

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

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SUBSIDIES

Notifications Pursuant to Article XVI:1

EUROPEAN COMMUNITIES

Supplement

In the context of improving transparency with regard to the use of aids, the EEC is notifying certain programmes in the industrial area. These are internal aids used for the promotion of social and economic policy objectives as referred to in Article 11 of the Subsidies Code. The EEC is of the opinion that such programmes do not constitute subsidies in terms of Article XVI.

The attached notification comprises a Community contribution and a contribution in respect of two member States - Germany and Belgium.

STEEL INDUSTRY

1.1 Aids to the steel industry are the subject of a code of aids that was instituted in 1980 and strengthened in 1981.

1.2 In February 1980, when the Commission made its decision¹ regarding specific aids to the steel industry, the prolonged crisis in that industry had weakened the financial position of most steel undertakings to a point where they were unable to carry out the restructuring which was needed, in particular, to adapt capacity to foreseeable demand. The essential aim of the decision was to establish a Community aid system under which specific aids could be accorded to the steel industry for certain defined purposes, provided that they promoted restructuring, were restricted in duration and intensity and did not provoke unacceptable distortions of competition.

1.3 Having regard to the increasingly grave crisis in the steel industry, this decision on aids was no longer an adequate instrument to deal with the² problems arising and, in August 1981, the Commission adopted a new decision² which is applicable until the end of 1985. Its fundamental objectives are the same as those of the earlier decision, i.e. to promote restructuring and prevent any undue distortion of competition by reason of State aids. Nevertheless, the rules set forth in the revised code have been strengthened in various ways in order better to ensure attainment of these objectives:

(a) A time-frame has been established for progressive elimination of aids to the steel industry. The aids may not lead to any payments after 31 December 1985, other than by way of interest rebates.

The time-limits are more restrictive in the case of emergency aid (which may not be approved after 31 December 1981) and aid for continued operation (no payments may be made after 31 December 1984);

(b) All undertakings receiving aid (other than emergency aid) must be engaged in the implementation of a restructuring programme that will reduce their production capacity, and the amount and intensity of the aid must be proportionate to that restructuring programme;

¹ Commission Decision No. 257/80/ECSC of 1 February 1980 - O.J. No. L 29 of 6 February 1980.

² Commission Decision No. 2320/81/ECSC of 7 August 1981 - O.J. No. L 228 of 13 August 1981.

(c) Strengthening of procedures to ensure greater transparency of aids; The Commission must consult with member States on all important cases before approving an aid; whenever a procedure is undertaken, notice of it must be published in the Official Journal; the Commission must report regularly to the Council on implementation of the code; aid payments are monitored in order to ensure that the amount of aids is progressively reduced as required by the code.

1.4 The code makes all aids subject to the same criteria, whatever their form, amount and purpose (general, regional or sectoral). Accordingly, aids - generally of low intensity - intended for environmental protection or energy saving, aids for research and development, employment aids and regional aids are all subject to the same criteria as purely sectoral aids.

1.5 The code is applicable specifically to any element of aid included in the financing of public undertakings; to determine whether such elements exist, it must be established whether the financing measure can count as the provision of risk capital according to standard company practice in a market economy. In general, the Commission has adopted a similar position in regard to State participation in private undertakings.

2.1 In June 1983, The Commission adopted nine decisions¹ concerning aids to the steel industry in nine member States.

2.2 Most of these decisions authorize the aids under reference, subject to observance of certain conditions. The latter are, inter alia, to make further reductions in net production capacity to clearly specified minimum levels and in addition to show that the recipient undertaking can return to financial viability by the end of 1985. Accordingly, production capacity would be reduced between 1980 and 1985 by a total of at least 26.7 million tons of hot-rolled products (see Table No. 1). In certain member States, the reductions proposed go beyond the imposed minima, because a great many undertakings will have to continue their rationalization effort in order to return to viability.

