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## PROPOSALS FOR A BALANCED SOLID FUELS POLICY

(Communication from the Commission to the Council)

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Annex

1. INTRODUCTION

- 1.1. At its meeting on 21 April the Energy Council underlined the importance of achieving the Community's energy objectives for 1990 and asked the Commission to assess what progress had been made towards the achievement of these objectives. The Commission concludes from its analysis that present policies will not be enough to ensure the achievement of Community objectives, particularly in a situation where lower oil prices are checking the momentum given to the energy strategy by market forces.

In a separate Communication\* the Commission is submitting to the Council a proposal for an accelerated five-year programme of action in the energy and energy R&D sectors, with a view to reinforcing this strategy. One of the main ideas underlying this Communication is the need to make optimum use of physical and financial resources at Community level. This applies in particular to solid fuels - consumption of which is below the forecasts and is stagnating. Despite the considerable amounts of aid paid by the coal producing countries, a large proportion of coal production is not competitive with imported coal in the present circumstances. Imports are therefore at a high level. Production levels have been maintained and producers' stocks are continuing to build up. This state of affairs is a source of wastage and lack of cohesion. If the size of the Community's internal market is taken into account, and the action to be undertaken is better coordinated at Community level, it should be possible to reduce the wastage and increase the flexibility of the supply of solid fuels for the benefit of all, producers and consumers, provided that Community action is based on a programme with a modicum of credibility in terms of financial resources and an overall framework to ensure continuity.

- 1.2. As the Ministers of Energy noted at their informal meeting in Copenhagen in December 1982, a balanced, overall solid fuels policy would be a major step in this direction.

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\*COM(83) 315

1.3. In the Council's policy debate on 21 April based on the Commission's working paper (COM(83) 54 final), the Council concluded that discussions should centre on four factors which will determine the future of solid fuels in the Community:

- What are the obstacles to greater use of solid fuels?
- In what way can R&D help to increase consumption of solid fuels?
- What influence will Community production (under satisfactory economic conditions) have on the security of energy supplies?
- What can the Community do to help overcome the social problems?

1.4. This Communication examines each of these four questions in turn and discusses the measures already proposed or now being proposed by the Commission to the Council. The Commission has taken into account the concerns of consumers and has endeavoured to identify the obstacles to greater use of solid fuels. It has also examined how solid fuels might better satisfy users' concerns as regards security of supply, economic questions and convenience of use and environmental protection thanks to research and development. It has also examined how the position of Community coal might be strengthened by means of competitive prices.

It does not reproduce all the contents of the basic policy papers already presented by the Commission on coal (COM(82) 31 final), lignite (brown coal) and peat, but it does review them and the discussions to which they gave rise within the Council. It does not list all the measures already adopted by the Community on solid fuels. They are contained in an annex.

## 2. OBSTACLES TO GREATER USE OF SOLID FUELS

2.1. In 1982, solid fuels accounted for 24.3% of the Community's total energy consumption, 178.5 million toe in the case of hard coal (20.5%) and 33 million toe for lignite (brown coal) and peat (3.8%). Consumption has remained at around this level for a number of years despite the strong competitive edge which solid fuels have over oil products<sup>1)</sup> and the many national incentive aids they receive. These factors were intended to encourage more widespread conversion of oil-burning plants or the construction of new plants using solid fuels. It is true that major consumers such as cement manufacturers or electricity producers have switched from oil products to solid fuels. In 1982, they used 182 mt<sup>1)</sup> of coal compared with 140 mt<sup>2)</sup> in 1973. However, the competitiveness of solid fuels has not been sufficient in itself to bring about a large increase in their consumption in all sectors of utilization. The causes are numerous: security of supply, cost of initial investment, pollution and psychological factors. There are still additional possibilities for the consumption of solid fuels where users in the Community are concerned, particularly in the non-producing Member States.

