COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 2.5.2001
COM(2001) 232 final

REPORT FROM THE COMMISSION

Monitoring of Article 95 ECSC Steel aid cases, Fifteenth Report, May 2001

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Table of contents

1. SUMMARY

The Commission presents its Fifteenth Report on the Monitoring of Article 95 ECSC steel and iron ore aid cases pursuant to its decisions of 4 April 1994[1], 21 December 1994[2] and 29 November 1995[3].

In accordance with the above mentioned decisions, this fifteenth report will cover the following companies: Irish Steel, Siderurgia Nacional, EKO-Stahl and Voest Alpine Erzberg. Since most conditions imposed by the Commission in its decisions approving the aid are already fulfilled, only the conditions still monitored by the Commission are addressed in this report.

1.1. Irish Steel, Ireland

Investments carried out at Irish Ispat up to 31 December 2000 did not modify the company's production capacities.

1.2. Siderurgia National, Portugal

The monitoring is focused on following up the plan for installation of the electric arc furnace, which according to a modified plan should be operational in the second semester of 2001. The closing down of SN Serviços is scheduled for the first trimester of 2001. Legal steps for the required reduction of workforce at SN Serviços have been taken. In order to monitor the completion of the aided restructuring the Commission decided to continue the monitoring until 15 March 2002.

1.3. Eko-Stahl, Germany

The only conditions still monitored by the Commission is respecting the annual capacity limitation (1,5 million t/y as from February 2000) of the new hot-rolling mill and the using of its production only for further processing in the company. The capacity limitation is controlled by an electric device, the orderly functioning of which is monitored by the Commission. The capacity limitation was respected during the monitored period.

1.4. Voest-Alpine Erzberg, Austria

The price charged for iron ore was in line with market prices and higher than the price of imported iron ore in the monitored period.

The decision authorises ATS 52 million aid to be granted over 2000. In 2000 ATS 35 million has been disbursed.

1.5. Outstanding issues from previously monitored companies.

- **ILP**

Investments performed in the second semester of 2000 did not modify the total production capacity of the company for crude steel and hot rolled products.

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1 Decisions No 94/257-261/ECSC (O.J. L 112, 3.5.1994, p. 52, 58, 64, 71, 77)
2 Decision No 94/1075/ECSC (O.J. L 386, 31.12.1994, p. 18)
3 Decision No 96/269/ECSC (O.J. L 94, 16.4.1996, p. 17)

- **ACERALIA**

In the second semester of 2000 the total production capacity of the company has not been modified.

- **AHV-Ensidesa Capital**

Social aid paid to the company in the second semester of 2000 was in line with the approved aid.

- **Acenor**

Social aid paid to the company in the second semester of 2000 was in line with the approved aid.

- **Freital**

No increase of remaining capacity took place in the second semester of 2000.

2. OVERVIEW

Siderurgia Nacional, EKO Stahl, Irish Steel, Voest Alpine Erzberg

Company	Aid Article 95 ECSC		aid Steel Aid Code		Capacity reduction				Redundancies		Remarks
					Required		Achieved				
	Authorized	Granted	Authorized	Granted	kt/y	Date	Kt/y	Date	Plan	Achieved	
SN	PTE 60.12 billion (€ 306 million)	100 %	PTE 5,925 million (€ 29.55 million)	PTE 2,669.16 million (€ 12.01million)	140	31.12.95	100%	31.12.95	1798	1766 = 98%	Redundancies behind plan, closure of blast furnace planned for 1st quarter 2001
EKO	DM 900.62 million (€ 462 million)	100%	DM 385 million (€ 197 million)	100%	361	31.1.95	100%	28.2.95	650 by 1999	195 by 1999	
IRISH STEEL	IEP 38.298 million (€ 47.7 million)	100%							205 by 1996	209 by 1996	
VAEG	ATS 408 million (€ 29.7 million)	ATS 274.8 million (€ 17.42 million)	-	-	-	-	-	-	71 by 2002	84	Redundancies ahead of schedule.

