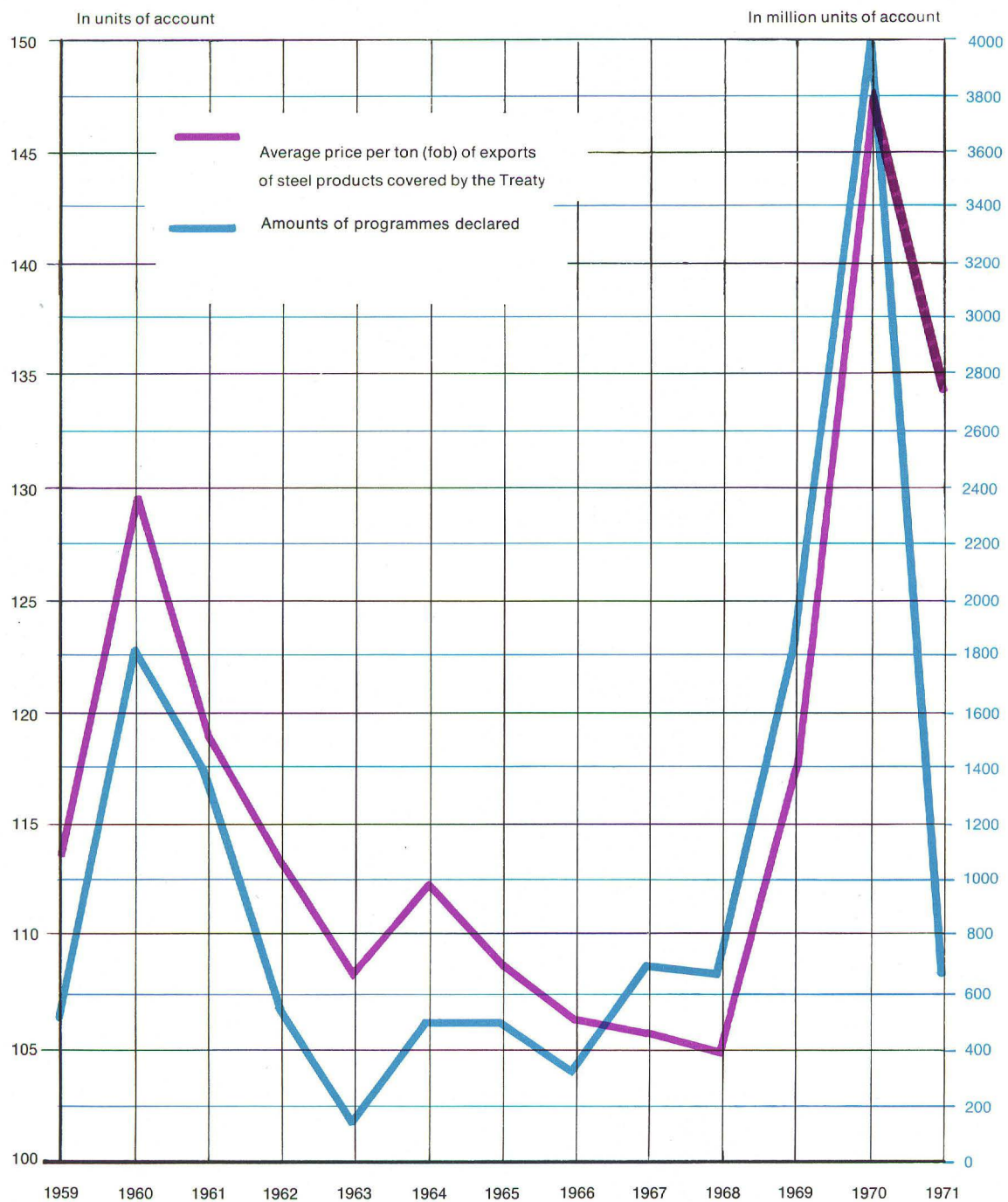
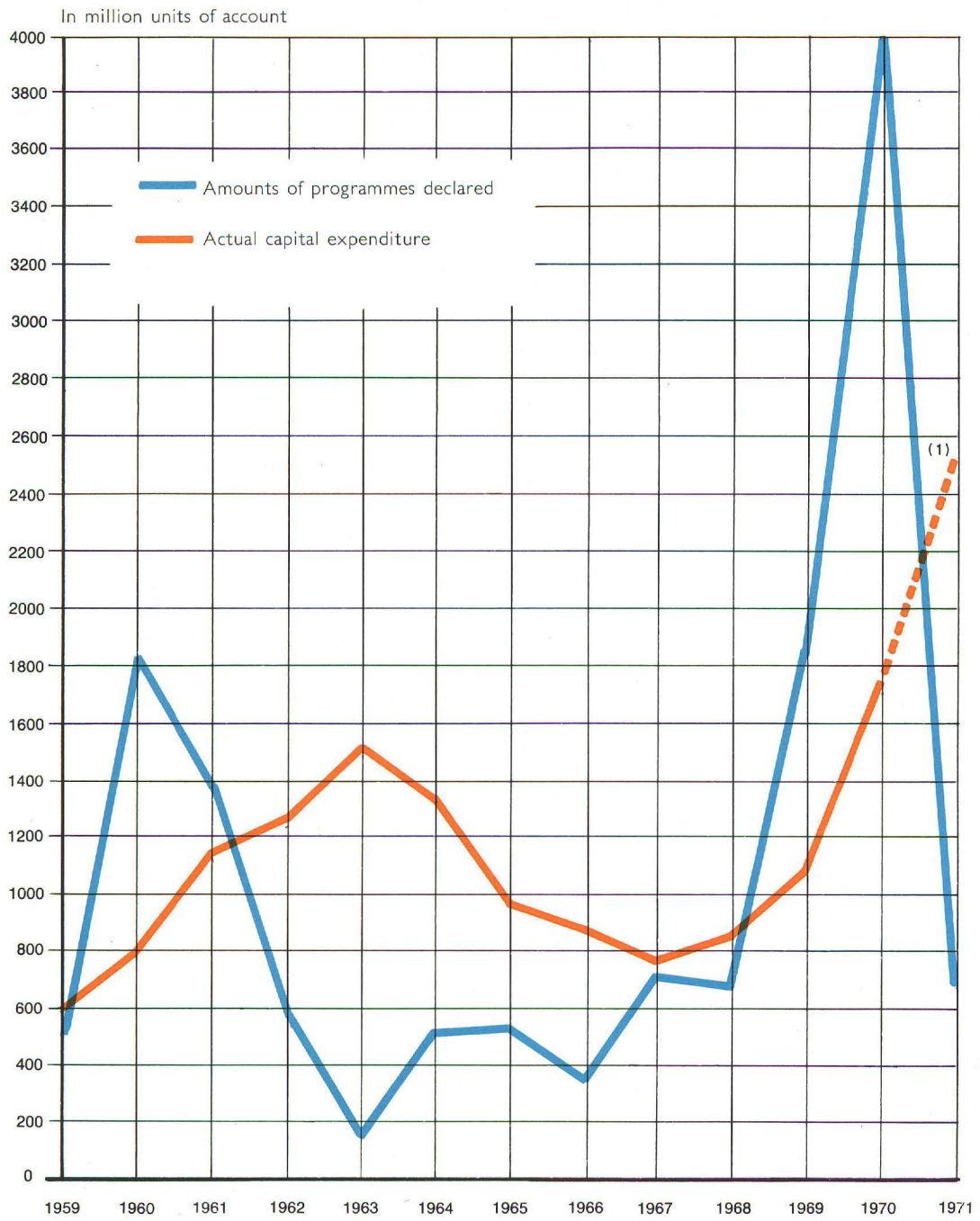


FIGURE 3

INVESTMENTS OF THE COMMUNITY STEEL INDUSTRY



(1) (Survey at 1st January 1971)

II—BORROWING OPERATIONS BY THE ECSC

The downward trend in interest rates which began at the end of 1970 persisted in 1971 on bond markets in most of the Community countries and on the international market. The Commission was thus able to resume borrowing operations in a more sustained manner than in 1970, to meet loan requests deemed urgent and deserving priority, both for the financing of industrial investments provided for in article 54 of the ECSC Treaty and the granting of redevelopment and reconversion loans as provided for in article 56 of the Treaty.