The Community has already adopted a number of measures to increase the use of solid fuels:

- On 21 April 1983, the Council adopted two Recommendations to the Member States concerning the encouragement of investment in the conversion or reconversion of solid fuels of
  - . oil-fired installations in industry, with the exception of the iron and steel industry and the energy sector;
  - . oil-fired boilers in public buildings and in district-heating systems

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1) In 1982 the price differential for coal in relation to oil and gas for the industrial user was on average 35% for the same calorific value. According to available data, lignite (brown coal) and peat have much larger price advantages for the types of advantages specific to them.

2) t for tonne

These Recommendations request the Member States to notify the Commission at the end of each year of the measures which they have taken in this respect so that the Commission can make an annual report to the Council in the appropriate form.

- The Commission has decided (see OJ No. C343 of 31 December 1982) to grant industrial loans at reduced rates of interest under Article 54(2) of the ECSC Treaty for investment designed to promote consumption of Community coal. Installations and equipment relating to the combustion, transformation, handling and preparation of coal, and to the treatment and disposal of effluents can be financed with these loans. The sum of 9 MioECU, enabling a 3 percentage point subsidy to be granted for five years on loans totalling 60 MioECU, is available under the ECSC Budget for 1983.

In addition to these subsidized loans there are also ECSC loans under Article 54 of the ECSC Treaty. In 1982, the Commission decided to grant loans totalling 832 MioECU in respect of coal-burning plants (power stations, industry).

- The Commission has also submitted to the Council a proposal, which is under discussion, concerning the payment of financial incentives in support of certain categories of investment in the rational use of energy, some of which are designed to increase the use of solid fuels:
  - . heat generation for district-heating systems using solid fuels;
  - . conversion of industrial combustion plants from fuel oil to solid fuels;
  - . preparation of solid fuels for users other than power stations and coke ovens.

Of the total 65 MioECU proposed in the Preliminary Draft Budget for 1984 for this purpose, approximately 30 MioECU are earmarked for solid fuels.

The Commission will continue to pay particular attention to studying obstacles in the way of solid fuels use, and the most appropriate methods to encourage solid fuels use, especially in industry, all the more so since there is a risk that recent trends in oil prices could reduce the relatively favourable price advantage which coal has been enjoying. What is needed is more forceful action by the national public authorities and the Community.

## 2.2. General factors affecting consumption

### 2.2.1. Security of supply

An important factor taken into account by potential investors is the security of coal supplies in the medium and long term. For Community users, security of supply depends on the level of Community production, which is discussed in section 4 and imports of coal from non-member countries.

Coal imports have increased sharply over the last ten years; their share of consumption has risen from 10% (30 mt) to 22% (70 mt). They come from different parts of the world (mainly the United States, Australia, South Africa and Poland). The exploitable reserves in these countries are sufficiently large to cover the Community's foreseeable import requirements, which may be three times what they are at present by the year 2000.

Reliance on imports, however, involves possible risks. Problems in certain exporting countries (such as those which occurred in 1981) could disrupt exports from these countries at any time. The danger of disruption of supply should however, be greatly reduced by signing long-term contracts and maintaining stocks in the Community, since the political and geographical diversity of our exporters ensures a judicious spreading of the risks involved.

The Commission will hold regular talks with the main exporting countries to ensure that our outside supplies are as secure as possible in the short, medium and long term.

#### 2.2.2. Uncertainty about prices

Potential users of solid fuels contemplating investment in new boilers or in conversion need to be confident that solid fuels will have a long term price advantage over oil and gas. This longer-term advantage seems assured, but there is greater uncertainty about the shorter-term where coal could come under pressure from heavy fuel oil if the price of crude oil fell significantly. Uncertainty about the shorter-term could weaken investor confidence about the future. The Commission will do what it can to counteract this tendency, for example by encouraging the transparency of market prices through the publication of its bulletin on energy prices.

#### 2.2.3. Infrastructures

During the next few years, the Community's infrastructures, roads, ports and means of transport should be able to cope with a greater volume of traffic in solid fuels. However, if coal imports do in fact triple by the year 2000, a major investment drive will be required to ensure that coal is received and handled efficiently. There do, of course, exist Community instruments (ECSC loans, the EIB, the NCI and the ERDF) which can be used to help meet these requirements.