3. IRISH STEEL, IRELAND

The Commission decided on 7 February 1996 (Commission Decision 96/315/ECSC)[4] to approve aid under Article 95 ECSC linked to the sale of Irish Steel Ltd (ISL) to Ispat International amounting to a maximum of IRL£ 38.298 million[5], serving various purposes toward the restructuring of Irish Steel (for details see the previous monitoring reports).

Under the terms of the decision the aid was approved subject to various conditions (for details see previous monitoring reports). The Irish authorities submitted on 16th March 2001 the eleventh monitoring report in accordance with the Commission's decision. This report included a set of financial data and ratios in line with the Annex to that decision.

At present, the only remaining condition to be monitored is the five years production capacity freeze up to the end of May 2001. Investments carried out by Irish Ispat Ltd. in 2000 did not modify the company’s production capacities and related to replacement, maintenance, improving productivity of the plant and improving reliability of data.

[4] OJ L 121 of 21/5/1996, p. 6

[5] 1 € = IRL 0,7876.

4. SIDERURGIA NACIONAL, PORTUGAL

4.1. Introduction

On 12 April 1994 the Commission approved[6] PTE 60.12 billion[7] aid to the Portuguese public steel undertaking *Siderurgia Nacional* under Article 95 of the ECSC Treaty (see details in the previous monitoring reports).

This aid was **paid** in 1994 and 1995.

In September 1994 the Commission approved under the Fifth Steel Aid Code:[8]

– PTE 4 925 million in social aid,

– PTE 1 000 million in aid for environmental protection.

By the end of 2000, social aid amounting to PTE 2 669.16 million has been paid. The remaining social aid and the environmental aid may still be disbursed.

Authorisation of the aid was subject to several conditions. The following conditions are still monitored by the Commission :

– replacement of the blast furnace at Seixal by an electric arc furnace (**outstanding**),

– total workforce to be reduced by 1798 employees by the end of 1996 (**delayed**),

The present report covers developments up to 31 December 2000 on the basis of information provided by the Portuguese Government in its fifteenth monitoring report, which was submitted on 16 March 2001. The present report concentrates on the conditions still monitored by the Commission.

4.2. Investments

SN Longos – Electric arc furnace

Under the initial restructuring plan (*PERG*), the blast furnace was to be replaced by an electric arc furnace by the beginning of 1996. The Portuguese Government's decision to privatise the operating companies immediately, which was not envisaged by the initial restructuring plan, and the approach taken by the authorities of leaving the final investment decision to the new private shareholders in *SN Longos* have led to a five-year delay in installation of the electric arc furnace (cf. previous reports).

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6 OJ L 112, 3.5.1994, p. 52.

7 1 € = 200,482 PTE. Total amount 299 million €.

8 OJ C 390, 31.12.1994, p. 18.

The revised timetable for the completion of the investment is as follows:

Civil construction works	2nd semester 2001; partially in process
Installing the equipment	2nd and 3rd quarters 2001
Start of operations	4th quarter 2001
Furnace fully operational	1st trimester 2002

The Commission is following the progress of the plan step by step. It needs to be stressed that when the derogation was granted under Article 95 of the ECSC Treaty, replacement of the blast furnace by an electric arc furnace was regarded as a key feature of the necessary industrial restructuring of *Siderurgia Nacional*.

The restructuring cannot therefore be regarded as complete until that investment has been carried out. Although there is currently no indication that the delay will make it necessary to grant further aid to *SN Serviços*, the Commission has to monitor the completion of the aided restructuring.

On 15 October 1998 the Commission therefore already decided to extend the monitoring period till *at least* 15 September 2000. The investment in the electric arc furnace is planned to be completed by the end of the first semester of 2001. Considering the need for a sufficient safety margin as delays may occur in such types of investment, the Commission has decided to continue the monitoring period till 15 March 2002[9].

4.3. Evolution of workforce

Reduction of the workforce is lagging behind the initial plan. This delay affects only *SN Serviços* and will therefore have no impact on the viability of the privatised companies. Portugal and SN Serviços informed the Commission that for technical reasons[10] SN Serviços decided to cease its activities in the first trimester of 2001, thus before the new electric arc furnace to be installed by *SN Longos* at Seixal enters into operation. The company intends to proceed to the layoff of staff in this period. In 2000, the company initiated the legal steps necessary to reduce workforce. The delay in implementing the initial plan concerned altogether 33 workers as at the end of 2000.