During 1971 it floated six loans to a total value equivalent to 102.33 million units of account:

- 1) DM 100 million: 15 year debenture loan at $7\frac{1}{2}\%$ per annum, floated on the German capital market at 99% .
- 2) Lfr 400 million: debenture loan on the Luxembourg capital market comprising two issues: one at $6\frac{1}{2}\%$ for 8 years, total value Lfr 150 million, and the other at 7% for 15 years, total value Lfr 250 million. Both issued at $98\frac{1}{2}\%$.
- 3) \$ 20 million: 15 year debenture loan at $7\frac{3}{4}\%$ on the international market, with a clause of reference to the Luxembourg franc, issued at $98\frac{1}{2}\%$.
- 4) Lfr 300 million: 12 year private loan on the international market at $7\frac{3}{4}\%$.
- 5) Bfr 700 million: 15 year debenture loan at $7\frac{3}{4}\%$ issued on the Belgian capital market at $99\frac{1}{2}\%$.
- 6) Ffr 150 million: 18 year debenture loan at $8\frac{1}{2}\%$, issued on the French capital market at par.

Including operations in 1971, the total value of loans contracted by the ECSC since its inception up to 31 December 1971 was equivalent to 1 057.83 million units of account.

The following table 4 shows the loan position as of 31 December 1971.

TABLE 4⁽¹⁾

(in million units of account)

Currency borrowed	Total borrowed	Repayments	Balance outstanding
US\$	375.00	144.70	230.30
DM	247.54	52.22	195.32
Lit.	120.00	4.80	115.20
Fl.	57.39	23.57	33.82
£	50.00	—	50.00
Zwfr	44.39 ⁽²⁾	16.35	28.04
Bfr	55.40	4.31	51.09
Ffr	54.01	5.06	48.95
Lfr	34.10	5.11	28.99
units of account	20.00	—	20.00
	1 057.83	256.12	801.71

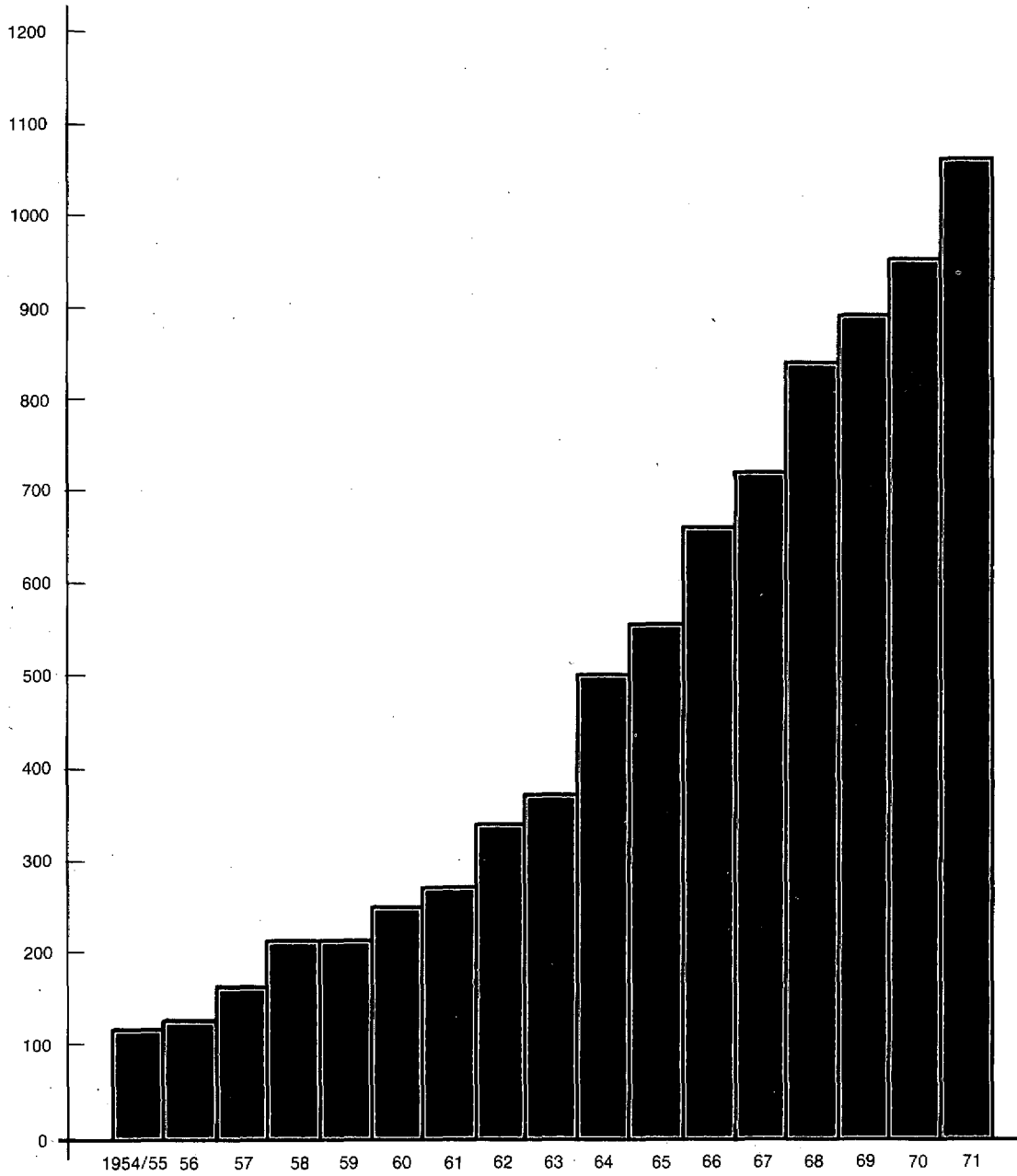
⁽¹⁾ The main characteristics of loans floated by the ECSC up to 31 December 1971 are set out in Annex I.

⁽²⁾ After adjustment for Swiss franc revaluation.

FIGURE 4

TOTAL AMOUNT OF BORROWINGS CONTRACTED AT 31st DECEMBER 1971

Amounts in million units of account



III—LOANS AND GUARANTEES

Funds available to the Commission in 1971 for lending totalled 161.58 million units of account, broken down as follows:

1) <i>Borrowed funds</i>	
(i) available at beginning of year	4.01
(ii) EMA loan (European Monetary Units)	50.00 ⁽¹⁾
(iii) product of loans floated in 1971	102.33
(iv) anticipated repayments	0.04
	156.38
2) <i>Own funds</i>	
repayments on earlier loans	5.20
	161.58

As in 1970, these funds were used for loans to industry granted under article 54 of the Treaty, for redevelopment and reconversion projects approved under article 56 and the building of workers' housing. The loans to industry and those for redevelopment and reconversion projects were financed wholly out of borrowed funds and the home-building loans exclusively out of the ECSC's own resources.

