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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT
on the implementation of budget heading B5-504 "Measures to assist the phasing-in
in the general budget of the activities financed through the ECSC"

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1. INTRODUCTION

Budget heading B5-504 ("Measures to assist the phasing-in in the general budget of the activities financed through the ECSC" - see Annex) provides EUR 2 million for a pilot project to test the feasibility of measures in favour of regions "where industrial restructuring is taking place in the coal and steel industries". It was implemented in 2001 by setting up a guarantee fund to support job creation *in the targeted regions*.

The guarantee fund is managed through a trust account on behalf of the Commission by EUROFER, the European Confederation of Iron and Steel Industries. EUROFER has issued guarantees partially covering loans and equity investments made by specialised financial intermediaries to innovative SMEs, including start-ups, in regions "where industrial restructuring is taking place in the coal and steel industries".

In order to ensure maximum economic efficiency of the pilot project within the budgetary ceiling of EUR 2 million, it was necessary to limit its geographical coverage to certain EU Member States and regions. These regions are situated in Belgium (Wallonia), France, Germany (Dortmund) and the United Kingdom.

As the majority of the traditional hard coal regions in Belgium, France, the UK and Germany fall within the regional coverage of the project, the interests of the EU hard coal industry have also been served by this approach.

A guarantee fund was considered the most suitable instrument for implementing this budget heading, as it has greater leverage than direct loans or grants. The purpose of these guarantees is to support the creation of new jobs by facilitating access by SMEs in these regions to investment capital (loans and/or equity investments).

The main objective of the new instrument is to give continuing redevelopment support to coal and steel regions after the expiry of the ECSC Treaty in July 2002.

EUROFER's cooperation with experienced external partners (financial intermediaries) specialised in the field of SME support and job creation contributed to the success of this pilot project. The pilot project demonstrated, *at this stage*, that this instrument meets a corresponding market need.

1.1. LEGAL BASIS

This second report is submitted to the European Parliament following the requirement of the first report¹, based on the comments of the budgetary authority in 1999 to budget heading B5-504N of the general budget of the EU for the year 2000².

In accordance with Point 37(a)(i) of the Interinstitutional Agreement of 6 May 1999 between the European Parliament, the Council and the Commission on budgetary discipline and improvement of the budgetary

¹ COM 2002 154 final 10/04/2002 p. 13, point 5.2.

² see Annex.

procedure³ no specific legal basis is required for the implementation of this budget heading, because it is a pilot project.

1.2 OBJECTIVES

1.2.1 General objective

The general objective of the measures envisaged under budget heading B5-504 was to finance measures to facilitate the transition from activities traditionally financed from the ECSC budget to programmes existing in the general budget, particularly the Structural Funds and research. It has the aim of promoting the establishment of innovative enterprises (SMEs) linked to the industrial conversion of the coal and steel regions.

1.2.2 Specific objective

The specific objective of the pilot project is to stimulate job creation in EU regions where industrial restructuring is taking place in the coal and steel industries by supporting the investment activities of innovative SMEs.

1.3 BUDGETARY ASPECTS

Commitments in EUR million:

Year	2001	2002	2003 and subsequent years	
TOTAL	2,0	0,0	0,0	2,0

Payments in EUR million:

Year	2001	2002	2003 and subsequent years	
TOTAL	1,5	0,5	0,0	2,0

Calculation of cost:

The amount of EUR 2 million is a maximum amount. The exact total cost, which must not exceed EUR 2 million, is expected to be much lower than that amount as results to date could indicate that guarantee calls are unlikely to be exceptionally high.

³ OJ C 172, 18.6.1999, P1.

1.4 HUMAN RESOURCES

Since the Guarantee Fund itself is managed by EUROFER, monitoring by the Commission did not require any additional staff and could be met in this particular case by employing Commission staff formerly engaged in the management of the ECSC loan scheme.

2. PROJECT DEVELOPMENT

2.1 INITIAL IMPLEMENTATION ANALYSES

Following contacts between several Directorates-General (e.g. DG ECFIN, DG EMPL, DG ENTR, DG REGIO, DG RTD, DG BUDG, DG FC), the implementation of the budget heading was entrusted to DG ECFIN in November 1999.

