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## RESOURCES FOR THE FUNDING OF THE RESEARCH FUND FOR COAL AND STEEL

### A LEGACY OF THE EUROPEAN COAL AND STEEL COMMUNITY (ECSC)

The ECSC Treaty, which was concluded for a period of 50 years from its entry into force, expired on 23 July 2002. Accordingly, in the run-up to its **expiry**, and in view of the benefits which the coal and steel sectors derived from the ECSC research and technological development programmes, the European Council, in the resolution on growth and employment which it adopted in Amsterdam on 16 and 17 June 1997, determined that revenues from reserves outstanding at the expiry of the Treaty should be used for a **research fund for sectors related to the coal and steel industry**.

On 26 February 2001, the Heads of State or Government, meeting in Nice, adopted the *Protocol on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel*.

This protocol transfers all assets and liabilities of the ECSC to the European Community and assigns the net worth of these assets and liabilities - as they appear in the balance sheet of the ECSC of 23 July 2002 - to research in sectors related to the coal and steel industry. The ECSC assets following the expiry of the treaty were referred to as the '*ECSC in liquidation*'. On completion of the liquidation, these assets were referred to as the '*assets of the Research Fund for Coal and Steel*'. Finally, the revenue from these assets was given the name of the *Research Fund for Coal and Steel*. This revenue is assigned revenue.

The Commission has the task of carrying out separate budget monitoring, guaranteeing the proper completion of operations not completed in 2002, managing the assets of the ECSC by ensuring their long-term viability and assigning the balance — the **return on investments<sup>1</sup> — to the funding of research activities in sectors related to the coal and steel industry**.

### REVENUE DEPENDENT ON FINANCIAL ENVIRONMENT

In 2002, the assets of the ECSC which had become the *assets of the Research Fund for Coal and Steel* amounted to EUR 1.6. Billion, plus EUR 400 million in matching contributions from the new Member States (based on their coal and steel production at the time of their accession to the EU).

These assets therefore now stand at some **EUR 2 billion**. They are managed by the Directorate-General for Economic and Financial Affairs (ECFIN) in Luxembourg.

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<sup>1</sup> Assigned revenue, Budget line 6113 (revenue).

The investment of the liquid assets should be aimed at the highest possible yield that is compatible with security<sup>2</sup>. In practice, therefore, they are mainly invested in AAA-rated securities.

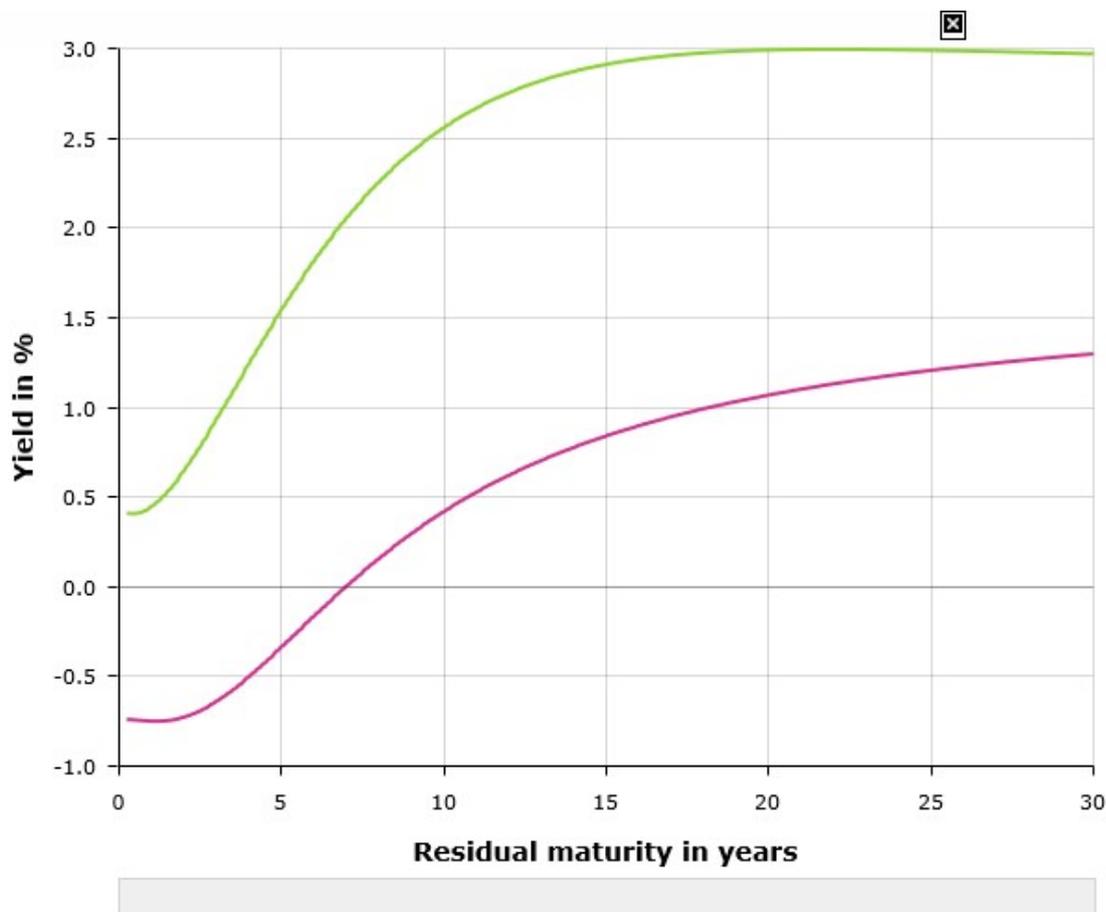
**The revenue from the Research Fund for Coal and Steel is thus dependent on the return which the financial markets can offer on the low-risk investment of these EUR 2 billion assets.**