During 1971 total loans approved by decision of the Commission rose to 153.35 million units of account. Of this sum, a total of 112.19 million units of account had been paid out by 31 december 1971. Virtually all the remainder was paid out in the first few weeks of 1972.

TABLE 5
Loans paid out in 1971

(in million units of account)

Sector	Germany (Fed.Rep.)	Belgium	France	Italy	Nether- lands	Luxem- bourg	Com- munity
I — Coal industry	9.58	—	7.93	—	—	—	17.51
Iron and steel industry	6.17	15.10	18.41	1.60	3.91	—	45.19
Generating plants	—	—	4.29	—	—	—	4.29
Total	15.75	15.10	30.63	1.60	3.91	—	66.99
II — Industrial redevelopment and reconversion	22.67	4.83	15.15	—	2.04	—	44.69
III — Workers' housing	0.46	—	—	—	0.65	—	0.51
Grand total	38.88	19.93	45.78	1.60	6.00	—	112.19 ⁽¹⁾

⁽¹⁾ Of an approved loan total of 153.35 million units of account.

⁽¹⁾ Floated in December 1970, product collected in January 1971.

1. Industrial loans

1971 was marked by a considerable increase in the financing of industrial programmes, both in terms of absolute value and as a percentage of loans overall, as provided for in article 54 of the ECSC Treaty.

Loans of this type granted in the course of the year totalled 99.06 million units of account, 66.99 million of which were paid out by 31 December 1971.

The rate of interest set in March 1970 remained in principle unchanged at $8\frac{1}{4}\%$.⁽¹⁾

Pursuant, however, to a decision by the Commission published in the Official Journal of the European Communities on 18 June 1970, certain loans are eligible for a reduced rate of interest for the financing of certain investments deemed of particular advantage to the Community.

This preferential rate was $5\frac{1}{2}\%$ during 1971 and applied to all or part of the loans thus privileged for the first five years, after which the normal rate of $8\frac{1}{4}\%$ applies.

Applications for reduced rate loans eligible for consideration by the Commission must be intended either:

- (i) for investments resulting from government measures in the interests of safety and health (nuisance control, for example), particularly when the cost of such investments places an excessively unequal burden on the existing installations of similar enterprises in the various regions;
- (ii) for investments of a multinational nature which, conforming to the criteria laid down by the Commission as regards structures, would help to promote the Community integration of ECSC enterprises, on condition that projects of this nature are still subject to tax, legal or administrative disadvantages;
- (iii) for investments having as their objective the elimination of bottlenecks affecting an entire ECSC industry and which fall within the framework of the general objectives and Community policies laid down for the sectors in question;
- (iv) for investments having as their objective the establishment of research or vocational training centres within the ECSC field.

Loans granted at the normal rate of $8\frac{1}{4}\%$ concerned the following projects:

Among the *coal-mining industry* programmes, the Commission, in accordance with the policy it has pursued since 1954, has endeavoured to facilitate the financing of thermal power stations using products which are difficult to market. Taking into account the increase in stocks and the decline in markets for coke-oven gas due to the competition from natural gas, the construction or extension of these thermal power stations should at any rate make it possible to spread over a number of years the expected fall-off in coal production.

(1) This rate was lowered to $7\frac{3}{4}\%$ as of 1 March 1972.

Towards this end, two loans were granted in 1971:

- (i) Charbonnages de France, Paris (Houillères du Bassin de Lorraine), Carling plant;
- (ii) Charbonnages de France, Paris (Houillères du Bassin de Blanzay, Lucy plant).

Among programmes in the *iron and steel industry*, the Commission sought to aid investment likely to make enterprises more competitive.

Some of the projects financed aimed at rationalizing concerns by closing down obsolete installations and regrouping manufacturing, using machinery of the latest design:

- (i) SA Cockerill-Ougrée-Providence et Espérance-Longdoz, Seraing (Marchienne and Athus works);
- (ii) SA des Forges et Aciéries de Dilling, Dillingen/Saar;
- (iii) Giuseppe e Fratello Redaelli S.p.A., Milan.

The others sought to expand metal denaturation capacities in order to assist the marketing of the production of existing roughing plant or widen outlets to expanding sectors:

- (i) SA Sidérurgie Maritime "Sidmar", Ghent;
- (ii) Rasselstein Aktiengesellschaft, Neuwied/Rhine.

The geographical breakdown of ECSC loans to industry since the beginning of its financing operations is given in table 6 below which shows operations for 1971, viz. new loans and repayments on earlier loans.

The new system of reduced rate loans was applied for the first time in 1971 to the financing of coking plants and multinational investments.

a) *Coking plants*

The report on investments dated 1 January 1970 deemed it necessary, particularly in view of the age pyramid of coking plants, to increase investment in this sector. The following report, dated 1 January 1971, also stressed that a number of enterprises had based their forecasts on the assumption that a number of plants approaching the limit of their useful life would continue to operate, whereas they might close down well before the given dates for reasons of technical or economic necessity. In fact the sagging of the economy and the reappearance of coke stocks in a number of Community regions would seem in certain cases to have hastened expected closures. In these circumstances it was thought that by opening new coking plants, expected closures could be offset and possible long term shortages in coke supplies avoided.

In the light of this, the Commission accepted many of the applications it received for funds to finance coking plants. It rejected, however, a number of projects entailing simply repairs or overhauls or which had practically been completed. For each loan, the portion granted at a reduced rate was determined by the size of the capacities being set up and was calculated in

such a way as to give the beneficiaries an interest saving equivalent to 0.50 units of account per ton of net capacity.

Taking into account the steadily increasing share of steel-owned coking plants in the Community coking capacities as a whole—38% in 1970 and over 41% in 1974—loan applications received by the Commission totalled considerably more in the case of steel-owned coking plants, particularly those in coastal areas, than in the case of mine-owned coking plants.

The Commission thus paid out loans to

three mine-owned coking plants of the Ruhrkohle Aktiengesellschaft (RAG), Essen:

Osterfeld coking plants in Oberhausen:

Zollverein coking plant in Gelsenkirchen;

Minister Stein coking plant in Dortmund

three steel-owned coking plants:

Société Dunkerquoise de Cokéfaction, Paris (Dunkirk plant);

Koninklijke Nederlandsche Hoogovens en Staalfabrieken NV, IJmuiden;

Société Marseillaise de Cokéfaction "Marcoke" (Fos-sur-Mer plant).

b) Multinational investments

A decision was taken in 1971 to make a first reduced rate loan to help finance a multinational investment. This operation was effected at the beginning of 1972.

The interest saving was intended to offset, at least in part, the tax, legal and administrative disadvantages caused by the fact that an investment of this kind required the bringing in of capital by companies of different Member States.

New reduced rate loans will be granted in future not only for these two types of investment but also for a number of investments undertaken as a result of government measures towards the protection of the environment, and the establishment of research or vocational training centres within the field of the ECSC.

TABLE 6
Loans for industrial investment

(in million units of account)

Country	Total loaned at 31 December 1970 ⁽¹⁾	New loans in 1971	Total loaned	Balance outstanding
			Position at 31 December 1971	
Germany (Fed. Rep.)	392.58	15.75	408.33	264.27
Belgium	39.94	15.10	55.04	38.26
France	124.03	30.63	154.66	109.57
Italy	160.10	1.60	161.70	113.43
Luxembourg	3.—	—	3.—	2.—
Netherlands	21.43	3.91	25.34	24.14
Community	741.08	66.99 ⁽²⁾	808.07	551.67

(1) After adjustment for revaluation of the Swiss franc.