The initial implementation analyses made in late 1999 and in spring 2000 came to the conclusion that it was not possible to implement the budget heading within the budgetary ceiling of EUR 2 million and still cover the full range of all EU Member States plus all candidate countries as proposed by the EP Committee on Budgets.

2.2 NEW APPROACH AND FINDING OF PROJECT PARTNERS

For the reasons outlined above, a new approach had to be found to make implementation of this budget heading feasible. For practical purposes and given the small resources, the pilot project was limited to 4 member states in which the restructuring of the coal and steel industries had the most serious consequences.

In order to achieve maximum cost effectiveness and a high leverage, a guarantee instrument was considered the most appropriate solution. Already existing guarantee funds, such as the SME Guarantee Facility (managed by the European Investment Fund) in the framework of the Growth and Employment Initiative⁴ had already proved their effectiveness.

Discussions with the EIF and the EIB indicated that these institutions were reluctant to take over the management of a specialised fund of this size. Therefore, a non-profit oriented partner was sought who was both able and willing to manage such a fund. Apart from the EIF and the EIB, several associations and companies in the coal sector⁵ were contacted but also declined this cooperation offer.

⁴ Council Decision 98/347/EC OF 19.5.1998, OJ L 155, 29.5.1998, p. 43.

⁵ E.g. CESCO (European Solid Fuel Association), Gesamtverband des deutschen Steinkohlebergbaus, Essen and RAG Coal International, Essen.

In September 2000 an initial provisional agreement concerning the management of the guarantee fund was reached with EUROFER⁶, which has its headquarters in Brussels.

EUROFER was the most realistic option owing to its broad representation, its long experience in handling major projects, including those co-financed by the European Commission, and its ability to co-operate with experienced intermediaries in the very specific field covered by the project

2.3 STAGES OF IMPLEMENTATION OF THE "EUROFER GUARANTEE FUND"

Following the formal approval of this implementation proposal by Commission Decision PE/2000/2821 of 22 December 2000⁷, the Fiduciary and Management Agreement (FMA) between the Commission and EUROFER was signed on 29 March 2001. In April 2001 the Commission transferred the first tranche of the funds (EUR 1,5 million) to the EUROFER trust account established for this purpose. The remaining tranche of EUR 0,5 million was transferred in September 2002.

Under the provisions of the FMA, EUROFER has agreed to issue guarantees to partially cover loans or equity investments made by Financial Intermediaries (FIs) to innovative SMEs in regions where industrial restructuring is taking place in the coal and steel industries. Four FIs have been selected by EUROFER and accepted by the Commission in conformity with paragraph 7 of the Communication annexed to the Commission Decision PE/200/2821 of 22 December 2000. They are:

1. SODIE France
2. SODIE S.A. Belgium
3. UK Steel Enterprise Limited
4. Venture Capital Dortmund GmbH ("Dortmund Project")

The framework agreements between EUROFER and these FIs were signed in October and November 2001. The first guarantees were issued by EUROFER in February 2002 and the last ones in September 2003.

3. PROJECT PARTNERS

The good reputation of EUROFER and the successful track record of the FIs involved, contributed to the Commission's decision to implement the project in this way and with these partners.

⁶ *EUROFER was explicitly designated as project manager in the first article of the Commission Decision PE/2000/2821 of 22 December 2000.*

⁷ Not published in the OJ.

3.1 EUROFER

The European Confederation of Iron and Steel Industries (EUROFER) was founded in 1976. Members and Associate Members are steel companies and national steel federations throughout the European Union and the Central and Eastern European Countries.

EUROFER represents 95% of the total productions of crude steel in the EU. The Associate members in Central and Eastern European Countries account for 95% of the total steel production in this region.

The objectives of EUROFER are cooperation between the national federations and companies in all matters that contribute to the development of the European steel industry, and the representation of the common interests of its members vis-à-vis third parties, notably the European institutions and other international organisations.