9 SG (2001) D/285564 of 31.01.2001
10 cf. 14th Monitoring Report

The following table shows the evolution of the workforce and the forecasts:

	1999	2000	2001*
SN Longos + Lusosider	710	648	590
SN Serviços	878	795	44**
Total workforce	1588	1443	634
Planned total workforce	1410	1410	1410
Deviation from plan	178	33	-776

*Expected reduction during the year 2001

**Workers needed for dismantling the installations

SN Longos is likely to increase its workforce once the new electric arc furnace is put into service, so that the total workforce of the privatised companies will increase slightly after the closure of the blast furnace. The initial target of 1 410 employees set by the restructuring plan is expected to be achieved at latest during 2001 after closure of the blast furnace.

Financing of redundancies:

	Nature	Number of workers	Art 56 ECSC	State (Art 56 ECSC)	Company[1]	Total
			Costs in PTE million			
1993 - 1999 *	Early retirement	974	265.42	265.42	36.3	567.14
	Redundancy[2]	652	306.7	306.7	2884.34	3497.85
	Other	106				
	Total	1732	572.12	572.12	2920.64	4065.09
2000	Early retirement	120	28.83	28.83	-	57.66
	Redundancy[2]	18	3.61	3.61	110.56	117.78
	Other	5				
	Total	143	32.44	32.44	110.56	175.44

* For details on the period 1993 - 1999 see previous Reports.
1 In accordance with Article 4(1) of the Fifth (until 1996 included) respectively the Sixth Steel Aid Code (as from 1997), a contribution from the State defrays 50% of these costs.
2 Through mutual agreement (negotiated redundancy).

In 2000, PTE 259.6 million in social aid authorised under Article 4 of the Sixth Steel Aid Code was disbursed.

4.4. Sales

The sales of billets on the Portuguese market by *SN Serviços* go exclusively to *SN Longos*. Prices for these products are fixed on normal market conditions for a period of three months. Residual steel production is sold on the market against market prices (Metal Bulletin spot prices). The average prices achieved by the different product groups were given in the monitoring report. The Commission has compared these prices with the average market prices and considers them to be within the normal range.

4.5. Financial performance

SN Serviços

According to the Portuguese authorities, the closure of the enterprise, currently underway, has meant that it was not possible to present by 15 March 2001 the information required concerning the balance sheet and the profit and loss accounts[11].

It results, however, from the provisional information provided on 19 April that losses in 2000 would amount to PTE 7 271 million.

The Commission regrets that the Portuguese authorities did not comply with their reporting obligation in time. It intends to include in its next monitoring report the definitive figures for 2000 as well as the figures for the first half of 2001.

4.6. Aid

The aid authorised under Article 95 of the ECSC Treaty has been paid in six instalments between March 1994 and June 1995 as explained in the fourth monitoring report. The environmental aid approved under Article 3 of the Fifth Steel Aid Code has not so far been paid. The use of the social aid approved under Article 4(1) of the Fifth, respectively the Sixth Steel Aid Code is explained above under 4.3 (financing of redundancies).

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11 According to the Portuguese authorities, this delay is due to the ongoing process of closure and to the requirements resulting from the audit in this final phase of the firm's existence. Moreover, difficulties have also arisen due to the early retirement of staff in the financial department, which has evidently put a strain on the remaining human resources who must accomplish the necessary work.

5. EKO STAHL GMBH, GERMANY

5.1. Introduction

On 21 December 1994 the Commission authorised[12] DEM 900.62 million [13] aid to *EKO Stahl GmbH* under Article 95 of the ECSC Treaty (see details in the previous monitoring reports).

On 21 December 1994 the Commission further approved[14] regional investment aid of DEM 385 million[15] under Article 5 of the Fifth Steel Aid Code.

Authorisation of the aid was subject to several conditions. The following conditions are still monitored by the Commission:

– the new hot-rolling mill to reach a capacity of 900 kt/y by the end of 1997 and to be kept at that level until the end of January 2000. As from February 2000, the company is allowed to increase the capacity of this mill to 1.5 mio tonnes/year until the end of January 2005 (**monitored**),

– the output of the new hot-rolling mill to be used only for further processing in the company's own cold-rolling facilities (so far **observed**).