2.3 The decisions also include certain provisions designed to ensure that the aids are used for the purposes set in the authorization, and to ensure that they do not provoke undue distortion of competition. Accordingly, where investment is concerned, the amount of aid is limited to a certain percentage of the investment expenditure. The decisions also provide that the Commission is to monitor aid payments and restructuring progress. The Commission will take the necessary action either to suspend aid payments

¹ O.J. No. L/227 of 19 August 1983.

in the event of non-observance of the conditions attached to the decisions, or to impose additional conditions relating to the restructuring of an undertaking in the event that its return to financial viability by the end of 1985 seems doubtful.

2.4 In certain cases, the Commission has found itself unable to specify a priori the conditions for authorizing aid. In such cases, it has declared the aid to be inconsistent with proper functioning of the Common Market, unless the member State concerned can furnish due justification.

3. Table 2 shows the position in regard to aid to the steel industry authorized by the Commission up to 31 May 1984, under the first and second aid codes.

TABLE 1
Reductions of Capacity in the Steel Industry 1980-1985

Member State	Hot-rolled products, capacity in 1980		Net reductions made since 1980 and commitments entered into by member States	Further net reductions required under Commission decisions of 29.6.1983	Total net reductions 1980-1985	
	'000 tons	% EUR 9			'000 tons	% of 1980 capacity
Belgium	16,028	9.5	1,705	1,400	3,105	19.4
Denmark	941	0.6	66	-	66	7.0
Germany, F.R.	53,117	31.6	4,810	1,200	6,010 ¹	11.3
Greece ²						
France	26,869	15.9	4,681	630	5,311	19.7
Ireland	(57) ³	-				
Italy	36,294	21.5	2,374	3,460	5,834	16.1
Luxembourg	5,215	3.1	550	410	960	18.4
Netherlands	7,297	4.3	250	700	950	13.0
United Kingdom	22,840	13.5	4,000	500	4,500	19.7
EUR 9	168,601	100.0	18,436	8,300	26,736	15.9

¹The real reduction of capacity is 6,652 t.

²Data not available, since Greece was not a member of the Community in 1980.

³Precise figures cannot be given because of inadequate data.

TABLE 2
Total Aids to the Steel Industry Approved, Subject or not
to conditions, under the First and Second Codes of Aids

(ECU million)

	Total aids notified	Total released at 31.5.84	Total approved subject to conditions on 29.6.83 but not yet released
Belgium	3,250	1,935	1,450
Denmark	81	81	-
Germany, F.R.	3,194	2,297	897
Greece	6	-	-
France	7,586	5,474	2,112
Ireland	173	44	-
Italy	10,270	1,661	8,609
Luxembourg	301	301	
Netherlands	385	248	137
United Kingdom	5,763	3,736	2,027
Total EEC	31,009	18,148	15,232

Date: 31.5.1984

TEXTILES AND CLOTHING

1.1 With a view to directing member States towards the forms of aid that can correspond to the objectives of the EEC, the Commission has followed the guidelines first laid down in 1971 and supplemented in 1977 for aids to the textile and clothing sector, aimed at ensuring that genuine restructuring and adaptation should be a condition of any receipt of public funds, that no overall increase in capacity for the more sensitive products should take place, that all decisions taken are consistent and that there is maximum transparency in regard to procedures.

1.2 The same guidelines are also used when the Commission reviews any proposals for aids made by member States. Such aids are notifiable under the Treaty of Rome (Articles 92, 93 and 94), which specifies that any such aid which distorts or threatens to distort competition is incompatible with the Common Market and requires the Commission to keep all systems of aid under constant review.

1.3 In its guidelines, the Commission has adopted a restrictive attitude concerning investment aids for the sector's modernization or internal reconversion, since such aids can seriously affect the competitive position between beneficiaries and their competitors. On the other hand, the Commission examines in a more positive manner aids intended more specifically for the restructuring of undertakings. Accordingly, the grant of such aids is conditional on fulfilment of certain criteria on the basis of which the Commission examines proposals for aids in the textile and clothing sector notified to them by member States.