EUROFER possesses considerable experience and proven qualifications in handling major projects, such as:

"Business Support Programme"

(Adaptation support to Central and Eastern European steel federations in view of their countries' accession to the European Union)

Period: July 2000 to June 2002

Total budget: EUR 1.100.000

EC contribution: EUR 880.000

"Management of Change and Human Resources"

(Study in cooperation with the main European steel producers investigating the processes of change that have taken place in the industry and how these processes have constructively influenced dialogue between employers and the workforce in the European steel industry)

Period: December 1996 to June 2000

Total budget: > EUR 450.000

EC contribution: EUR 300.000

3.2 FINANCIAL INTERMEDIARIES (FIS)

3.2.1 SODIE France

SODIE⁸ France, created in 1983, is a subsidiary of USINOR. At present it is owned 55% by USINOR⁹ and 45% by a bank¹⁰: Its business is redevelopment, i.e. the granting of financial and practical advisory support to

⁸ Société pour le développement de l'industrie et de l'emploi.

⁹ Via SODISID, which is a wholly-owned subsidiary of USINOR.

¹⁰ Caisse des Dépôts et Consignations, via its subsidiary SCET.

mainly SMEs/start-ups and training and qualification support to employees or the unemployed. Since 1983 SODIE has supported about 8.000 companies, and these have created more than 100.000 jobs. In parallel, almost 20.000 employees or unemployed persons have been assisted in their mobility and training efforts.

Today, SODIE is co-operating in France and Belgium with a number of government authorities at all levels and with companies of all sizes in more than 30 employment regions. It has a long list of customers, including cities, ministries and major companies such as ALCATEL and IBM.

3.2.2 SODIE Belgium

SODIE Belgium is a recently established subsidiary of SODIE France. It was founded following the acquisition of 75% of the share capital of COCKERILL-SAMBRE SA by USINOR. Its mission is to create 4.000 new jobs in Wallonia. This is to be achieved mainly by supporting SMEs, e.g. by granting loans with interest rebates.

3.2.3 UK Steel Enterprise Limited (UKSE)

UK Steel Enterprise Limited (UKSE) is a private incorporated company specialised in redevelopment support. It is a wholly-owned subsidiary of CORUS Group plc and was established in 1975 by the former British Steel plc.

For over 25 years it has provided 2.400 SMEs with over GBP 50 million (EUR 80,6 million) of finance of which GBP 39 million (EUR 62,9 million) have been in the form of loans or share capital, with the balance provided in other forms.

Altogether more than 3.700 businesses have been directly assisted with finance or workspace, and in some cases with both. It is estimated that these businesses have created more than 60.000 new jobs. In addition, businesses assisted by organisations set up by UKSE in the early 1980s are estimated to have created at least another 50.000 jobs.

3.2.4 Venture Capital Dortmund GmbH ("Dortmund Project")

The Dortmund Project is a public-private partnership financed and run by the city of Dortmund in cooperation with private companies such as Thyssen Krupp, venture capital firms, "business angels" and consulting firms. Its aim is the redevelopment of Dortmund and the area from a centre of traditional heavy industry into a centre of the New Economy (E-commerce, IT, microsystem technology).

The measures envisaged and started in 2000 include the development of existing and new companies by making loans, venture capital, premises and highly skilled personnel available to them, inviting foreign companies to invest and set up firms in the region, improving the infrastructure and providing management and logistical support.

Venture Capital Dortmund GmbH is a limited liability company and subsidiary of Stadtsparkasse Dortmund, which acts as one of the banking partners of the Dortmund Project. Although only founded relatively recently, Venture Capital Dortmund (VCD) GmbH can draw on the experience of Stadtsparkasse Dortmund in the field of SME financing gained during more than 30 years of operation. Since the start of its business activities in 2000, VCD has invested about EUR 7,7 million in some 10 companies.

All companies financed by VCD have to correspond to the usual definition of SMEs; particular attention is given to SMEs in the field of IT, telecommunication, microsystems technology, robotics and biotechnology. The average size of equity investments made by VCD is between EUR 256.000 and EUR 511.000.

4. IMPLEMENTATION INSTRUMENTS

4.1 THE FIDUCIARY AND MANAGEMENT AGREEMENT (FMA) BETWEEN THE EUROPEAN COMMISSION AND EUROFER

EUROFER had full discretionary power to reject or approve individual guarantee applications. Each risk partially covered by a EUROFER Guarantee has to be shared with the FI. EUROFER reported to the Commission all its activities related to the Guarantee Fund, including the delivery of copies of all relevant documents and of the Trust Account statements.