(2) Of an approved loan total of 98.05 million units of account.

2. Loans for industrial redevelopment and reconversion

Financing of redevelopment and reconversion projects increased considerably in 1971. Loans approved totalled 54.78 million units of account of which 44.69 million were actually paid out. Redevelopment and reconversion loans enjoy the special terms extended in 1970 to certain categories of loans to industry. The annual interest payable on them is 5½% for all or part of the loan granted. This preferential rate is given for the first five years of the loan, with special regard to the number of jobs which will be created. The normal rate of 8¼% is payable from the sixth year.⁽¹⁾ As in the previous year, redevelopment and reconversion projects were financed out of borrowed funds.

During 1971 the number of operations effected under article 56, 2 a) of the ECSC Treaty showed a marked increase over that of the previous year. Loans granted almost tripled, totalling 44.69 million units of account compared with 16.18 million in 1970. In accordance with the undertakings given by the new industries or other bodies receiving loans, part of new jobs created are reserved in the first instance for workers made redundant by industries falling within the scope of the ECSC Treaty.

Applications for redevelopment and reconversion loans are submitted to the Commission, under the terms of the Treaty, by the Government of the member country concerned. The geographic distribution of loans granted largely complies with national policies of redeveloping mining, or sometimes steel areas in decline. ECSC financial aid for redevelopment and reconversion in Germany has concentrated mainly in the Ruhr Basin, where loans granted are helping to improve the under-diversified nature formerly characteristic of this basin's structures. This aid has centred in the Netherlands on Limburg Province with the aim of establishing new activities in this region to take over from rapidly declining pits. In France, where coal resources are spread over a number of basins of unequal size, the regional distribution of

⁽¹⁾ The normal rate was lowered to 7¾% as of 1 March 1972.

loans was more diversified. In Belgium, the government asked the Commission to continue directing its efforts towards the financing of infrastructure projects for the development of a number of sites for use by new industries.

The Commission made 22 loans to the following recipients, grouped by region:

Germany (Fed. Rep.)

Ruhr Basin

Wilhelm Schade, Plettenberg (Westphalia)
Feldmühle AG., Düsseldorf
Wisthoff & Co., Glashütten, Essen-Steele
Kraftwerke Union AG., Mühlheim-Ruhr
Kaiser-Preussag Aluminium Hüttenwerke GmbH.,
Voerde
Vereinigte Papierwerke Schickedanz & Co.,
Nuremberg
Chemische Werke Hüls AG., Marl-Ruhr
Michelin Reifenwerke AG., Karlsruhe

France

Northern region

SA des Usines Chaussen, Asnières sur Seine

Lorraine

SA Automobile Citroën, Paris
Laminoirs à Froid de Thionville, Thionville
Girling (Moselle) SA, Paris
Solvay & Cie. SA, Brussels

Central region

Charbonnages de France, Centrale de Blanzay,
Paris
Soc. Mécanique du Nivernais, Cercy-la-Tour

Languedoc and Rhône-
Alpes regions

Merlin-Gerin SA, Grenoble

Belgium

Borinage Basin

Credit Communal de Belgique (IDEA), Brussels

Netherlands

Limburg Province

N.V. Laura & Vereeniging (Pionier-Laura),
Eygelshoven
Fa. Cox-Geelen, Eysden
ENBI Rubber- en Kunststoffenfabriek NV, Nuth
Euramax Aluminium NV, Roermond
Cheswick & Wright, Roermond

The following table 7 summarizes these types of loans both by country and by industry.

TABLE 7

Loans for industrial redevelopment and reconversion

A — Breakdown by country

(in million units of account)

Country	Total loaned at 31 December 1970	New loans in 1971	Total loaned	Balance outstanding
			Position at 31 December 1971	
Germany (Fed. Rep.)	43.77	22.67	66.44	65.04
Belgium	29.17	4.83	34.—	30.35
France	26.98	15.15	42.13	40.45
Italy	26.76	—	26.76	21.26
Luxembourg	—	—	—	—
Netherlands	23.09	2.04	25.13	23.31
Community	149.77 ⁽¹⁾	44.69 ⁽²⁾	194.46	180.41

(1) Following adjustment for revaluation of the Swiss franc.

(2) Out of a total of loans approved of 54.78 million units of account.

B — Breakdown by industry

Type	Amount (in units of account)	%
Motor vehicle manufacture	36.38	18.7
Chemicals	30.61	15.7
Non-ferrous metals	21.94	11.3
Industrial estates	21.80	11.2
Power stations	17.91	9.2
Rubber	15.88	8.2
Iron and steelworks ⁽³⁾	12.86	6.6
Mechanical engineering	9.38	4.8
Paper, graphic industries	5.90	3.0
Articles of cast iron, steel and other metals	5.25	2.7
Ceramic ware, glass, lime and stone	4.26	2.2
Electrical equipment	1.89	1.0
Conversion of plastics	1.76	0.9
Aeronautical engineering	1.60	0.8
Textiles and clothing	1.54	0.8
Miscellaneous	1.75	0.7
Foodstuff industries	1.15	0.6
Steel construction	1.08	0.6
Transport	0.94	0.5
Joinery and furniture manufacture	0.89	0.5
Total	194.47	100.0

(3) 0.62 million units of account of which having been paid out to a non-ECSC enterprise.

3. Loans for workers' housing

Implementation of a 7th workers' housing programme began in 1971. This provides for expenditure of 20 million units of account, including 1.6 million for the modernisation of older housing. Preparation of this programme, in cooperation with the government, regional and professional bodies concerned,

required a relatively long time. Consequently, loans paid out totalled only 0.52 million units of account, drawn from the ECSC's own resources. Sums of almost 5 million were paid out in the first few months of 1972.

It will be recalled that loans for workers' housing are, in principle, financed from sums entered on the balance sheet as the "Special Reserve", i.e. the ECSC's own resources. These loans are, as a rule, furnished in the currency of the country concerned to avoid any exchange risks to the recipients.

The very low interest rate applied—1%—enables borrowers to combine this type of loan with other capital raised from national sources at terms prevailing on these markets. This method makes it possible to increase considerably the funds available, whilst maintaining the average interest rate at a favourable level at the same time. The Community raises additional capital either by direct borrowing on capital markets or indirectly through association with institutional investors which help to finance the projects concerned.

TABLE 8
Loans for workers' housing

(in million units of account)

Country	Total loaned at 31 December 1970	New loans in 1971	Total loaned	Balance outstanding
			Position at 31 December 1971	
Germany (Fed. Rep.)	64.34	0.47	64.81	48.—
Belgium	23.46	—	23.46	16.18
France	21.65	—	21.65	16.55
Italy	14.22	—	14.22	10.29
Luxembourg	3.71	—	3.71	2.86
Netherlands	6.92	0.05	6.97	5.15
Community	134.30 ⁽¹⁾	0.52	134.82	99.03

⁽¹⁾ following adjustment for revaluation of the Swiss franc.

4. Guarantees

The ECSC Treaty provides that the Commission may also facilitate the implementation of enterprises' investment programmes by securing loans obtained by them from outside sources.

Since the Commission studies both the technical and financial aspects of the investment programme before making a decision, such a guarantee has the double advantage of providing lenders with full financial security as well as a prior economic evaluation of the project, particularly regarding the compliance of iron and steel and colliery projects with the General Objectives laid down in article 46, and of redevelopment and reconversion projects with the Community's industrial, regional and social policy.

