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AIDE-MEMOIRE ON THE
FIXING OF THE ECSC LEVIES
AND OPERATING BUDGET
FOR 1974

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AIDE-MEMOIRE

on the fixing of the ECSC levies and operating budget for 1974

Articles 49 and 50 of the Treaty establishing the European Coal and Steel Community empower the Commission to obtain the funds needed to finance the activities provided for in the Treaty by imposing levies on the production of coal and steel. These levies are assessed annually on the various products according to their "average value", but the "rate" of the levies may not exceed 1% of this "average value" unless previously authorised by the Council under Article 50.

In calculating the rate of the levies several factors must be taken into account. First, requirements must be scrutinized. Then it is necessary to assess how far they can be financed by the revenues arising from the investment of the Community's own funds and other sources of income (repayments, cancellation of commitments...). In this way it is possible to calculate the sum to be provided through the levies. By taking account of the average value of the various products and the estimated production during the year, the rate of levy needed to yield the sum concerned can be worked out. Calculation of the rate thus depends on estimates of production: these estimates are difficult to make because the industries concerned react very sensitively to the behaviour of the economic cycle.

Following the usual practice, the views of the four competent committees of the European Parliament are requested and - as the Parliament indicated in its resolution "on the ECSC's operating budget and levies for 1971" - it is in fact the European Parliament "as a whole" that will pronounce on the levies and the operating budget of the ECSC.

This aide-mémoire forms the basis for the consultation of the Parliament.

It shall be noted that this initial draft of the operating budget is based on existing monetary conversion rates and not on those which would result from the adoption of the Commission's draft decision based on real exchange rates. The departments concerned consider at present that it would be a highly hazardous process to forecast the precise consequences of the new system, given that needs and resources must, in global terms, represent the same amount in units of account.

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I. EXECUTION OF THE 1973 OPERATIONAL BUDGET (Annex I)

A. Resources

84.5 MUA in place of 74m

The favourable development of the economic situation has continued in the steel sector and has allowed a yield from the levies in excess of the original estimates, which were admittedly cautious, (i.e. 66 MUA instead of 63.8 MUA).

This caution was basically due to the uncertainty of the economic outlook linked with the monetary crisis. It can also be explained by reference to the outturn of previous years (particularly 1971), when income from the levies failed to reach the amount estimated.

The same considerations affected the estimates of interest on investments and on loans from non-borrowed funds, and expected income from these sources is well above the estimate (11.8 MUA instead of 10 MUA).

Lastly, there is a credit of 6.5 MUA against the heading "Cancellation of commitments which will not now be implemented".

B. Expenditure forecasts

84.5 MUA instead of 74 MUA.

The expected resources should provide full cover for needs, for which the forecasts, amended as necessary, are as follows :

1. Administrative costs	:	18 MUA
2. Aid to resettlement	:	38 MUA instead of 40 MUA
3. Aid to research	:	18.5 MUA instead of 16 MUA
4. Aid to coking coal	:	4 MUA following the ECSC decision 73/257 of the Commission (O.J. 259/36 of 15 Sept. 1973).
5. Interest rebates	:	6 MUA instead of 0 (articles 54 and 56).

In drawing up the 1973 budget, it was foreseen that these needs would be met by mixed fund loans[1] drawing on the amounts payable by the new member countries, by way of contribution to the ECSC's reserves. The payment of these contributions having been delayed, it has been necessary to use part of the income from the Community's 'own funds' to meet the requirements for interest rebates.

6. Workers housing : 10 MUA as forecast

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(1) This system allows the granting of reduced interest loans, by mixing funds borrowed at market rates (Article 49) with the ECSC's own funds.

Each 1 MUA of ECSC funds is combined with 1.5 MUA of borrowed funds to constitute a mixed loan of 2.5 MUA: this allows a 3% interest rate rebate for 5 years.

II. INITIAL DRAFT OF THE 1974 OPERATING BUDGET (Annex II)

The 1974 operating budget is the first to take proper stock of the enlargement of the ECSC. At the same time, the influence of inflation throughout the Community, along with the need to implement the policies incumbent on the ECSC in both the industrial and the social fields, have had significant effects on the ECSC's operating budget for 1974. Requirements for funds have increased.