The availability period for the guarantees lasted nearly two years, ending in September 2003. The Commission remunerated EUROFER for the services provided under the FMA by paying a flat management fee limited to 5% of the funds actually committed. The Guarantee Fund will be wound up at the latest by 2012.

The FMA contains provisions on reporting, auditing, monitoring and control, including the right of the Court of Auditors of the European Communities to carry out its audits in the premises of EUROFER, the FIs as well as in the premises of all final beneficiaries.

4.2 THE GUARANTEE AGREEMENTS BETWEEN EUROFER AND THE FINANCIAL INTERMEDIARIES (FIS)

These agreements are framework agreements establishing the terms and conditions of the partnership and cooperation for this project between EUROFER and the FIs.

Among other things determined in these agreements are the Guarantee Rate, the Guarantee Cap and the maximum (loan or equity investment) portfolio partially covered by EUROFER Guarantees. The maximum size of the portfolio partially covered by EUROFER guarantees is approximately

EUR 3.333.000 per FI¹¹. The EUROFER Guarantees are available to the FIs free of charges.

The Guarantee Agreement between EUROFER and each FI contains also provisions concerning audit, reporting and control.

4.3 THE GUARANTEES (LETTERS OF GUARANTEE)

In order to receive guarantee cover for loans or equity investments made to eligible SMEs, the FIs had to submit guarantee applications to EUROFER. EUROFER has issued the guarantees in its own name but on behalf of the Commission on a trust basis. All projects for which applications have been submitted have been regularly reported to the Commission. All guarantees will expire at the latest seven years after the date of the loan agreement or the date when the equity investment was made, and in any case not later than March 2010.

In order to be eligible for EUROFER guarantees, loans or equity investments have to meet the following criteria:

- a) The final beneficiary has to be an SME¹².
- b) The SME has to be established in an EU Member State.
- c) The SME has to be established in a region where industrial restructuring is taking place in the coal and steel industries.
- d) The SME must demonstrate a certain degree of innovation.
- e) The financing which is ultimately covered by the EUROFER Guarantee has to be used for a new project or new investment. Eligibility for any kind of financial rescheduling is explicitly ruled out.
- f) The purpose of the financing which is ultimately covered by the EUROFER Guarantee must be, directly or indirectly, to create new jobs within the period of validity of the EUROFER Guarantee concerned.
- g) The minimum duration of the loan or equity investment is three years.

¹¹ This amount is calculated on the basis of the Guarantee Cap of EUR 500.000 per FI. Since the Guarantee Cap is defined in the Guarantee Agreements as 15% of the Portfolio, the Portfolio is calculated by dividing the amount of EUR 500.000 by 15 (=33.333,33) and multiplying the result by 100 (=3.333.333). Because of portfolio peculiarities the Dortmund project cap is defined as 30% of the maximum portfolio of EUR 1.666.667. “Guarantee Cap” means the total amount of the EUROFER payment obligations under EUROFER Guarantees, expressed as a percentage of the Portfolio and as a nominal amount. The amount of EUR 500.000 is obtained by dividing the total amount of EUR 2.000.000 by 4, thus allotting one quarter thereof to each of the four FIs. “Portfolio” means the aggregate amount of the principal of the loans or equity investments which are made by an FI to SMEs and which are covered by EUROFER Guarantees.

¹² As defined in annex to Commission Recommendation 96/280/EC (OJ L 107, 30.4.1996, p.4).

4.4 THE TRUST ACCOUNT

In April 2001 the Commission transferred the first part of the fund concerned (EUR 1,5 million) to the EUROFER Trust Account established for this purpose. The remaining part of the funds (EUR 500.000) was paid in September 2002. The Trust Account is reflected in the books of EUROFER. It is maintained in EUR, and is used exclusively for transactions in connection with the Facility. EUROFER promptly records all transactions in respect of the Facility in the Trust Account.

EUROFER's auditors have to produce an audited report on the accounts held with respect to existing Guarantees. DG ECFIN establishes quarterly financial reports on the figures provided by EUROFER. This financial information is reported to DG BUDGET.