The studies into infrastructure problems still require further work. Where necessary, they may lead to Commission proposals designed to resolve the difficulties identified.

#### 2.2.4. Environment

The use of solid fuels may give rise to serious problems from the public-health and environmental viewpoints if the necessary precautions are not taken. The attention of the last European Council was drawn to the effects of acid rain and this problem will be on the agenda of the next meeting. The Community has already laid down limit values and guide values for concentrations of SO<sub>2</sub> and suspended particulates in the atmosphere (Directive 80/779/EEC).

Under the Third EEC Action Programme on the Environment, the Commission recently sent the Council a proposal for a Directive on the combating of air pollution from industrial plants<sup>1)</sup>, with particular reference to coke ovens, coal gasification and liquefaction units and thermal power stations and other combustion plant with a heat rating of more than 50 MW. Clearly this proposal could add to investment costs, but normally by no more than a few per cent. In some cases, however, the increase could be far higher, for example, when coal-fired power stations are fitted with smoke-desulphurization facilities. But coal should be competitive enough against oil for the industry to bear the extra investment cost. However, if it became apparent that the additional costs involved in pollution control were slowing down investment which is recognized as being important to the attainment of the Community's energy objectives, the Commission would examine the situation created thereby.

The Community is pressing ahead with its R&D on the measurement and reduction of air pollution. Work is in hand concerning the conversion of atmospheric pollutants and the increase in CO<sub>2</sub> in the air. As for the re-use of fly-ash, the Commission plans to arrange for the Member States to compare notes on their experience in this field.

The "quota" section of the Community's regional fund can make grants to mining areas which are considered to be areas of regional assistance in the Community for the purpose of site rehabilitation and clearance for other economic use. Where appropriate, the "quota-free" section can help to deal with conversion problems arising.

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<sup>1)</sup>COM(83) 173

## 2.3. Specific factors affecting consumption

### 2.3.1. Power stations

Power stations offer the largest outlet, accounting for 60% of all solid fuels consumption. To a large extent increases in consumption in this sector depend on the general economic climate. However, the current economic crisis has led electricity producers to reduce their forecasts of production capacity. Today's forecasts for the number of power stations fired by solid fuels to be brought into service between 1980 and 1990 are slightly lower than those made in 1981.

Higher consumption of solid fuels will also depend on reducing the share taken by oil products and gas, which still accounted for 24% of all electricity generated in 1982. The Commission continues to keep vigilant watch on the implementation of the two 1975 Directives<sup>1)</sup> restricting the use of natural gas and of oil products in power stations. The two ban outright the construction of new power stations burning fuel oil or natural gas, while the one concerning natural gas only authorizes an extension of existing supply contracts in exceptional cases.

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<sup>1)</sup>OJ No. L178 of 9 July 1975, O. 24 and 26

Although the Community's target for 1990 - that solid fuels and nuclear energy should account for between 70% and 75% of all electricity generated - has already been achieved in the Community as a whole, the Community average masks wide discrepancies between the situation in the individual Member States, some of which still generate almost 70% of their electricity from oil and gas<sup>1)</sup>; it is the responsibility of the Member States concerned to take the requisite measures. The Commission sees no need for further Community action in this sector at the moment, but will keep a closer watch on the implementation of the 1975 Directives.

### 2.3.2. Other industry

The Commission analysed the substitution of coal for oil in "other industry"<sup>2)</sup> in its Communication of 6 May 1981 (COM(81) 229). "Other industry" is one of the markets for solid fuels where coal has suffered particularly heavy losses of market share to oil and natural gas over the past twenty years. Theoretically, there appears to be considerable potential for substitution for heat-raising for other industry, remembering that in 1960 coal and coke accounted for the lion's share of the sector's heat consumption, whereas in 1982 only 21 mt were burnt, against 110 mtce of oil.

The large number of firms burning coal, the wide range of types of consumption and the lack of statistics make it difficult to gain an overall picture of the sector.