This type of financial backing was not only intended to cover lenders' risks; it also enables the firms concerned to raise loans on capital markets outside their own countries, to which access would otherwise be difficult for them.

This kind of objective is clearly not exclusive, since the Treaty assigned the Commission the task of assisting the financing of enterprises' investments by this method as well as by the granting of loans. The risks carried by use of this method could not, however, be borne out of the joint assets of the ECSC unless it were impossible to finance certain investment projects by other means, either at national or Community level, or unless the general interest recommended that these projects be completed in the shortest time possible and at minimum expense.

The commission charged for such guarantees has been kept so low that its effect on these operation has been extremely small. No new requests for guarantees were received in 1971. As a result, regular and anticipated repayments on loans previously granted, to a total of 48.72 million units of account, reduced remaining commitments to 25.34 million units of account as of 31 December 1971.

5. Overall survey of direct lending operations and guarantees (1954-1971)

Up to 31 December 1971 and since the start of its financing activities, the ECSC has granted loans to a total of 1 147.43 million units of account: 1 041.57 million from borrowed funds and 105.86 million from its own resources.

Including guarantees furnished over the same period, the total amount of ECSC financial assistance was 1 196.15 million units of account.

Table 9 below gives a detailed breakdown of this assistance by sector and country.

TABLE 9
Loans paid out and guarantees granted up to 31 December 1971
by investment category and country
(initial amounts)

(in million units of account)

	Loans			Guarantees	Total loans + guarantees	%
	From borrowed funds	From own resources	Total			
<i>A - Type of investment</i>						
Coal industry	288.39	—	288.39	—	288.39	24.11
Iron-ore mines	30.25	—	30.25	—	30.25	2.53
Iron and steel industry	482.53	—	482.53	48.42	530.95	44.39
Industrial redevelopment and reconversion	187.45	7.02	194.47	—	194.47	16.26
Workers' housing	46.05	88.77	134.82	—	134.82	11.27
Miscellaneous	6.90	10.07	16.97	0.30	17.27	1.44
Total	1 041.57	105.86	1 147.43	48.72	1 196.15	100.00
<i>B - Country</i>						
Germany (Fed. Rep.)	487.96	58.86	546.82	38.01	584.83	48.89
Belgium	108.66	4.29	112.95	—	112.95	9.44
France	196.43	23.14	219.57	10.41	229.98	19.23
Italy	195.47	7.44	202.91	0.30	203.21	16.99
Luxembourg	4.70	2.80	7.50	—	7.50	0.63
Netherlands	48.35	9.33	57.68	—	57.68	4.82
Community	1 041.57	105.86	1 147.43	48.72	1 196.15	100.00

FIGURE 5

LOANS PAID OUT AT 31st DECEMBER 1971, BROKEN DOWN ACCORDING TO SECTORS

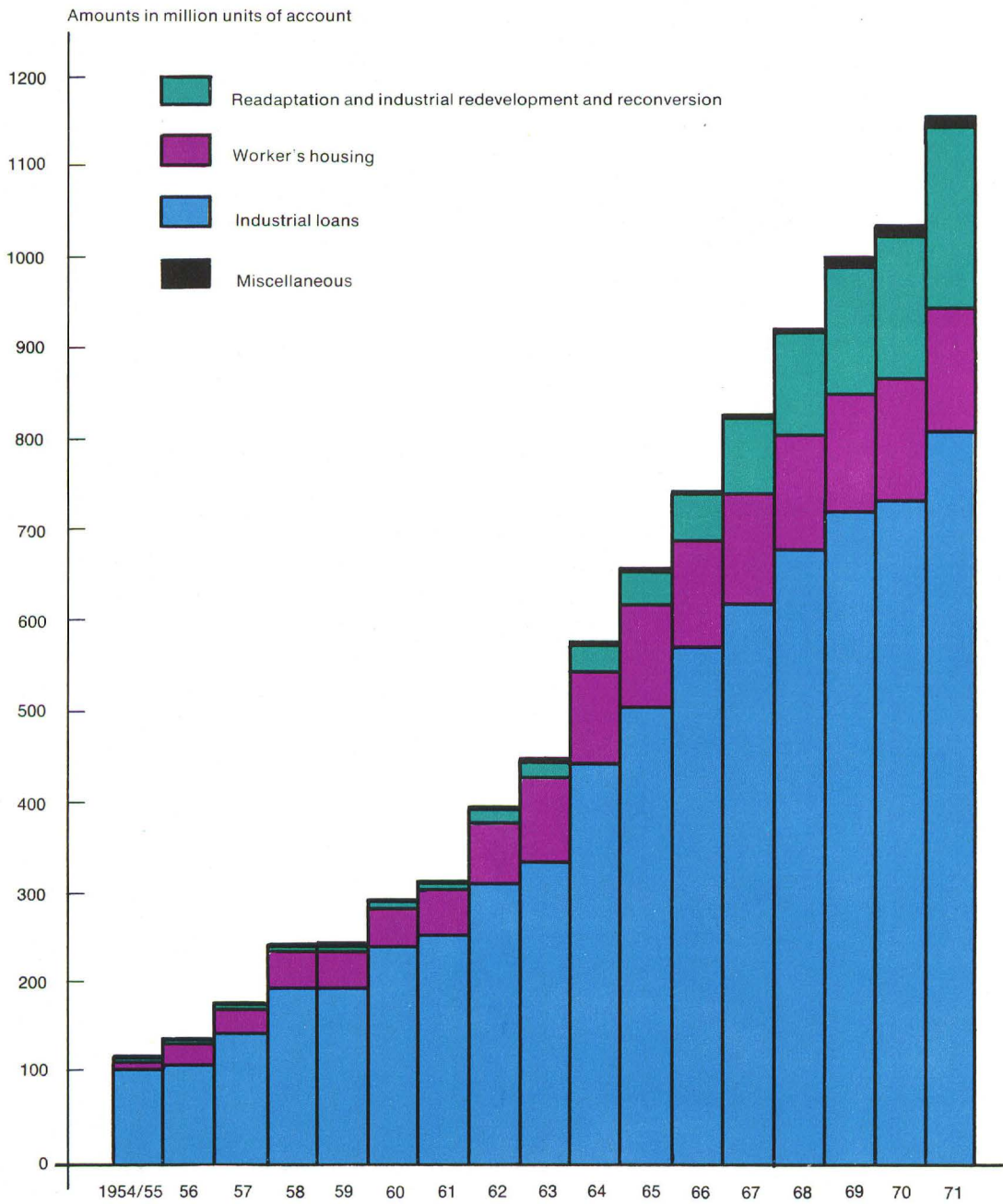
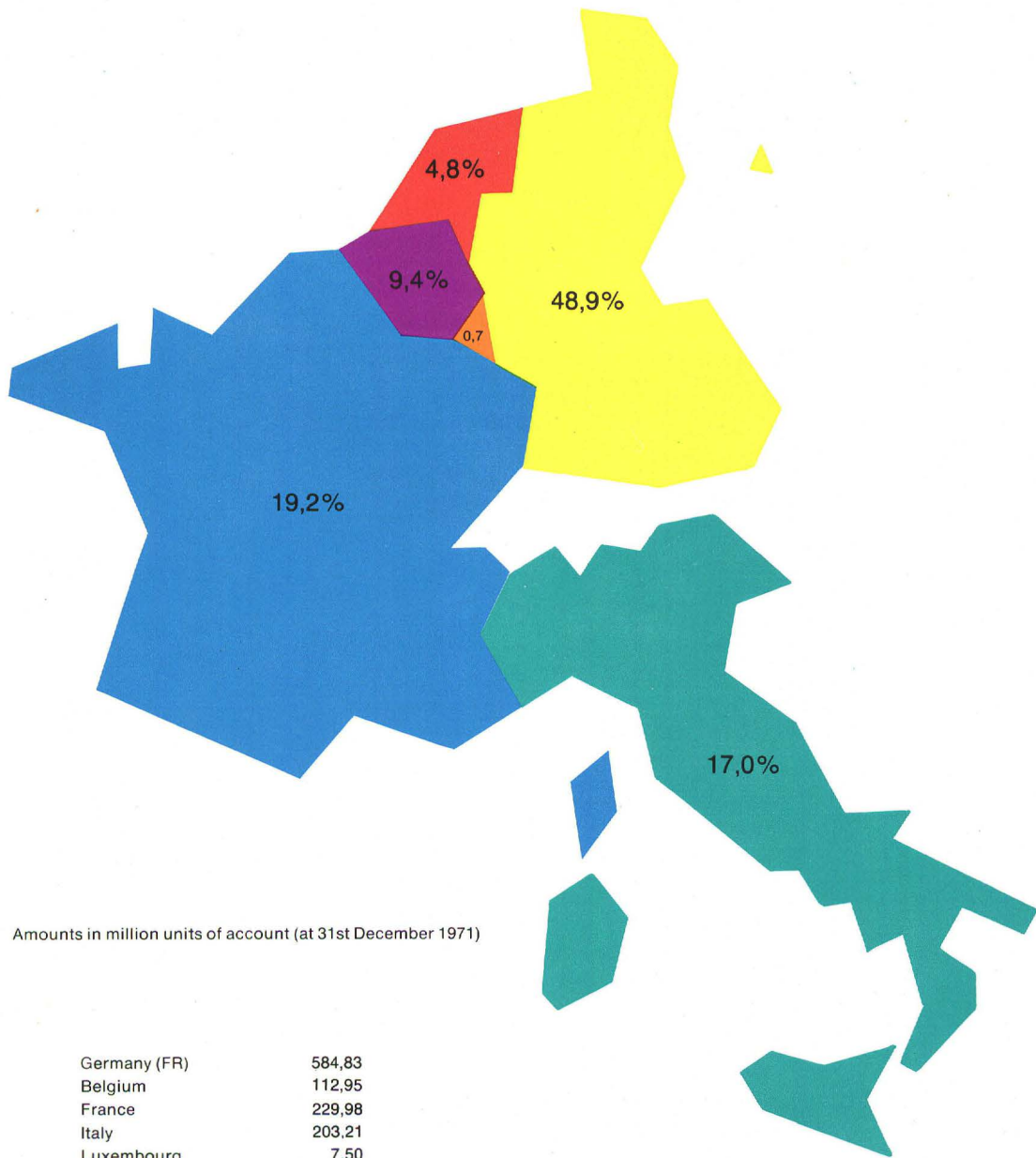