A. Requirements reported for 1974

1. Administrative expenditure

The total of 18 MUA in the Merger Treaty is still valid.

2. Aid to resettlement

Foreseen requirements for aid to resettlement exceed those for 1973 : 41 MUA as against 38 MUA.

Several factors have contributed to this increase :

- the Federal Republic of Germany has speeded up its programme of closures for 1974 and subsequent years;
- submission of the applications foreshadowed by the United Kingdom for 1973 has been held back. As a result of this delay, there will be more requests in 1974;
- inflationary increases have affected certain categories of expenditure.

The expected breakdown is shown in the following table :

	Steel	Coal	Total
Germany	0.5	10.0	10,5
Belgium	0.5	4.0	4.5
Denmark	-	-	-
France	1.0	5.5	6.5
Ireland	-	-	-
Italy	*	*	*
Netherlands	*	*	*
Luxembourg	*	-	*
United Kingdom	5.0	14.5	19.5
	7.0	34.0	41.0

*Not significant

3. Aid to research

The promotion of research laid upon the ECSC by Article 55 of the Treaty, calls for an increase in financial aid to enable the Community to face up to the demands put forward, both for the purpose of maintaining the competitive position of European products in the steel sector (production and testing) and energy sector, and in order to improve occupational safety and effectively combat industrial pollution in the areas affected by the ECSC Treaty.

For the various fields of research, the overall aid requested, calculated on the assumption that the ECSC contributes 60% of the total cost of the research amounts to :

- research into steel technology	:	24	MUA
- research into coal technology	:	13.5	MUA
- Social research		7.5	MUA
		45	

As in the past, the various committees of experts will examine these applications and allocate priorities to each within the limits of the funds available.

4. Aid to coking coal

The aid to coking coal (5 MUA) was the subject of the Commission's Decision No. 73/287 ECSC of 25 July 1973 (O.J. 259/36 of 15 September 1973).

This Decision established a system of subsidies during the period 1973-78 for coking coal and coke intended for the Community's steel industry, of which some 55% will be contributed by the steel industry, 25% by the countries concerned and 20% by the ECSC. The ECSC's contribution amounts to 4 MUA in 1973, 5 MUA in 1974 and 6 MUA a year from 1975-78.

5. Interest rate rebates

Requirements for subsidised loans, under the ECSC Treaty, Articles 54 (investment) and Article 56 (redevelopment), are estimated to amount to 133 MUA. For the Commission, a subsidised loan is one which benefits from a 3% interest rebate for a period of 5 years, the subsidy thus representing approximately 15% of the total loan.

Thus 20 MUA of non-recoverable funds would be needed to back up the issue of the 133 MUA of subsidised loans. The breakdown is :

- Article 54	:	8 MUA
- Article 56	:	12 MUA
		20 MUA

Under the system of mixed fund loans already outlined, it would be necessary to make available 53 MUA of the ECSC's own funds to support the total of 133 MUA of loans.

The Commission thinks it preferable in this matter not to use the technique of mixed fund loans, since, in the event, this approach only solves the problem for the 3 years (1973, 1974, 1975) during which the new Member States are due to pay their contributions to the ECSC's reserves, and has no impact on the problem of subsidized loans from 1976 onwards, when these contributions will cease. Moreover, the Commission considers that it would be unsound to tie up part of its capital resources in this type of operation for the whole period involved (as much as 15 years, as a rule). It would accordingly prefer to invest these funds to best advantage and have extra income at its disposal in the form of the additional interest earned.

6. Special reserve appropriation (workers' housing)

The Commission decided on 22 December 1972 to allocate 20 MUA towards the implementation of the second stage of the ECSC's seventh financial aid programme for housing construction. This stage covers the financial years 1973 and 1974 and as 10 MUA have been allocated in 1973 a further 10 MUA should be provided in the 1974 budget.

B. Forecast resources for 1974

The yield of the levies for 1974 will be influenced by :

- a drop of around 5% in coal production by comparison with 1973;
- an increase of around 3% in steel production by comparison with 1973;
- a slight increase in the average values of iron and steel products.

