EFTA SURVEILLANCE AUTHORITY

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EFTA SURVEILLANCE AUTHORITY DECISION

OF 28 DECEMBER 1994

ON AID FOR THE ENVIRONMENTAL PROTECTION INVESTMENTS OF IMATRA STEEL OY AB (FINLAND)

THE EFTA SURVEILLANCE AUTHORITY,

Having regard to the Agreement on the European Economic Agreement[1], in particular to Protocol 14 thereof,

Having regard to the Act referred to in point 1 a of Annex XV to the EEA Agreement establishing Community rules for aid to the steel industry (Commission Decision No. 3855/91/ECSC)[2],

Having regard to the Agreement between the EFTA States on the establishment of a Surveillance Authority and a Court of Justice[3], in particular to Article 1 of Protocol 3 thereof,

WHEREAS:

I. FACTS

1. The notification

By letter dated 31 October 1994, received by the EFTA Surveillance Authority on the same day (ref. 94-16113A), the Finnish Government notified, in accordance with Article 6(1) of the Steel Aid Code, a proposal to grant aid for the investments of Imatra Steel Oy Ab.

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[1] Hereinafter referred to as the EEA Agreement.
[2] Hereinafter referred to as the Steel Aid Code.
[3] Hereinafter referred to as the Surveillance and Court Agreement.

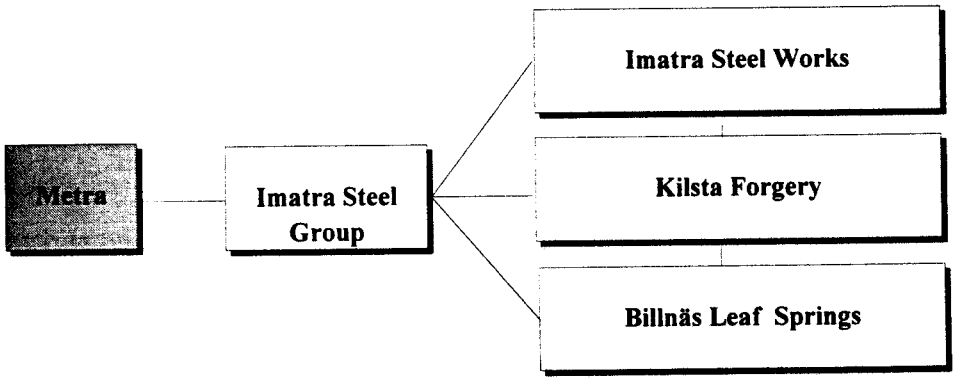
2. The aim and contents of the aid measure

The objective of the proposed aid measure is to support the investments of Imatra Steel Oy Ab it must make for environmental protection purposes in order to bring the Imatra steel plant into line with statutory environmental standards.

The Finnish authorities propose to grant the aid to Imatra Steel Oy Ab under the framework of the regional investment aid scheme (Case No. 93-002), governed by the act on aid to business[4] and decision of the Council of State on aid to business[5]. The scheme was notified to the Authority as existing aid by letter dated 3 March 1994 (ref. 94-3941A).

Imatra Steel Oy Ab

Imatra Steel was established in 1991 when the Group's present units, the Imatra Steel Works, the forge of Kilsta Forgery operating in Karlskoga (Sweden) and the factory of Billnäs Leaf Springs, were transferred to Metra's ownership. Imatra Steel forms, therefore, part of the Metra Group. Metra is one of Finland's foremost industrial concerns with operations in 27 countries. In 1993 the net sales of Metra were FIM 10,5 billion with a total work force of 15,000 employees. The net sales of Imatra Steel were FIM 640 million in 1993. The company employs 1000 people. The chart below illustrates the organisation of the company in 1993.



The core of Imatra Steel's operations lies in the manufacturing of steel at its Imatra plant. The Imatra Steel Works supplies raw materials to Billnäs Leaf Springs and Kilsta Forgery. All three units concentrate on serving the automotive industry and other advanced sections of the engineering industry. Each unit has its own marketing organisation. The Group also has sales companies in Germany, in the UK, France and in Sweden. The market share of the sales of Imatra Steel in 1993 were broken down as follows: Finland 16 %, Sweden 27 %, other EU countries 25 % and the rest of the world 8 %.

The Imatra Steel Works, for whose investments the aid is proposed to be granted, accounts for 65 % of the net sales of the Group, which amounted to FIM 470 million

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[4] *Laki yritystuesta 1136/93.*
[5] *Valtioneuvoston päätös yritystuesta 1689/93.*

in 1993. The Imatra steel plant was established in 1927. It currently employs 640 people. The main activities of the Imatra steel plant involve the production of steel whereby the principal raw material used is ferrous scrap. The main products of the plant are low-alloy engineering steel in round, square and flat bars. The capacity of the plant is 220,000 tons of rolled products.