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1) Percentage of energy consumption for electricity generation accounted for by oil (O) and natural gas (G) in the Member States in 1982:

	<u>O</u>	<u>G</u>	<u>O+G</u>
D	5.6	9.1	14.7
F	10.0	1.7	11.7
I	59.2	7.1	66.3
NL	21.3	45.5*	66.8
B	24.2	4.8	29.0
L	13.9	0.4	14.3
UK	11.7	0.7	12.4
IRL	26.2	47.5	73.7
DK	8.5	-	8.5
GR	31.7	-	31.7
EUR 10	16.8	6.9	23.7

\*This is a transitory phase because coal power stations being constructed will lead in the medium term to a reduction in the share of gas in electricity production.

2) Other industry = all branches of industry, except power stations, the steel industry, basic chemical and gasification and liquefaction units.

Coal consumption by "other industry" is on the increase as a result of the conversion already completed. In 1982, it rose by 20% compared with 1981 - a high percentage increase, but low in absolute terms.

In the major energy consuming industries, such as the cement industry, the switch back to coal is virtually complete in some Member States and still well underway in others. From now on, the prospects for coal in the cement industry are limited.

Despite the competitive edge of solid fuels, "other industry" has been slow and doing too little to turn to them.

The principal reason for this inertia is that investment costs for equipment fired by solid fuels are between 1.5 and 3 times the costs of replacement of construction of oil-fired plant. What is more, part of the price differential between the fuels is wiped out by the higher maintenance costs and cost of treatment of the wastes and other pollutants. As a result, the pay-back time on investment in such conversion can vary from two or three years for the major energy consuming industries to five or six years for those where fuel costs are no more than 5% of production costs.

Another factor is that many industries switched from solid fuels to fuel oil, gas or electricity comparatively recently and, with good reason, are reluctant to make changes to installations which have yet to pay for themselves. Finally, there are also the psychological barriers created by the lack of experience with solid fuels, the lack of staff with the skills to use them and the general doubts about such a bulky, and potentially polluting fuel.

Added incentives are needed over and above the legislation and financial measures already adopted at Community and national level. The Commission attaches great importance to the Council adopting its proposal on the payment of financial incentives in support of categories of investment in the rational use of energy, the most important of which entail increased use of solid fuels (COM(82) 357).

Conclusions: Greater use of solid fuels

Infrastructures: Coordinated use of existing means

Environment:

- Adoption by the Council of the proposal for a Directive on the combating of air pollution from industrial plants.
- Continuation and expansion of Community programmes and aid in specific cases.
- Exchanges of experience between the Member States on the use of fly-ash.

Power stations: Closer monitoring of the 1975 Directives restricting the use of oil products and natural gas in power stations.

Other industry: Adoption by the Council of the proposal for a Regulation on the payment of financial incentives in support of categories of investment in the rational use of energy, allocated 65 MioECU in the Preliminary Draft Budget for 1984 of which about 30 MioECU are for the solid fuels sector.

3. THE ROLE OF RESEARCH, DEVELOPMENT AND DEMONSTRATION

3.1. General remarks

3.1.1. R&D has an important part to play in modernizing the factors of production and increasing the productivity of workings. Although the Community has been working in this field for some time, ~~Community action~~, covered by Article 55 of the ECSC Treaty must be pursued and even increased.

3.1.2. New emphasis should be put on improving existing processes for using solid fuels and marketing new technologies. If solid fuels are to replace hydrocarbons, their use in industry must be made more practical and more attractive. Considerable R&D efforts will have to be made to facilitate the combustion, handling and preparation of solid fuels, overcoming a number of factors which currently act as obvious disincentives to their wider use (they are bulky, dusty and less easy to use).

Short-term prospects are particularly favourable in the heat sector, where substantial progress has already been made over the last few years in developing technologies like fluidized bed combustion and the use of oil-coal or coal-water mixtures and improving boiler design and control. Many of these new developments are likely to be adopted rapidly throughout the industry and in order to improve the operation of electric power stations.