1) Coal levies (coal and lignite)

- In 1974 the total production on which levies are calculated might reach :

235 million metric tons of coal
4 million metric tons of lignite

- The average values to be applied are :

  18.52 u.a. for coal

  12.98 u.a. for lignite

- The "unit yield" of the levy - i.e. the yield at a rate of 0.10% - will amount to :

  4.35 million u.a. on coal

  0.05 million u.a. on lignite

In round terms, levies on forecast coal production for 1974 would yield :

12.76 MUA at a rate of 0.29%

13.20 MUA at a rate of 0.30%

13.64 MUA at a rate of 0.31%

2) Steel levies

- Estimates indicate that the production on which the levies are calculated could reach the following levels, allowing for a 3% increase on the production forecast for 1973 :

Pig iron and cast iron	:	5.5 million metric tons
Bessemer steel	:	15 million metric tons
Steel other than Bessemer steel	:	140 million metric tons
Finished products	:	113 million metric tons

- The average values to be applied have been assessed at some 6% above these for 1973, since the Commission departments concerned have not yet received all the necessary information.

- The unit yield of the levy will probably reach :

  0.33 MUA on pig and cast iron

  1.08 MUA on Bessemer steel

  13.86 MUA on steel other than Bessemer steel

  4.23 MUA on finished products

In round terms, levies on iron and steel products for 1974 would yield :

56.55 MUA at a rate of 0.29%

58.50 MUA at a rate of 0.30%

60.45 MUA at a rate of 0.31%

3) The remaining resources are mainly interest on investments and loans from non-borrowed funds, which the Directorate-General for Credit and Investments estimated at 12.4 MUA for 1974.
However, on the assumption that the new Member States' contribution to the ECSC's reserves are invested and not used for mixed fund loans (see page 3, IB5 and note (1)), addition income of some 3.3 MUA can be assumed.

4) The miscellaneous heading includes penalty payments and interest and fines for arrears of payment........

5) Cancellation of commitments which will not be implemented relates to credit balances on successfully completed operations. They are estimated at 5.5 MUA for 1974.

6) Lastly the table of resources includes 2 items representing non-borrowed funds :

- repayments on loans made from the special reserve and constituting the ECSC's contribution to the construction of workers' housing;
- an element of the former ECSC pension fund, used in combination with these repayments to make up the allocation of 10 MUA needed to implement the 2nd instalement of the 7th workers' housing construction programme;

C. The balance between requirements and resources

Simple addition of the requirements put forward would give a total of 129 MUA, without taking into account the "workers' housing" scheme which relates to loans, not to the use of non-recoverable funds. To meet all these requirements, the rate of the levy would have to be fixed at 0.45 %.

Since account must be taken of the practical possibility of implementing the level of operations presupposed by such an amount, as well as the "ability to pay" of the coal and steel industries, it would not be at all appropriate to raise the rate of the levy to this level.

A review of priorities is therefore necessary.

The allocation for three of the requirements to be met from current resources has already been fixed :

- the contribution to administrative costs must be held at 18 MUA
- the amounts to be allocated as "aid to resettlement" - an obligatory item of expenditure - total 41 MUA
- aid to coking coal, set at 5 MUA

i.e. a total of 64 MUA.

In addition, the Commission is under considerable pressure from the firms concerned, from the Community's research institutions, and indeed from the Parliament itself(1), to give greater encouragement to research. The Commission shares these convictions. In its view, an exceptional effort, should be applied both in order to maintain the competitive position of European products and in order to improve occupational safety. Expenditure in 1973 having been 18.5 MUA, the same level of aid, allowing for pay and price increases, implies about 20 to 20.5 MUA in 1974. A 7.5% increase in the level of aid would thus raise the appropriation to 216 MUA. This appears reasonable if it is remembered that, in 1973, the Community only met 40% of requests for aid totalling 46 MUA, and that requests for the coming year amount to 45 MUA. An appropriation of 21.5 MUA would meet 48% of the demand. It should be noted in addition that the ECSC's research aid in the steel and coal sectors does not account for more than 5-10% of the total research effort in these fields.