The present report covers developments up to 31 December 2000 on the basis of the information provided by the German Government in its report submitted to the Commission on 15 March 2001.

5.2. Capacity limitation

Limitation of the capacity of the new hot-rolling mill to 900 kt/y up until the end of January 2000 and thereafter to 1.5 million t/y up until the end of January 2005 is guaranteed by an electronic device that makes it technically impossible to exceed those ceilings. This technical solution was accepted in principle by the Commission in early 1996. For further details on the system, see the fifth monitoring report. The system has operated reliably and the records of the quantities produced have been regularly submitted to the Commission.

The authorised capacity increase as from February 2000 posed technical problems to the company as the electronic device is adjusted for the capacity year, which runs from July to June. On 15 March 1999 the Commission therefore agreed to a proposal from the German authorities that the production from July 1999 until July 2000 would be counted using the average production of the two thresholds which results in a yearly capacity of 1.150 million t for the capacity year July 1999 - June 2000[16]. The machine has been adapted accordingly on 1 July 1999 and has been adjusted to 1.5 million t/y by 1 July 2000.

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[12] OJ L 386, 31.12.1994, p. 18.

[13] 1 € = 1,95 DEM. Total amount 462 million €

[14] OJ C 18, 17.1.1997, p. 7

[15] 197 million €

[16] details see 13th Report.

5.3. Production of the hot-rolling mill

Hot-rolled strip produced in the hot-rolling mill is used exclusively in the cold-rolling mill.

The production of hot rolled strip amounted to 749 600 tonnes in the second half of 2000 and 1 340 900 tonnes in the whole year.

6. VOEST ALPINE ERZBERG GMBH, AUSTRIA

6.1. Introduction

On 29 November 1995 the Commission approved[17] state aid to *Voest Alpine Erzberg GmbH* (VAEG) to enable it to close down its mining operations gradually up to the year 2002. Approved aid amounts to ATS 272 million to cover operating losses over the period 1995-2002 and ATS 136 million[18] to cover the costs of closing down mines safely and in an environmentally friendly manner.

Authorisation of the aid was subject *inter alia* to the following conditions:

– the annual aid ceilings and the production ceiling as given in the table above were not to be exceeded (**so far observed; cf. 6.2.2.1 below**),

– the amount of operating aid was not to exceed the difference between production costs and revenues (so far **observed**),

– the price charged for iron ore was to be in line with market prices and was not to be lower than the price of imported iron ore (so far **observed**).

This report covers developments up to 31 December 2000 on the basis of information provided by Austria in its eleventh monitoring report, which was submitted, in line with the Commission's request, on 14 March 2001.

6.2. New monitoring report

6.2.1. The company

The company *Voest Alpine Erzberg Gesellschaft mbH* (VAEG) is held by *ÖIA Bergbauholding Aktiengesellschaft*, which in turn belongs to *Österreichische lndustrieholding Aktiengesellschaft*, an industrial holding company wholly owned by the Austrian State. VAEG is involved in the mining of low-density iron ore (~32 % Fe). The company has only one client, *Voest Alpine Stahl AG* (VASA), which was privatised in the autumn of 1995.

6.2.2. Operating aid

6.2.2.1. Production and sales

In the year 2000 VAEG produced 860 000 tonnes of iron ore with an average content of 33.6% Fe and 1.026 million tonnes of low grade products which VASA can use for the blast furnace burden (*Möllerzusatzmaterial*). These quantities were sold and delivered to VASA. The above mentioned 860 000 tonnes exceed in 9 000 tonnes the ceiling for 2000[19]. According to the Austrian authorities, this small surplus consisted in a security margin for the event that, due to the poor quality of the ore, not all the

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[17] OJ L 94, 16.4.1996, p. 17

[18] 1 € = ATS 13,7603. ATS 272 million = 19,76 million €; ATS 136 million = 9,88 million €

[19] Cf. 14th Report page 16

quantities delivered would be accepted by VASA. The Austrian authorities have committed to deduct this surplus from the authorised ceiling for 2001.