1.4 Having regard to these criteria, aids:

- must not result in any increase of production capacity;
- must take account of the situation in the EEC, in particular conditions imposed by dynamic development of the market structure;
- must be applicable for only a short period of time, with the objective of allowing beneficiaries to reach, in the short term, an adequate level of competitiveness to ensure their viability;
- must be reduced progressively;
- must be associated with and clearly linked to substantial contributions by beneficiaries to restructuring;
- from the aspect of intensity, must be proportional to the problems and strictly limited to cases where there are serious social and adjustment problems;
- must not be cumulated with any general or regional aid programme, except in exceptional circumstances which could so warrant.

In addition, in the case of approved programmes of sectoral aid to this industry, the Commission insists that no alternative aid must be granted to the sector.

1.5 Accordingly, in certain cases the Commission enjoined several member States not to implement certain aid proposals that did not meet these criteria and in other cases, at the Commission's request, member States amended aid schemes to make them consistent with the Community rules.

2. Apart from direct specific aids granted by member States to the textiles and clothing sector, Community instruments can also intervene in this sector: the European Regional Development Fund, the European Social Fund and the European Investment Bank. The re-allocation of resources involved through these instruments is mainly intended to reduce the disadvantages affecting certain regions and some sectors of the economy in the EEC. The amounts involved are relatively small and in the case of the textiles and clothing sector the overall impact would appear to be very limited.

3.1 The situation as regards direct and specific aid by member States to the textile and clothing sector is as follows:

Belgium:

- Aids authorized in 1983 represented a total of BF 4 billion;
- Loans by public authorities for restructuring investment were subject to a maximum of 50 per cent of the total cost, a maximum duration of ten years, and interest rebates of 7 per cent over a five-year period;
- synthetic fibres were excluded from the aid programme as were other sensitive sub-sectors (combed wool-spinning, panty-hose, velvet and pile fabrics, tufted carpets).

France:

The system of aids established by France in the form of a reduction of the social costs of undertakings has been modified as follows. Aids will be granted exclusively for restructuring investment and to viable undertakings that finance at least 50 per cent of the total investment cost out of their own resources, the ratio of indebtedness to their own capital being less than 2:1. In addition, the total amount of all aids for the textile and clothing industry, whether at sectoral, general or regional level, may not exceed F 1.2 billion; in addition, the sub-sectors producing synthetic fibres, wool (carded and combed), carded and combed woollen yarn, and likewise panty-hose

are excluded from any kind of State aid. In addition, the intensity of aids may not exceed 25 per cent of the total investment concerned, and the maximum reduction rate for social contributions has been reduced from 12 per cent to 10 per cent.

Netherlands:

In 1983, the Netherlands Government introduced a "policy plan for the textile and clothing industry" to assist certain sub-sectors, in particular through the grant of aids to investment in plant and machinery. The undertakings concerned are required to contribute at least 50 per cent of the total investment cost. There must be no increase in capacity, and no cumulation of aids nor alternative aids. The following are excluded from aids: cotton yarn, combed woollen yarn, panty-hose and synthetic fibres and yarn thereof.

Fifty-five million guilders have been earmarked for bonuses, while the loan budget is to be f. 100 to 150 million.

Italy:

Law No. 675 makes provision for financial aids to restructuring and reconversion plans carried out under special sectoral programmes. These aids are mainly granted in the form of concessionary credits and interest rebates on bank loans. As regards the textile and clothing sector, financial aids authorized in 1983 totalled Lit 130 billion. Certain sub-sectors are excluded in principle from receiving these aids (pullovers, shirts, socks, pyjamas of knitted or crocheted fabric, woollen fabrics, panty-hose and synthetic fibres).

3.2 In other EEC member States there are no direct and specific sectoral aids for the textile and clothing industry. Nevertheless this industry can benefit from certain general incentive measures in the context of economic and regional development policy.