In the longer term, new markets should be opened up for the liquefaction and gasification of solid fuels. As things stand, gasification seems the more promising of the two from both the technical and economic viewpoints, since liquefaction involves more difficult technical problems. Nevertheless, many more research, development and demonstration projects will have to be carried out before we are in a position to decide on the future of these two technologies.

### 3.2. R&D activities

3.2.1. As far as ECSC technical research projects are concerned, the medium-term guidelines for aid to coal research (1981-1985) identified priority areas where efforts now have to be concentrated on production problems.

- Mining techniques: the major part of the research concentrates on improving the use of machines by using modern control methods (micro-processors and electronic processes).
- The mechanical preparation of coal to improve the quality of the end product.
- Making better use of coal by transforming it into coke.

In 1983, financial support granted for this type of research from the ECSC budget amounted to 19.5 MioECU. If the ECSC budget permits, this amount should be increased in future years.

3.2.2. The third four-year energy research programme, which the Commission will be adopting shortly, contains a sub-programme on new methods of using solid fuels. Projects include the development of new combustion techniques, protection of the environment, the development of advanced power-generating systems, the development of small gas producers and making solid fuel equipment easier to use.

These projects to help reduce dependence on oil by encouraging wider use of coal, lignite (brown coal) and peat will require considerable financial aid: a total of 63 MioECU has been earmarked for the four-year period. The new programme also sets out to organize cooperation between fuel users and equipment manufacturers. This cooperation, and the ease of access to results which it will provide, will be particularly useful for those Member States who wish to convert their industry to coal but who have no recent experience and have limited R&D infrastructure.

This programme should be adopted by the Council before the end of 1983.

### 3.3. Demonstration projects

The Commission would emphasize the importance it attaches to demonstrating the technical and commercial viability of newly-developed processes. In 1982, it submitted to the Council a new programme of solid fuel demonstration projects to run for five years.

The programme includes:

- the liquefaction and gasification of solid fuels. This is a continuation of the first four-year programme. Although the economic crisis and the drop in oil prices have added to the difficulties Member States are facing in this area, the Commission considers that the efforts already undertaken should not be abandoned.
- the use of solid fuels. This programme includes the implementation of projects to demonstrate new technologies for using solid fuels: fluidized bed boilers, combined cycles, the combustion of coal-liquid mixtures, and the use and elimination of solid fuel waste.

Originally, in its financial statements, the Commission asked for appropriations for the five-year programmes amounting to 94 MioECU for gasification and liquefaction and 64 MioECU for the use of solid fuels. These requests are being re-examined now that the regulations for demonstration projects are being discussed.

The Commission therefore expects that the temporary solution to continue the demonstration programme for one year - the result of a conciliation procedure - will probably be adopted and that a solution for the other four years will be found as soon as possible.

#### CONCLUSIONS

- Increase in the appropriations in the ECSC budget for "technical coal research" in the production sector. The Commission hopes that the existing appropriation (19.5 MioECU) will be increased in the future as far as the ECSC budget will allow.
- Adoption by the Council of the sub-programme on energy in the four-year research programme on the use of solid fuels. The proposal is for 63 MioECU a year from the general budget for the duration of the programme (4½ years).
- The swift adoption of new rules concerning demonstration projects on the liquefaction and gasification of solid fuels and on new combustion processes. Provision has been made in the draft general budget for an appropriation of + 44 MioECU in 1984.

4. IMPORTANCE OF SATISFACTORY COMMUNITY PRODUCTION FROM THE ECONOMIC POINT OF VIEW AND FROM THE POINT OF VIEW OF SECURITY OF SUPPLIES

4.1. The solid fuel produced in the Community is a guarantee of security of supplies for the Community's consumers. But this contribution should be analysed and differentiated from the points of view of security of access, of price stability, and of the financial conditions; i.e. whether production is economic or not.

4.1.1. Access

In the solid-fuel-producing Member States, national production is a major factor in security as the sources of production are close to the consumer and the transport capacity and long-standing, tightly-knit commercial relationships between producer and consumer already exist. The importers of Community coal enjoy the same security of access.