Statutory standards on air protection

In order to ensure compliance with statutory standards on air protection[6], the Finnish authorities have by a decision of the Administrative Board of Kymi on 18 February 1993 put an obligation on the Imatra Steel plant to take the following measures.[7] Firstly, flue gases resulting from the pre-heating of scrap as well as from the production and treatment of liquid steel cast must be recovered and treated with a fibre filter. This system of dust extraction should be for its main part in place at the latest by 1 November 1996.

Secondly, the emission of particles in dry flue gases may after treatment as required above be in normal circumstances at most 10 mg/m^3 (n) while it currently is on average 250 mg/m^3 (n). These emissions must be measured on a continuous basis from 1 June 1997 onwards. Furthermore, the emission of particles resulting from the drying cylinder and from billet conditioning must also be reduced to a level stipulated in the decision. The fluoride emissions of the plant must be reduced in such a way that these are not hazardous to the environment. Moreover, the scattered emissions must be kept as low as possible within the area of the plant. Finally, the scrap used in the smelter must contain as little as possible of organic chloride compounds, oil, plastic or other impurities which may result in hazardous emissions from the heating of the scrap.

Investment project of Imatra Steel Oy Ab

The investment project of the Imatra steel plant includes the modernisation of the whole smelting process as well as the recovery and filtering of flue gases. The present furnaces will be replaced by a new arc furnace, which will be placed in a new smelting hall to be built at the southern end of the existing casting hall. The new hall will form an integral part in the process of recovering the flue gases, which will be sucked into the flue gas cleaning system from the furnace itself and the upper part of the new sealed hall. The hot flue gases will be used to dry the scrap for charging by directing part of the gas flow through the scrap bins. The gas recovery piping will be led to a filter plant to be built where the cooled gases will be cleaned using cloth filters. The filtered dust will be collected and passed on for further treatment.

The new furnace will have a charge of about 75 tons. The scrap conveyor and charging equipment with its pre-heating system will be rebuilt. The scrap yard will be

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[6] *Ilmansuojelulaki 67/82; Ilmansuojeluasetus 716/82; Valtioneuvoston päätös ilmanlaatua koskevista ohjeista 537/84.*

[7] *Kymen lääninhallituksen ilmansuojelutoimiston päätös.*

extended and a new crane will be installed. The furnace is an alternating current furnace with a transformer power of 50 MVA. Compared with the present system , the changes include, *inter alia,* the practice of foaming slag to shield the furnace from the radiation of long arc flames with the necessary equipment. The melt is tapped into a ladle in a ladle car and transported to the casting bay for secondary treatment.

The overall cost of the investment project is estimated at FIM 150 million. The cost of the environmental investments, which are eligible for State aid, amount to FIM 71 million. The aid is to be awarded in the form of a grant. The maximum total amount of aid proposed by the Finnish authorities in support of the project is FIM 5,3 million. Its planned intensity is 7,5 % gross of the eligible costs. These include buildings and equipment whose costs are estimated to amount to FIM 19 million and FIM 52 million respectively.

According to the timetable of the investment, the new process is estimated to come on stream in May of 1996. The construction shall take place in 1995. The equipment is to be installed during the winter of 1995 and the spring of 1996. The aid shall be granted once the investment project has been carried out. The capacity of the plant shall remain unchanged. The investment project is used not only for environmental protection purposes but also for those concerning energy conservation. Once the smelting process has been modernised, the waste of energy shall be utilised more efficiently in the pre-heating of scrap.

The breakdown of the costs of the project and the types of investment to be aided are given in the table below.

Type of investment/costs	**Overall cost of the investment project (FIM million)**	**Cost of the investments on environmental protection (FIM million)**
Transformer station	6,0	-
Electrification of the furnace	14,5	-
Other electric equipment	15,5	4,0
Arc furnace and other equipment thereof	16,5	2,0
Cranes	8,0	-
Treatment of scrap	9,0	5,5
Treatment of mixing ingredients	1,5	-
Collection and filtering of dust	17,5	17,5
Gas and water	2,5	0,5
Automation	4,5	2,0
Installation	9,0	5,0
Spare parts	5,5	3,0
Building	21,0	19,0
Planning	9,0	5,0
Unforeseen costs	10,5	7,5
Total FIM million	**150,5**	**71,0**

3. Justification advanced by the Finnish authorities

The Finnish authorities claim that the proposed individual aid award to Steel Imatra Oy Ab is in line with the Steel Aid Code. Furthermore, the Finnish Government holds that the investment project would contribute to maintaining jobs for about 700 employees currently working at the Imatra Steel plant. If the required environmental investment measures are not accomplished before 1 November 1996 the Finnish authorities may oblige the company to close its plant.