4. As regards the synthetic fibre industry, since 1977 there has been a special scheme for aids. Given the persistence of considerable over-capacity in this industry, the Commission considered it essential to extend the scheme for a further two-year period ending in July 1985. The Commission now takes a negative attitude in respect of any aid - whether sectoral, regional or general - likely to increase net capacity for synthetic fibres in a Community undertaking. It will continue to approve any aid proposal likely to speed up or encourage the reconversion process or to reduce capacity in undertakings producing synthetic fibres.

SHIPBUILDING

1.1 The fifth directive on aid to shipbuilding¹, adopted by the EEC Council in April 1981, was extended in December 1982 for a further two years until 31 December 1984.

1.2 This directive establishes a Community scheme for the grant of State aids to shipbuilding in pursuance of Articles 92:3(d) and 113 of the EEC Treaty, designed to encourage reorganization and restructuring in this sector which has been seriously affected by the crisis.

2.1 It is necessary to maintain within the Community a healthy and competitive shipbuilding industry whose scale of activity should be consistent with the size of the Community's seaborne trade and respect its economic and social importance.

2.2 In 1983, the structural crisis in this sector, further aggravated by the world economic recession and over-capacity of fleets world-wide, led to a particularly low order-book level in the EEC and an increasingly pronounced loss of competitiveness on the part of Community shipyards in relation to those of third countries.

2.3 The major obstacle to restructuring of shipbuilding in the EEC lies in the economic and social consequences of closures of shipyards, the latter being located in the regions where there are not generally any possibilities for reconversion of workers who lose their jobs in shipbuilding.

3.1 By reason, inter alia, of the social and economic implications of this situation, the objective of the EEC remains:

- to avoid distortions of competition as between shipyards of member States, by checking the competitive grant of State;
- in time, to reduce the extent of the problem by progressively reducing capacity and restoring adequate efficiency and competitiveness, so as to allow this sector to function without aids.

3.2 The term "State aid" covers not only aid granted by the State itself but also that granted by regional or local authorities and any aid elements contained in the financing measures taken by member States in respect of shipbuilding or ship-repairing undertakings and which do not count as the provision of risk capital according to standard practice in a market economy.

¹O.J. L 137 of 23 May 1981

3.3 In 1983, all the maritime member States having shipbuilding and ship-repairing undertakings were affected by increasing difficulties in the sector and the Commission had to examine a number of aid systems:

Federal Republic of Germany:

DM 230 million were budgeted for aid to ship-owners in 1983. In addition, the northern Länder are granting production aids to their shipyards on a declining scale for the period 1984 and 1985; the subsidization rate is 6 per cent for 1984 and 4 per cent for 1985; the total budget: DM 69 million.

Belgium:

No financial aid is granted to shipbuilding. Credit facilities are granted to ship-owners only. The intervention is equivalent to + 75 per cent of the total investment and is granted in the form of reimbursable credit at an interest rate favourable to the ship-owner. Total budgeted intervention by the State in total investment amounts to + 17 per cent. For the year 1983, aid was granted in respect of cases corresponding to investment of a total value of BF + 8 billion.

Denmark:

No direct aid is granted to the shipbuilding industry. The following financing arrangements are provided for ship-owners: credit at the rate of 8 per cent for twelve years (no reimbursement in the first two years) in respect of 80 per cent of the contract price. Financing granted in 1983 corresponded to aid in the amount of approximately Dkr 102.8 million.

France:

The Commission has authorized the French Government to extend for 1983 and 1984 the shipbuilding aid scheme in force in 1981-1982. The production subsidy represents 20 per cent of the contract price for vessels built in large shipyards. For vessels built in small shipyards, the maximum amount of aid is 10 per cent of the contract price. Budget appropriation for 1983: F 1,571 billion. Aids granted to ship-owners in 1983: F 263 million.

Ireland:

The Commission has authorized the Irish Government to grant production aids in 1983 and 1984 at the rate of 30 per cent of the contract price (25 per cent as from 31 July 1984) in order to prevent closure of the last shipyard in this member State, whose activities and work-force were cut back appreciably in 1983. Budget for 1983: £Ir4 million.