In 1982, intra-Community trade<sup>1</sup> accounted for 16.5 million t of coal and 5.5 million t of coke, whereas 70 million t of coal was imported from outside the Community. This relatively low level of intra-Community exchanges compared with imports is principally due to price considerations.

4.1.2. Prices

The large volume of Community production (240 million t in 1982) has a moderating effect on prices charged in world trade by sea (186 million t in 1982). A sudden substantial drop in this production could have led to a major rise in the world selling price. Maintaining production at a high level therefore provides real security against sudden fluctuations or increases in the price of coal. In any event, it is important to ensure sales of Community production through the improvement of its competitive position, or any measure which will bring down prices.

4.1.3. The economics of Community production of coal

The security of supplies provided by Community coal production also depends on the conditions of production. In its communication entitled "The rôle for coal in Community energy strategy", the Commission examined Community coal production from the point of view of profitability. The Commission divided current production into three big categories using economic viability and competitive vis-à-vis imports as criteria.

<sup>1</sup> Imports from coal-producing Member States in 1982 (in million t)

	B	DK	D	F	I	LUX	NL
COAL	1.9	2	2.4	5.8	2	-	1.5
COKE	0.4	-	0.8	1.8	-	1.6	0.6

Under this method of subdividing total Community production, 20 to 25% (50 to 60 million t) is fully profitable and competitive with imported coal. This proportion may be regarded as providing very secure supplies for the Community. In mines capable of guaranteeing this level of profitability, high priority is given to investment.

A 15% proportion (or some 40 million t) is produced at a high deficit and is clearly not competitive at all. This proportion can contribute to security of supplies for a limited period only since to maintain this production involves very high national subsidies. It seems likely that the Member States will not be willing to finance such production indefinitely. Once they refuse to fund it, production in the mines concerned will have to stop within a period which will depend largely on how the social problems are solved.

The major proportion of Community production (60-65%) is not profitable at present. (But this unprofitability is only marginal and is partly due to the price of coal imported under long-term contracts). Current spot market rates are frequently thought to be lower than the cost of production and transport for mines in non-Community countries. Nevertheless this part of total production could be made significantly more competitive by means of investment and the subsequent increase in productivity. The competitiveness of this portion also depends on fluctuations in the price of imported coal and, more particularly, in the dollar exchange rate. Recent experience has shown that these fluctuations can be large and can follow each other rapidly.

#### 4.1.4. Towards a more balanced European market in coal

1. The structural problems outlined above have thrown Europe's coal market off balance. Too high a proportion of the production is unprofitable. But seeking a better balance implies keeping investment high, which is a difficult task for coal producers in a precarious financial position.

In the past the Commission has helped to remedy this situation by granting the coal industry limited interest rebates (totalling 5 MioECU a year) under Article 54 (1) of the ECSC Treaty. This has

helped, but must be reconsidered in the light of the objectives and methods set out under the multi-annual programme.

2. At present coal producers are having to shoulder the added burden of very high stock levels (42 million tonnes of hard coal and 11 million tonnes of coke at the end of 1982). The very substantial financial cost which this entails creates a dual handicap:

- by reducing the funds available for improving production structures;
- by increasing the overall cost of coal and pushing up selling prices.

In the long term, the stock problem will call for an overall approach with the following key components:

- action relating to the technological and environmental constraints which hamper wider use of coal;
- improvement of the sales prospects for Community coal, by taking measures to reduce production costs and to promote a modern, healthy, vigorous coal industry.

3. The Commission feels that the Community has a rôle to play in these fields, since due account must be taken of the European dimension and of the Community's energy objectives if the coal market is to recover.

Its views on the technical and environmental aspects were outlined earlier in this paper. On the other point, the Commission will send the Council a separate Communication setting out a proposal for a Regulation - based on Article 235 of the EEC Treaty - granting non-repayable subsidies for investment aimed at increasing productivity in the most promising coal mines.

These subsidies are to be granted on the basis of the Commission's analysis of the modernization and restructuring programmes voluntarily submitted to it by the producers.