FIGURE 6

LOANS PAID OUT AND GUARANTEES PROVIDED, BROKEN DOWN ACCORDING TO COUNTRIES

AT 31st DECEMBER 1971



Amounts in million units of account (at 31st December 1971)

Germany (FR)	584,83
Belgium	112,95
France	229,98
Italy	203,21
Luxembourg	7,50
Netherlands	57,68
Community	<u>1196,15</u>

IV—MOVEMENTS OF RESERVES AND ALLOCATIONS, MANAGEMENT OF THE TREASURY

Table 7 below shows movements in ECSC reserves and allocations between 31 December 1970 and 31 December 1971.

TABLE 10
Movements of reserves and allocations

(in million units of account)

	Position at 31 December 1970	Changes in 1971	Position at 31 December 1971
I - a) Guarantee Fund	100.00	—	100.00
b) Special Reserve	85.00	+ 2.00	87.00
II - Pension Fund	25.51	+ 0.14	25.65
III - Allocations			
a) for readaptation	68.92	— 1.87	67.05
b) for research	21.35	+ 1.70	23.05
c) assistance art. 56	4.97	+ 5.01	9.98
d) assistance art. 54	—	+ 3.03	3.03
IV - Other allocations	20.14	— 5.57	14.57
Total	325.89	+ 4.44	330.33
V - Unallocated balance	0.11	+ 0.60	0.71
Grand total	326.—	+ 5.04	331.04

The increase of 5.04 million units of account in these reserves and allocations represents the surplus of income over expenditures (see Annex III).

Income consisted mainly of:

- a) the levy which was fixed at 0.30% on 1 July 1967 and remained unchanged between then and the end of the present year ⁽¹⁾.

Income from the levy totalled 37.77 million units of account in 1971 as against 39.50 million in 1970. This fall of 1.73 million units of account is due to the easing-off of coal and steel production caused on the one hand by economic sluggishness and on the other hand by prolonged strikes in the steel industry in a number of Community countries.

- b) income from management of the Treasury.

Whilst their objective is an optimal yield on the assets of the ECSC, these activities have to take into account a number of restricting factors, viz.:

- (i) the need to maintain sufficient liquid reserves, particularly in view of commitments entered into (Act of Pledge) and demands on the budget

⁽¹⁾ For the year 1972 the rate was fixed at 0.29%.

(readaptation, technical research, etc.). Consequently a certain part of funds is invested for the short term;

- (ii) the need for security which precludes all financial speculation. For this reason all portfolio investments are exclusively in government and other public bonds;
- (iii) the social aspects of certain financial assistance, for example loans for the construction of workers' housing which the ECSC grants out of its own funds at a reduced rate of interest considerably lower than the rates current on money markets.

Despite these restrictions, interest on funds invested totalled some 16 million units of account in 1971, 1 million or so more than the previous year.

By reason of the financial and budgetary dualism of the ECSC assets, this interest is largely used to finance outright aid in accordance with the social, regional and industrial objectives of the Community.

The financial activities reviewed in this report were made possible by the active help of banking groups and ECSC agents in the various Member Countries, to whom the Commission expresses its sincere gratitude. At the same time it wishes to thank the Bank for International Settlements in Basle for its continued and efficient cooperation as a depository for transactions passed under the "Act of Pledge".⁽¹⁾

⁽¹⁾ A contract of surety concluded by the ECSC at the start of its operations in favour of its fund raisers in order to provide access to the international market. The Act of Pledge governs all loans contracted before 1961, when the ECSC obtained the consent of its lenders to issue its loan stock without special surety.