Italy:

The Commission has approved the system of aids to shipbuilding in Italy, established under Law No. 599, subject to certain conditions, regarding in particular the limitation of shipbuilding covered by State aids. Production aids in 1983 were at rates between 26 per cent of the contract price (large shipyards in the Mezzogiorno) and 8.5 per cent (small shipyards in the north of the country). Budget appropriation for 1982/83: Lit 990 billion.

Netherlands:

The Commission has authorized the Netherlands to establish a system of aids for the years 1983 and 1984 at rates varying between 4.5 per cent and 8 per cent of the contract price, according to the price of the ship (from 3 per cent to 7 per cent in 1984). Amount of budgetary appropriation: f. 69 million in 1983 and f. 46 million in 1984. Budget allocation for aid to shipowners in 1983: f. 103 million.

United Kingdom:

The Commission has authorized the United Kingdom to grant aids at the rate of 17 per cent or 18 per cent of the contract price in the context of the fifth intervention fund in favour of the shipbuilding industry (£55 million; standard-rate rebate of certain taxes: £8.6 million). It has authorized the extension of this programme and its partial re-financing up to 1 July 1984 (£16.5 million). Budget appropriation for aid to shipowners in 1983: £19 million.

3.4 From the general aspect, the Commission has maintained the prohibition of aids to the ship-repairing industry in the EEC because of the serious risk of distortions of competition in the precarious situation of t' s industry. Nevertheless, as an exception, the Commission authorized Italy to grant until 31 December 1983 production aids in the amount of 10 per cent of contracts to its ship-repair yards having regard to special social and regional considerations.

4. Since the current serious aggravation of the crisis in this sector in the EEC has exceeded the forecasts and threatens to jeopardize restructuring and restoration of competitiveness in EEC shipyards, the Community authorities are examining the desirability of extending for a further two-year period the fifth directive on aid to shipbuilding.

CONTRIBUTIONS BY GERMANY AND BELGIUM

FEDERAL REPUBLIC OF GERMANY

I. Subsidies to the film industry

The Film Promotion Law ("Filmförderungsgesetz") does not, in the German view, fall within the compulsory requirement to notify subsidies, because this is not a case of promotion out of budgetary resources. The promotion fund of the Film Promotion Institute derives its resources from equalization charges paid by cinema proprietors and financed jointly by such proprietors, film distributors and film-makers; this represents a kind of mutual aid to the cinematographic industry for which legal provision has been made. This is not, therefore, a case of budgetary subsidies granted by the State or by the Länder.

II. Nature of subsidy

The film promotion system is based on the Film Promotion Law which entered into force on 1 January 1968 and was amended in 1971, 1974 and 1979. Under the Law, a Film Promotion Institute was established which is in charge of promoting the production of German films, assisting cinemas and encouraging screen advertising.

The Institute is financed out of a so-called "film levy" of 2.75 to 3.75 per cent out of the annual turnover from the sale of tickets (since 1 July 1979). In 1983 about DM 30 million accrued from this levy.

A basic amount of (in recent years) an average DM 400,000 and in the case of high quality films of a variable additional amount (DM 150,000 maximum) is granted to producers of feature films if they can prove to have made a film which has brought 250,000 visitors within the two years following the first screening. These funds have to be invested in new films. In addition, there is the possibility of granting loans for film projects.

BELGIUM

A. COAL INDUSTRY

I. Nature and extent of the subsidy

(a) Background and authority

The legal basis for intervention on behalf of the coal industry is to be found in the following Decisions of the Commission of the European Communities:

1. Decision No. 528/76/ECSC of 25 February 1976, regarding the Community system of measures taken by the member States to assist the coal-mining industry.

The objectives of the Decision are the following:

- maintenance, extension or rationalization of the production capacity of pits or coalfields which, having regard to their location in relation to markets, to their reserves of qualities in demand or their potential for improved productivity, appear best able to supply the Community's long-term energy coal and coking coal requirement under satisfactory economic conditions;
- further adaptation of the production of pits or coalfields having a low economic return to market conditions in such a way as to avoid causing serious economic and social disturbances in those regions where re-employment possibilities are still inadequate.