II. APPRECIATION

The Imatra Steel plant uses ferrous scrap as the raw material in its steel production. Liquid steel cast and bars constitute crude and semi-finished steel products respectively while bars form the hot-finished products of steel produced by the company. The products of the company, therefore, fall under those covered by Protocol 14 of the EEA Agreement[8] which provides that the Contracting Parties shall comply with the rules for aid to the steel industry. Hence, the proposed aid award is subject to the Steel Aid Code.

Article 1(1) of the Steel Aid Code stipulates that 'aid to the steel industry, whether specific or non-specific, financed by the Member States or their regional or local authorities or through State resources in any form whatsoever may be deemed Community aid and therefore compatible with the orderly functioning of the common market only if it satisfies the provisions of Articles 2 to 5' thereof.

Since the aid is proposed to be granted in the form of grants by the central government authorities it, thus, will be granted through State resources. As the scheme confers a competitive advantage to a single enterprise, the aid threatens to distort competition and affect trade within the EEA, particularly since the products of the favoured undertaking may be in competition with that of undertakings in other States participating in the EEA. Therefore, the foreseen measure constitutes aid in the meaning of Article 1(1) of the Steel Aid Code.

Consequently, the EFTA Surveillance Authority is obliged to assess whether the aid satisfies the provisions of Articles 2 to 5 of the Steel Aid Code.

The Finnish Government has fulfilled its obligation to notify the Surveillance Authority, in accordance with Article 6(1) of the Steel Aid Code, of plans to grant aid to the steel industry under existing aid schemes.

Articles 2, 4 and 5 of the Steel Aid Code provide that aid granted to steel undertakings for research and development, for closures of steel plants and for investment under general regional aid schemes respectively may be deemed compatible with the functioning of the EEA Agreement if these fulfil certain criteria as stipulated in the Code. As the aid notified by the Finnish Government does not meet any of the

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[8] See OEEC Code Nos 4100, 4300 and 4400 of Annex 1 of the ECSC Treaty defining the coal and steel products.

purposes for which aid may be granted under the above mentioned Articles of the Steel Aid Code, these Articles, therefore, are inapplicable for the assessment of the compatibility of the proposed aid.

Article 3(1) of the Steel Aid Code provides that aid granted to steel undertakings for bringing into line with new statutory environmental standards plants which entered into service at least two years before the introduction of the standards may be deemed compatible with the functioning of the EEA Agreement. Article 3(2) of the Code stipulates that the total amount of aid granted for this purpose may not exceed 15 % net grant equivalent of the investment costs directly related to the environmental measures concerned. Furthermore, where the investment is associated with an increase in the capacity of the plant, the eligible costs shall be proportionate to the initial capacity of the plant.

As the Imatra steel plant was established in 1927 it existed well over the required two years before the new mandatory standards emanating from the act on air protection[9], which entered into force in 1982 and became binding on the company through a decision dated 18 February 1993 delivered by the Administrative Board of Kymi on air protection[10]. In this respect the proposed aid measure is in line with the Steel Aid Code as the purpose of the aid is to ensure compliance of the existing Imatra steel plant with new mandatory environmental standards. Moreover, the total amount of aid remains well below the 15 % ceiling in net terms of the investments directly related to the environmental measures concerned. Furthermore, there will be no increase in the capacity of the plant.

The Finnish authorities have committed themselves to supply regular reports to the Surveillance Authority on the aid disbursed in accordance with Article 7 of the Steel Aid Code, which stipulates that such reports must be submitted twice a year describing the use to which the aid was put and the results obtained over the previous six months.

The aid granted to environmental protection investments of Imatra Steel Oy Ab satisfies the provisions of Article 3 of the Steel Aid Code. It may, therefore, be deemed compatible with the functioning of the EEA Agreement and, therefore, qualifies for exemption under the Steel Aid Code.

HAS ADOPTED THIS DECISION:

1. The EFTA Surveillance Authority has decided not to raise objections to the award of aid to the environmental protection investments of Imatra Steel Oy Ab, as notified by letter dated 31 October 1994.

2. The Finnish Government is obliged to submit twice a year to the EFTA Surveillance Authority reports on the aid disbursed over the previous six months, the uses to which the aid was put and the results obtained over the same period.

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[9] *Ilmansuojelulaki 67/82.*

[10] *Kymen lääninhallituksen ilmansuojelutoimiston päätös.*

Done at Brussels, 28 December 1994.

For the EFTA Surveillance Authority

Knut Almestad
President

Heinz Zourek
College Member