ANNEXES

**I—MAIN CHARACTERISTICS OF LOANS CONTRACTED TO
31 DECEMBER 1971**

II—BALANCE SHEET AS OF 31 DECEMBER 1971

III—REVENUES AND EXPENDITURES FOR 1971

Annex I

**MAIN CHARACTERISTICS OF LOANS CONTRACTED TO
31 DECEMBER 1971**

Year of issue	Interest % p.a.	Term (years)	Initial amount		Balance outstanding at 31 December 1971 (in EMA units of account)
			in currency of loan	equivalent in EMA units of account	
1954	37/8	25	US\$ 100 000 000	100 000 000	46 300 000
1957	5 1/2	18	25 000 000	25 000 000	7 900 000
1957	5	5	10 000 000	10 000 000	—
1958	5	20	35 000 000	35 000 000	16 000 000
1958	4 1/2	5	15 000 000	15 000 000	—
1960	5 3/8	20	25 000 000	25 000 000	15 100 000
1960	4 3/4-5	3-5	10 000 000	10 000 000	—
1962	5 1/4	20	25 000 000	25 000 000	18 400 000
1964	5 1/4	20	30 000 000	30 000 000	26 000 000
1966	6 1/2	20	15 000 000	15 000 000	15 000 000
1966	6 1/2	20	20 000 000	20 000 000	20 000 000
1967	6 1/2	20	25 000 000	25 000 000	25 000 000
1967	6 5/8	20	20 000 000	20 000 000	20 000 000
1971	7 3/4	15	20 000 000	20 000 000	20 000 000
				375 000 000	230 300 000
1955	3 3/4	25	DM 50 000 000	13 661 202	6 122 186
1957	4 1/4	20	2 977 450	813 511	312 388
1964	5 3/4	12	100 000 000	27 322 404	15 300 546
1964	5 1/2	15	100 000 000	27 322 404	18 251 366
1964	5 3/4	12	30 000 000	8 196 722	4 098 362
1965	5 1/2	18	150 000 000	40 983 607	37 841 530
1965	5 1/2	5	23 000 000	6 284 153	—
1967	6 3/4	5	30 000 000	8 196 722	2 732 240
1968	6 1/2-6 7/8	10	120 000 000	32 786 885	28 688 525
1968	6 1/4	13	60 000 000	16 393 443	16 393 443
1969	6 1/4	15	40 000 000	10 928 961	10 928 961
1969	6 1/2	13	50 000 000	13 661 202	13 661 202
1969	6 3/4	15	50 000 000	13 661 202	13 661 202
1971	7 1/2	15	100 000 000	27 322 404	27 322 404
				247 534 822	195 314 355
1963	5 1/2	20	Lit. 15 000 000 000	24 000 000	19 200 000
1966	6	20	15 000 000 000	24 000 000	24 000 000
1966	6	20	15 000 000 000	24 000 000	24 000 000
1968	6	20	15 000 000 000	24 000 000	24 000 000
1968	6	20	15 000 000 000	24 000 000	24 000 000
				120 000 000	115 200 000
1957	3 1/2	25	Bfr 200 000 000	4 000 000	2 212 000
1957	3 1/2	25	20 000 000	400 000	221 200
1962	5 1/4	20	300 000 000	6 000 000	4 620 000
1963	5 1/2	20	300 000 000	6 000 000	5 040 000
1968	6 3/4	15	750 000 000	15 000 000	15 000 000
1970	8 3/4	20	500 000 000	10 000 000	10 000 000
1971	7 3/4	15	700 000 000	14 000 000	14 000 000
				55 400 000	51 093 200
1970	8	15	£(1) 50 000 000	50 000 000	50 000 000
1964	5	20	Ffr 150 000 000	27 006 638	21 942 894
1971	8 1/2	18	150 000 000	27 006 638	27 006 638
				54 013 276	48 949 532
			Carry forward	901 948 098	690 857 087

Year of issue	Interest % p.a.	Term (years)	Initial amount		Balance outstanding at 31 December 1971 (n EMA units of account)	
			in currency of loan	equivalent in EMA units of account		
				Brought forward	901 948 098	690 857 087
1961	4 ¹ / ₂	20	Fl.	50 000 000	13 812 155	9 185 083
1961	4 ¹ / ₂	5		10 000 000	2 762 431	—
1962	4 ³ / ₄	25		6 000 000	1 657 459	1 060 773
1962	4 ³ / ₄	20		25 000 000	6 906 077	5 082 873
1962	4 ¹ / ₂	5		20 000 000	5 524 862	—
1963	4 ¹ / ₂	5		10 000 000	2 762 431	—
1963	4 ⁵ / ₈	30		1 750 000	483 425	355 249
1964	5 ³ / ₄	20		25 000 000	6 906 077	5 994 475
1965	5 ³ / ₄	20		40 000 000	11 049 724	10 317 680
1967	6 ³ / ₈	5		20 000 000	5 524 862	1 823 204
					57 389 503	33 819 337
1957	3 ¹ / ₂	25	Fl.	5 000 000	100 000	—
1957	5 ³ / ₈	25		100 000 000	2 000 000	1 312 861
1961	5 ¹ / ₄	25		100 000 000	2 000 000	1 627 347
1961	5	25		100 000 000	2 000 000	1 619 146
1962	4 ³ / ₄	15		300 000 000	6 000 000	3 600 000
1962	5 ¹ / ₈	25		250 000 000	5 000 000	4 235 376
1964	5 ³ / ₈	20		150 000 000	3 000 000	2 600 000
1971	6 ¹ / ₂	8		150 000 000	3 000 000	3 000 000
1971	7	15		250 000 000	5 000 000	5 000 000
1971	7 ³ / ₄	12		300 000 000	6 000 000	6 000 000
					34 100 000	28 994 730
1956	4 ¹ / ₄	18	Sfr	50 000 000	12 242 600	3 060 650
1961	5 ¹ / ₄	5		9 000 000	2 203 668	—
1961	4 ¹ / ₂	5		2 290 000	560 711	—
1962	4 ¹ / ₂	18		60 000 000	14 691 119	10 283 784
1969	5 ¹ / ₂	18		60 000 000	14 691 119	14 691 119
					44 389 217	28 035 553
1966	5 ³ / ₄	20	u.c. (2)	20 000 000	20 000 000	20 000 000
					1 057 826 818	801 706 707

(1) The European Monetary Unit (E) is a unit of account, the value of which is fixed invariably at DM3.66 or Bfr 50 or Ffr 5.55419 or Lit.625 or Lfr50 or Fl.3.62 depending on the choice of the holder.

(2) At present, this unit of account has the same value as that used by the former European Payments Union, as defined in article 26 (a) of its Charter, i.e. 0.88867088 grammes of fine gold. This value could change under certain circumstances.

**BALANCE SHEET OF THE EUROPEAN COAL AND STEEL
COMMUNITY AS OF 31 DECEMBER 1971**

All amounts are stated in EMA units of account and are the equivalent of the various currencies computed at the following rates.
1 EMA unit of account = US\$ 1 = DM 3.66 = Bfr 50 = Ffr 5.55419 =
Lit. 625 = Lfr 50 = Fl. 3.62 = Sfr 4.0841 = £ 0.41666

ASSETS

I. Disbursed loans	836 184 343.09
II. Cash and due from banks	209 040 373.15
III. Investments	64 852 757.16
IV. Fixed assets	228 678.39
V. Recoverable issuing costs	14 844 316.48
VI. Miscellaneous	20 302 111.56
VII. Regularization account	22 187 465.29
	<hr/>
	1 167 640 045.12
	<hr/>
Enterprises' liabilities under guarantees	25 340 163.93

Auditor's Note

Having examined the books, vouchers and documents of the book-keeping and the explanations supplied to me, I herewith certify that the financial position of the European Coal and Steel Community as of 31 December 1971 is correctly and properly reflected in the above document.