The validity of this Decision runs until 31 December 1985.

2. Decision No. 73/287/ECSC of 25 July 1973 concerning coking coal and coke intended for the Community's iron and steel industry.

Certain changes have been made in this Decision, most recently by Decision No. 96/82/ECSC of 20 April 1982. They are designed to ensure sufficient Community production of these types of coal on a temporary basis, during a transitional period in which there are uncertainties as to the supply conditions for coking coal from third countries.

The validity of these Decisions runs until 31 December 1981. However, a new proposal by the Commission of the European Communities is under discussion among the member States.

(b) Financing

Until 30 June 1981, operating losses and investment projects were financed from budgetary credits included in the budget of the Ministry of Economic Affairs.

On 1 July 1981, this financing was entrusted to the National Corporation for Coal-Mine Financing which has since become the National Corporation for the Restructuring of National Sectors.

(c) Incidence

The subsidies authorized by the above-mentioned Decisions are granted directly to producers. They are variable sums and are intended to offset operating losses and investment expenditure necessary to improve yield, costs and earnings or to allow operations to continue in satisfactory conditions of security or health.

The amount of the subsidies for investment expenditure represented 4 per cent in 1981 and 7 per cent in 1982 of the total amount of subsidies granted.

(d) Amount of subsidies

For the years 1982 and 1983 (provisional figures), the appropriations for this financing amounted respectively to BF 7.5 and BF 7.2 billion.

(e) Estimated amount per unit

The amount of the subsidies varies from one undertaking to another, depending on the amount of operating losses; they declined sharply in 1982.

II. Effects of the subsidy

(a) Quantitative effects of the subsidy on trade

The subsidies do not hinder international trade. There is still a substantial net import surplus.

(b) Statistics of production, consumption, imports and exports

(in thousand tons)

	1979	1980	1981	1982	1983 (provisional figures)
Production	6,125	6,324	6,186	6,576	6,121
Consumption	15,614	15,946	15,437	15,832	12,841
Imports	9,622	10,139	10,051	10,481	6,459
Exports	319	480	787	695	614

B. FILM INDUSTRY

I. Nature and extent of the subsidy

(a) Background and authority

In order to improve the quality of Belgium's film production, subsidies are granted to film production provided that certain conditions are observed and in accordance with the modalities determined by Royal Decrees dated 23 October 1963, 12 May 1972, 24 December 1973, 29 June 1983 and 29 July 1983.

The Decree of 23 October 1963 prescribes the conditions and procedure for obtaining recognition as Belgian in respect of short and full-length films and newsreels.

(b) Incidence

The subsidies are granted within the limits of budget appropriations after consultation with the Film Commission, in the form of premiums to the producer calculated on the basis of the gross receipts from projection programmes including national films or recognized co-productions.

For full-length films, the premium is 15 or 25 per cent.

For short films:

- documentaries: 3 or 5 per cent
- animated cartoons: 6 or 8 per cent
- fiction: 5 or 7 per cent
- newsreels: 2 per cent

Except in the case of newsreels, a premium is also granted to cinema operators:

- 0.5 per cent for short or full-length films recognized as Belgian;
- 0.15 per cent for films recognized as having the nationality of one of the other member States of the European Communities.

(c) Amount of the subsidy

In recent years, the subsidies granted have been as follows:

1980: BF 128,344,639
1981: BF 108,594,937
1982: BF 104,112,200
1983: BF 90,000,000 (Budget)

(d) Estimated amount per unit

The amount granted per film varies according to several factors such as length, cost, period of showing, and commercial success, i.e. gross box-office receipts. These various factors cause such differences in the amount of the premiums that it would be meaningless to give an average amount per unit.

II. Effects of the subsidy

- (a) Since the main purpose of the subsidy is to improve the quality of domestic film production, the granting of premiums under the present aid scheme has practically no effect on international trade.
- (b) No official statistics are available on production. The statistics of imports and exports do not make it possible to distinguish between films intended for screening in public cinemas and other films made by professionals and amateurs.