In consequence, irreducible requirements total 85.5 MUA (64 MUA plus 21.5 MUA). The amount left available for interest subsidies would thus, with a levy rate of 0.29%, amount to only 5.11 MUA (yielding a loan total of 34 MUA). The Commission considers that as a minimum it should be able to appropriate 10 MUA for this purpose, yielding

(1) Resolution of 19 January 1971, Paragraph 4

some 67 MUA of subsidized loans. However, being aware of the difficulty of increasing the levy rate of 0.31%, as would be necessary in order to appropriate 10 MUA for this purpose, the Commission is prepared to limit the rate to 0.30%. This would allow 7.5 MUA to be allocated for interest subsidies in 1974, (yielding some 50 MUA of subsidized loans).

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The Commission therefore asks the Parliament to agree that the levy be fixed at 0.30%.

FORECAST OUTTURN OF OPERATING BUDGET FOR 1973 (in MUA)

ANNEX I

REQUIREMENTS	Original estimate	Forecast outturn	RESOURCES	Original estimate	Forecast outturn
OPERATIONS TO BE FINANCED FROM ORDINARY RESOURCES (NON-RECOVERABLE)			ORDINARY RESOURCES		
1) Administrative expenditure	18	18	1) Levy yield	63,8	66
2) Aid to resettlement (art.56)	40	38	2) Interest on investments and on loans from non-borrowed funds	10	11,8
3) Aid to research (art. 55)	16	18,5			
a) Steel	8	8,1			
b) Coal	4	5,9	3) Miscellaneous	0,2	0,2
c) Social	4	4,5			
4) Aid to coking coal (art. 95)	-	4	4) Cancellation of commitments which will not now be implemented	-	6,5
5) Interest rebates	-	6			
a) Art. 54 - Investment	-	3			
b) Art. 56 - Redevelopment	-	3			
	74	84,5		74	84,5
OPERATIONS FINANCED WITH LOANS FROM NON-BORROWED FUNDS			ORIGIN OF NON-BORROWED FUNDS		
6) Mixed fund loans (art. 54 and art. 56)	19,2	-	5) Repayments on loans for workers' housing	4,8	4,8
7) Special reserve appropriation (workers' housing)	10	10	6) Part of the former ECSC pension fund	5,2	5,2
8) Transfer to reserves	-	19,2	7) Contributions by the acceding States to ECSC reserves	19,2	19,2

INITIAL DRAFT OF THE ECSC OPERATING BUDGET FOR 1974 (in MUA)

ANNEX II

REQUIREMENTS	Requests 0,45 %	Proposal 0,30 %	0,31 %
OPERATIONS TO BE FINANCED FROM ORDINARY RESOURCES (NON-RECOVERABLE)			
1) Administrative expenditure	18	18	18
2) Aid to resettlement (art. 56)	41	41	41
3) Aid to research (art. 55)	45	21,5	21,5
a) Steel	24	10	10
b) Coal	13,5	5,5	5,5
c) Social	7,5	6	6
4) Aid to coking coal (art. 95)	5	5	5
5) Interest rebates	20	7,5	9,89
a) Art. 54 - Investment	8	3	3.95
b) Art. 56 - Redevelopment	12	4,5	5,94
	129	93	95,39
OPERATIONS FINANCED WITH LOANS FROM NON-BORROWED FUNDS			
6) Special reserve appropriation (workers' housing)	10	10	10

RESOURCES	Requests 0,45 %	Proposal 0,30 %	0,31 %
ORDINARY RESOURCES			
1) Levy yield	107,7	71,7	74,09
2) a - Interest on investments and on loans from non-borrowed funds	12,4	12,4	12,4
b - Interest on acceding States' contributions	3,3	3,3	3,3
3) Miscellaneous	0,1	0,1	0,1
4) Cancellation of commitments which will not now be implemented	5,5	5,5	5,5
	129	93	95,39
ORIGIN OF NON-BORROWED FUNDS			
5) Repayments on loans for workers' housing	5,5	5,5	5,5
6) Part of the former ECSC pension fund	4,5	4,5	4,5