6.2.2.2. Production costs

In 2000, the production costs for iron ore and the low grade product, including closure and rehabilitation operations, stood at ATS 130.77. A detailed overview of production costs is given in the Annex.

6.2.2.3. Pricing

The standard-grade iron ore was sold at ATS 139.50 (€ 10.14) per tonne. This standard price has been set in November 1999 for the whole of 2000.

The low-grade material (*Möllerzusatzmaterial*) was sold at ATS 82.15 (€ 5.97) per tonne, fixed on the basis of the market price for lime gravel (*Kalkschotter*).

The average price for deliveries of iron ore and low-grade material (*Möllerzusatzmaterial*) results in ATS 105.20 (€ 7.95) per tonne. Including the costs of transport to VASA/Linz, the price charged was ATS 684.14 (€ 49.72) per tonne Fe.

The information submitted by Austria in its eleventh report confirm the information given by Voest Alpine Rohstoffbeschaffungs GmbH, a subsidiary of Voest-Alpine Stahl AG responsible for the purchase of raw material, that the above price per tonne Fe for iron ore is higher than the comparable price it has to pay for imported iron ore.

It may therefore be concluded that the prices charged in the second semester of 2000 were not lower than required under Article 2 of the Commission’s Decision of 29 November 1995.

6.2.2.4. Operating aid

The total losses incurred by VAEG in 2000 were ATS –46.88 million (€ -3.41 million).

Of the total losses sustained in this period, ATS 11.5 million related to closure operations. Further details on losses are given in the Annex.

In 2000, ATS 24 million has been disbursed as operating aid while the amount authorised by the Commission for this year is ATS 30 million.

6.2.3. Closure aid

In 2000, ATS 11 million has been disbursed as closure aid while the amount authorised by the Commission for this year is ATS 22 million.

6.2.4. *Aid payments in relation to aid authorised*

	Total aid		**Operating aid**		**Closure aid**	
(ATS million)	Authorised	Paid	Authorised	Paid	Authorised	Paid
1995-1999*	254	239.8	196	187	58	52.8
2000	52	35	30	24	22	11
2001	52		26		26	
2002	50		20		30	
Total	**408**	**274.8**	**272**	**211**	**136**	**63.8**

* For details on the period 1995 - 1999 see previous Reports

6.2.5. *Evolution of workforce*

The plan for reducing the workforce is as follows:

Workforce	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Production	280	276	273	273	254	242	210	181
Closure operations	6	10	13	13	20	20	31	34
Total	**286**	**286**	**286**	**286**	**274**	**262**	**241**	**215**

Departing from the original plan the total workforce was reduced to 202 in 2000. Reduction of workforce is therefore ahead of plan.

ANNEX

Comparison of production costs and revenues, year 2000

	Iron ore		Low-grade product		Closure and securing	Total	
Production (tonnes)	860 500 t		1 025 700 t			1 886 200 t	
Costs	(ATS 000')	(ATS/tonne)	(ATS 000')	(ATS/tonne)	(ATS 000')	(ATS 000')	(ATS/tonne)
Production	26 583	30.89	21 233	20.70		47 816	25.35
Extraction	41 272	47.96	21 540	21.00		62 812	33.30
Processing	49 727	57.79	15 386	15.00		65 113	34.52
Quality control	5 479	6.37	4 103	4.00		9 582	5.08
Transport	5 990	6.96	6 667	6.50		12 657	6.71
Overheads	12 907	15.00	15 386	15,00		28 293	15.00
Cost related to exhausted parts of mine	7 545	8.77				7 545	4.00
Closure (technical and social measures)					12 847	12 847	6.81
Total cost of sales	**149 503**	**173.74**	**84 315**	**82.20**	**12 847**	**246 665**	**130.77**
Revenues:	Iron ore		Low grade product			Total	
Sales (tonnes)	860 500 t		1 025 700 t			1 886 200 t	
Selling price	120 040	139.50/t	84 315	82.20/t		204 355	
Deduction for difference in quality	- 5 902					- 5 902	
Total	**114 138**		**84 315**			**198 453**	**105,21/t**

Difference

Operating result	**-35 365**				**-12 847**	**-48 212**	

Aid

	24 000				**11.000**	**35 000**	