Luxembourg, 18 May 1972

P. GAUDY
Auditor

LIABILITIES

I. Loans		801 706 707.07
II. Reserves		
A. Guarantee Fund	100 000 000.—	
B. Special Reserve	87 000 000.—	187 000 000.—
II. Allocations		
A. Financial Aid	103 116 520.76	
B. Other	14 563 743.39	117 680 264.15
IV. Former Pension Fund		25 651 445.61
V. Miscellaneous		17 004 878.51
VI. Regularization account		17 882 855.28
VII. Unallocated balance		713 894.50
		<u>1 167 640 045.12</u>
Liabilities under guarantees		25 340 163.93

**European Coal and Steel Community
For the Commission of the European Communities**

F. GILLET
*Director General
of Credit and Investments*

G. MINES
*Director
of Issues and Treasury*

Explanatory notes to the Balance Sheet as of 31 December 1971

ASSETS

I. Disbursed loans

A. Loans from funds borrowed

	Equivalent in u.c.
in US dollars	225 300 000.—
in German (W) marks	195 196 322.66
in Italian lire	114 631 584.72
in Dutch guilders	33 819 337.04
in Belgian francs	51 731 634.54
in French francs	21 942 893.56
in units of account	20 000 000.—
in Swiss francs	17 328 419.98
in Luxembourg francs	25 734 730.30
in EMA units	50 000 000.—
	755 684 922.80

Loans in Belgian francs include 10 092 434.54 units of account, equivalent to 43 729 000.— Swiss francs granted with exchange guarantee.

B. Other loans

	Equivalent in u.c.
from Special Fund for the financing of workers' housing projects	70 653 410.18
from Special Fund for industrial redevelopment and reconversion	4 770 589.67
from funds allocated for readaptation	415 819.44
from funds allocated for research	2 387 651.38
Miscellaneous	2 271 949.62
	80 499 420.29

III. Investments

Total investments amount to 64 852 757.16 units of account.

IV. Fixed assets

This item includes property owned by the ECSC. These are:

1. a building in Paris (in co-ownership with the other two European Communities);
2. a building in London held by the Community on long-lease tenure; and
3. a building in Washington, the purchase price of which has been written off by $\frac{1}{3}$ of the total cost to a value of 228 677.39 units of account.

The purchase prices of the first two buildings have been written off to a value of one unit of account.

V. Recoverable issuing costs

The figure of 14 844 316.48 units of account represents the portion of issuing costs on current loans which has not yet been written off. Issuing costs are recovered in annual instalments throughout the term of the loans.

VI. Miscellaneous

This entry of 20 302 111.56 units of account consists of

1. 1 909 902.97 units of account due from debtors subject to the ECSC-levy;
2. 1 444 809.05 units of account due from debtors various;
3. 16 947 399.54 units of account, funds earmarked for the payment of overdue coupons and drawn bonds.

VII. Regularization account

This item consists of:

1. 19 071 915.91 units of account, interest and commissions receivable but not yet due on 31 December 1971;
2. 3 115 549.38 units of account, ECSC-levy claimed over the month of December and falling due after 31 December 1971.

LIABILITIES

I. Loans

	Equivalent in u.c.
in US dollars	230 300 000.—
in German (W) marks	195 314 355.42
in Italian lire	115 200 000.—
in Dutch guilders	33 819 337.04
in Swiss francs	28 035 552.52
in Belgian francs	51 093 200.—
in French francs	48 949 531.79
in units of account	20 000 000.—
in Luxembourg francs	28 994 730.30
in EMA units	50 000 000.—
	<hr/>
	801 706 707.07

III. Allocations

A) Financial aid

1. *for readaptation*
commitments entered into
for outright grants 67 052 478.46
2. *for technical and economic research*
commitments entered into
for outright grants 23 053 816.50
3. *Assistance under art. 56* (Industrial
redevelopment and reconversion) 9 983 535.42
4. *Assistance under art. 54* 3 026 690.38

103 116 520.76

B) Other

14 563 743.39

IV. Former ECSC Pension Fund

This item totals 25 651 445.61 units of account. As of 5 March 1968 commitments for the payment of ECSC-pensions were transferred to the Member States.

V. Miscellaneous

Of the total, a sum of 16 947 319.91 units of account refers to bonds and coupons due and commissions payable on them. The remainder of 57 559.60 units of account refers to miscellaneous credit-accounts at the end of the business year.

VI. Regularization account

This item comprises interest and commissions payable but not yet due on 31 December 1971, totalling 17 882 855.28 units of account.

VII. Unallocated balance

The sum of 713 894.50 units of account under this heading represents unallocated excess of income over expenditure.

Note: Till July 1961 the claims and related sureties under loans granted from funds borrowed as well as other items of the assets are pledged to the Bank of International Settlements in Basle in favour of the holders of Secured Notes and Coupons issued by the ECSC. The amounts pledged are:

assets: 109 953 714.81 units of account under item I, 169 044.55 units of account under item II and 2 038 628.12 units of account under item VII;

liabilities: 109 953 714.81 units of account under item I and 1 947 184.58 under item VI.

**EUROPEAN COAL AND STEEL COMMUNITY
COMMISSION OF THE EUROPEAN COMMUNITIES**

**REVENUES AND EXPENDITURES FROM 1 JANUARY 1971
TO 31 DECEMBER 1971**

(Including Revenues and Expenditures in connection with Borrowing and Lending Operations)

All amounts are stated in EMA units of account and are the equivalent of the various currencies computed at the following rates for 1 EMA unit of account:
US\$ 1 = DM 3.66 = Bfr 50 = Ffr 5.55419 = Lit 625 = Lfr 50 =
Fl. 3.62 = Sfr 4.37282 up to 10 May 1971 and Sfr 4.0841 since that date
= £ 0.41666

EXPENDITURES

A. Servicing of loans and guarantees		47 842 377.—
B. Budgetary expenditures:		
Administrative expenditures	18 000 000.—	
Expenditures for research	11 230 193.39	
Expenditures for readaptation	15 362 243.61	
Coke aid	2 647 200.—	47 239 637.—
C. Other expenditures:		
Financial expenses	284 696.31	
Assistance under Art. 56	2 099 202.51	
Assistance under Art. 54	134 874.87	2 518 773.69
D. Excess of revenues over expenditures		5 035 940.38
		<u>102 636 728.07</u>

Allocations to the Reserves and Special Accounts

<i>Allocations</i>		
Special fund	2 000 000.—	
Financial aid	7 876 109.38	
Unallocated balance	596 939.45	
Former pension fund	142 094.82	10 615 143.65
<i>Transferred</i>		
Other funds		5 579 203.27
		<u>5 035 940.38</u>

Auditor's Note

Having examined the books, vouchers and documents of the bookkeeping and the explanations supplied to me, I herewith certify that the revenues and expenditures of the European Coal and Steel Community as of 31 December 1971 are correctly and properly reflected in the above document.

Luxembourg, 18 May 1972

P. GAUDY
Auditor

		REVENUES
A. Servicing of loans and guarantees		48 214 128.86
B. Levy		37 775 999.33
C. Other revenues:		
Interest on deposits and investments	16 097 613.81	
Fines and supplement for late payment	5 588.18	
Miscellaneous	<u>543 397.89</u>	16 646 599.88
		<u><u>102 636 728.07</u></u>

European Coal and Steel Community
For the Commission of the European Communities

F. GILLET
*Director General of
Credit and Investments*

G. MINES
*Director of
Issues and Treasury*

**Commentary on the Revenues and Expenditures of the ECSC for the period
from 1 January 1971 to 31 December 1971 (in units of account)**

EXPENDITURES

A—The expenditures for the servicing of loans and guarantees totalling
47 842 377.— units of account, is broken down als follows:

Interest on funds borrowed	44 902 118.28
Fees to agent banks	920 873.10
Miscellaneous	419 385.62
Redemption of recoverable issuing costs	1 600 000.—

REVENUES

A—The revenues on the servicing of loans and guarantees totalling
48 214 128.86 units of account, is broken down als follows:

Interest on loans	44 622 808.68
Guarantee fees	129 702.59
Miscellaneous	3 461 617.59