5. PROJECT MONITORING

The Commission is monitoring EUROFER's fund management activities on the basis of a monitoring programmes set up in line with the monitoring programmes for already existing comparable funds. Such comparable funds include the SME Guarantee Facility and the Growth and Employment Initiative or the ETF Start-up Facility, which are both managed by the EIF¹³. In addition to the examination of the reports and Trust Account statements received from EUROFER, the Commission will carry out monitoring missions to EUROFER, the FIs and selected final beneficiaries after having achieved a certain project maturity. Such visits are scheduled in 2004.

6. RESULTS

6.1 USE OF FUNDS

By 30 September 2003, 136 requests had been received and 127 EUROFER Guarantees have been issued in the four countries selected by the EUROFER programme. Only 3 defaults occurred to date. Nine guarantees have been refused as they did not meet the eligibility criteria.

99,73% of the fund has been used which represents in total a portfolio of EUR 11.635.581. 35 % of the total portfolio has been used by Sodie Belgium, 14% by S-Venture Capital Dortmund GmbH, 28 % by Sodie France and 23% by UK Steel Enterprise Ltd.

The characteristics of financing vary among Financial Intermediaries. As far as loans are concerned (for France, UK and Belgium enterprises), the average loan term is 5 years. In the UK, enterprises seek shorter term loans (3 years mostly), the Belgian enterprises seek longer term loans (up to 7 years in general) whereas French enterprises require in general 5 years loans. As for the five German enterprises, their type of financing was Equity Investment.

¹³ see point 2.2 above; Council Decision 98/347/EC of 19.5.1998, OJ L 155, 29.5.1998, p. 43.

It is worth noting that a guarantee facility has usually a good leverage effect as been especially demonstrated by programmes like SME Guarantee Facility¹⁴

6.2 STRUCTURE OF BENEFICIARIES

The first results of this pilot project show that there has been more extension of already existing activities than creation of business. Thirty-six guarantees were aimed at creating firms whereas eighty-eight were used to develop activities. Sixteen enterprises have been created in Belgium, fourteen in France, five in the UK and one in Germany.

The majority of beneficiaries were micro and small enterprises. Only ten beneficiaries were medium enterprises of which five are located in France.

For three of the member states (France, UK and Belgium) the most important activities are in the fields of industrial production and the service sector whereas in Germany most of the projects belong to the technology sector.

Industrial production covers a large range of activities and in particular the steel sector, processing of metals, manufacturing of electrical equipment and food processing.

Nevertheless, sectors of activity vary from one country to another. In the UK, Belgium and Germany a significant number of businesses are oriented towards new technology whereas in France traditional metal manufacturing is still an important activity.

Generally, the results show that the type of activity created is still strongly related to the steel industry. The new SMEs have absorbed the work force in these regions and used it to develop new activities thanks to the available know how.

Evidently, the regions targeted by this pilot project, are not regions which attract hi-tech, innovative industries easily and consequently the FIs have also taken into account the aspect of job creation.

6.3 JOB CREATION

The results of job creation given by UK Steel Enterprise Ltd demonstrated that 67 jobs have been created to date in the UK out of the 382 forecasted. SODIE Belgium reported the creation of 226 new jobs which means that already in this early stage of the project 40% of the foreseen job-creation has been achieved. For SODIE France, 150 jobs have been created yet out of the 625 planned. As for Venture Capital Dortmund, 55 jobs out of the 101 expected were created. Nevertheless it should be pointed out that a significant number of guarantees have been issued within the last two

¹⁴ *The leverage effect for all intermediaries under the SME Guarantee Facility as at 30 September 2003 was 13.5.*

months, and as a consequence it is not yet possible to evaluate total job creation, which is expected to increase further.

6.4 DEFAULTS

Three defaults have occurred since the implementation of the EUROFER programme: 2 business failures with UK Steel Enterprise Ltd and 1 with Sodie France. In the UK the guarantee amount paid out for the two defaults was EUR 197.523 and in France EUR 20.000 giving a total to date of EUR 217.523 which represents 1,8 % of the total portfolio of EUR 11.635.581.

It has to be stressed that the data on default obviously cannot be considered as definitive.