Today, particularly owing to the ECB’s policy of quantitative easing and the overall economic environment, this return is becoming lower and lower.

The graph below shows the curves for the term structure of interest rates<sup>3</sup> for AAA-rated bonds as at 1 September 2017 (in red) and 2010 (in green).

In less than a decade, the AAA 20-year return has fallen to a third of its former level (from 3% in 2010 to 1% in 2017) and the AAA 10-year return has fallen to a sixth (from 2.56% in 2010 to 0.42%).

**Term structure of interest rates for AAA-rated bonds. In green: 1 September 2010; in red: 1 September 2017**



Source: European Central Bank web site,

<sup>2</sup> Article 2 of Council Decision 2003/76/EC of 1 February 2003 establishing the measures necessary for the implementation of the Protocol, annexed to the Treaty establishing the European Community, on the financial consequences of the expiry of the ECSC Treaty and on the Research Fund for Coal and Steel.

<sup>3</sup> Calculated by the European Central Bank

By way of example, EUR 2 billion invested in AAA-rated securities over 20 years (1%) yields a return of EUR 20 million per year.

The funding system of the Coal and Steel Research Fund, which is entirely based on returns from the financial markets for no-risk or low-risk assets, can therefore only produce a low level of funding at a time of prolonged low interest rates.

The table in the Annex shows the revenue from investment of the assets of the Research Fund for Coal and Steel since 2010.

To mitigate this drop in revenue, the Commission has this summer put forward a proposal for a Decision<sup>4</sup>. The idea is to make it possible to transfer cancellations of commitments from one year to another and to recover the funds resulting from de-commitments since 2003.

This note does not seek to analyse the Commission proposal in detail. However, this proposal can only be a temporary response to the drop in revenue, as the funding system for the Research Fund for Coal and Steel is not called into question.

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<sup>4</sup> COM(2017)452 final of 25 August 2017: Proposal for a Council Decision amending Decision 2003/76/EC establishing the measures necessary for the implementation of the Protocol, annexed to the Treaty establishing the European Community, on the financial consequences of the expiry of the ECSC Treaty and the Research Fund for Coal and Steel.

## ANNEX

### Revenue from investment of assets of the Research Fund for Coal and Steel (line 6113 of the budget) in euros.

LINE No	TITLE	OUTTURN 2010	OUTTURN 2011	OUTTURN 2012	OUTTURN 2013	OUTTURN 2014	OUTTURN 2015	OUTTURN 2016	FORECAST 2017**	FORECAST 2018**
6 1 1 3	Revenue from the investments provided for in Article 4 of Decision 2003/76/EC — Assigned revenue	53 100 524.18	47 896 088.58	61 921 310.65	52 762 018.07	53 081 071.04	53 222 776.22	35 732 929.25	46 000 000	27 000 000

(Source: Official Journals of the annual budget)

\* Figures published in the Draft Budget for 2018

\*\* Source: European Commission

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