7. EVALUATION

The evaluation of the EUROFER Guarantee Fund undertaken by all programme partners (Commission, EUROFER and the participating FIs) demonstrated the successful implementation of this pilot project at Union, national and local level. The outsourcing of the fund management limits considerably the Commissions involvement mainly to monitoring duties thus saving administrative and management resources. The budget of EUR 2 million covered a portfolio of 127 loans with a total loan-amount of nearly EUR 12 million. It should however be noted that this pilot project will require the Commission and the participating partners to follow-up the project related tasks until the last loans have been paid back latest in 2012.

As regards EUROFER and the participating Financial Intermediaries the additionally of this pilot project has been demonstrated through the expansion of available financing possibilities. In particular it has been pointed out that the ability to provide guarantees for new and innovative projects has the added advantage of supporting companies that could have had difficulties finding alternative funding. Also positively judged was the less bureaucratic, efficient procedure in order to benefit from EUROFER-guarantees.

It must be noted again that the innovation criteria for SMEs to be selected has not been implemented by the intermediaries in all cases because regional characteristics did not permit it and the FIs were also addressing the aspect of job creation.

8. CONCLUSION

The EUROFER Guarantee Fund has met the envisaged goals and can be judged therefore as a successful pilot-project. Facing ongoing problems related to the restructuring of coal and steel regions in the European Union and the new member states the cooperation with specialised, experienced partners has shown a positive impact on job-creating projects undertaken by SMEs

The almost 100% usage of the fund proves the strong demand from SMEs for financial support in the chosen EU regions affected by the industrial restructuring of the coal and steel sectors.

However, the question of whether this pilot project should be developed into a full programme needs to be addressed. On one hand specific targeting by an instrument can concentrate funds on priority regions and sectors as has been the case here. On the other hand, the experience of this pilot project has shown that the concentration on specific regions combined with the high-technology sector has been too limited to achieve the desired objectives. It has to be pointed out that other existing instruments and programmes with wider eligibility criteria are available in these regions and sectors. In particular, the multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises 2001-2005 (MAP)¹⁵ is already covering the above mentioned criteria. Given the remarks of the European Parliament in the budget 2000, partial overlaps with existing instruments could not be avoided. Nevertheless, the experienced and specialised financial intermediaries of this EUROFER project should be considered as suitable financial institutions in the framework of the already existing programmes.

The Commission policy remains in favour of general instruments which permit visibility and economies of scale in the monitoring and management of programmes. This is why the Commission does not propose to extend this pilot programme with a new budget and with new legal basis.

¹⁵ Council Decision 2000/819/EC of 20.12.2000, OJ L 333/84, 29.12.2000.

B5-504 Measures to assist the phasing-in in the general budget of the activities financed through the ECSC¹⁶

Remark in the Budget 2000

New article

European Parliament resolution of 15 November 1996 on the integration of ECSC activities into the budget of the Union (OJ C 362, 1.12.1996, p. 327).

Resolution of the Council of 21 June 1999 concerning the expiry of the Treaty establishing the European Coal and Steel Community (OJ C 190, 7.7.1999, p. 1).

This appropriation is intended to finance measures to facilitate the transition between the activities traditionally financed from the ECSC budget and the programmes existing in the general budget, particularly the Structural Funds and research. It is intended, in particular, to support measures for which, on account of their specificity, there is as yet no corresponding item in Community programmes.

It has the aim of promoting, particularly by means of European Information Centres or Information Outlets, the establishment of innovative businesses (SMEs) linked to the industrial conversion of the coal and steel industries (business incubators, provision of industrial tools and financing facilities for employees undergoing retraining), particularly in the fields of the environment and health and safety at work.

It is also intended to promote initiatives, if possible pursued in a bipartite context (involving employers and employees), in the fields of information, training and stimulation in businesses, especially with regard to the adjustment of working times resulting from restructuring.

In selecting the beneficiaries of these projects, the Commission will assign priority to regions where industrial restructuring is taking place in the coal and steel industries, including in the applicant countries.

In 2001, the Commission will submit to Parliament a report on the results of its projects and on the activities which have received funding from these appropriations.

¹⁶ OJ L40, 14.2.2000, p. 980-981: European Parliament 2000/81/EC, ECSC, Euratom, Final adoption of the general budget of the European Union for the financial year 2000.