Their objective must be to produce coal at competitive prices bearing in mind the market outlook. When assessing the programmes, the Commission will examine their impact on the development of production capacity. Depending on changes in commercial stocks levels, the level of the aid could be adjusted in line with the amount of clearly uncompetitive production capacity closed down.

The subsidies could be up to 25% of the total investment cost. An appropriation of 300 MioECU has been proposed to support investment in solid fuels in 1984, part of it for lignite (brown coal) and peat (see Section 4.1.5.). The Commission is planning to propose similar sums in each of the four following years.

4. The Commission also proposes granting additional aid for modernization and restructuring programmes which will achieve a reduction in the short term in the level of stocks held.

The general aim must be to help cut back stocks to a more normal level, i.e. to one of two months' production. This should be achieved step by step over a period of three years:

- by adapting production; and
- by adapting the competitive position of the coal trade within the Community.

The Commission's present thinking on this matter is that the proposed support should take the form of a stock-reduction premium, granted after the event.

The success of such a scheme will depend on the initiative and responsibility not only of the coal producers but also of the Member States.

An appropriation of 100 MioECU has been proposed for this purpose in 1984, and the Commission is planning to propose sums of the same order of magnitude in each of the two following years if stocks remain extremely high. The Commission's target is a reduction in stocks of around 30 mt.

With a view to creating a better-balanced market in Europe, the Commission will examine (a) appropriate ways of increasing transparency where quotations for Community coal are concerned and (b) ways of comparing supply and demand so as to promote the marketing of Community coal.

#### 4.1.5. Lignite (brown coal) and peat production

In connection with the Community's production of solid fuels, special mention should be made of lignite (brown coal) and peat. For three Community countries - Germany, Ireland and Greece - these fuels are a most advantageous source of supplies from the point of view of both cost and security of supplies\*. It should also be noted that Greece and Ireland cover a large proportion of their energy consumption by importing oil which is a heavy drain on their balance of payments. Large reserves of lignite (brown coal) and peat in both countries are a factor to be taken into account when considering diversification and security of supplies. It would be in the interests of the Community to develop them.

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\*Lignite (brown coal) and peat as a proportion of total primary energy consumption in 1981:

Germany	:	26.8 toe	10.7% (lignite/brown coal)
Greece	:	3.2 toe	22.4% (lignite/brown coal)
Ireland	:	0.8 toe	10.0% (peat)

Greece and Ireland should take steps to increase the degree of self-financing of investment by coal enterprises so as to permit a considerable increase in the share taken by lignite and peat. (In Ireland peat's share of total energy consumption should rise from 10% at present to 13% by 1990, while in Greece lignite (brown coal) should take its share from 22% to 26% over the same period).

The Commission considers that these countries - two of the least prosperous in the Community - will need additional aid from the Community if these production levels are to be attained. In a separate Communication the Commission is therefore proposing that the Council should adopt a Regulation, based on Article 235 of the EEC Treaty, to assist lignite (brown coal) and peat producers, over a five-year period, in increasing their production capacity by using the most up-to-date methods.

This aid is to take the form of non-repayable direct subsidy of up to 25% of the investment cost. The appropriations are included in the total of 300 MioECU for solid fuels mentioned in Section 4.1.4.

#### 4.1.6. Coking coal

Coking coal production depends largely on developments in the steel industry and technological progress. The steel industry's consumption of coking coal fell from 63 million t in 1977 to 45.5 million t in 1982: no increase can be expected in the short or medium term. The new system of aids to coking coal which the Commission recently submitted to replace the system which lapses at the end of 1983 aims to retain national aids and to facilitate intra-Community trade by providing higher subsidies which will nevertheless decrease over the period. It is absolutely essential that the Council adopt this proposal before the end of 1983 to avoid a legal void.

#### CONCLUSIONS : SATISFACTORY COMMUNITY PRODUCTION FROM THE ECONOMIC POINT OF VIEW AND FROM THE POINT OF VIEW OF SECURITY OF SUPPLIES

##### 1. The Council should adopt Regulations

- granting subsidies for investments in the modernisation of or the development of new economic coal production capacities. 300 MioECU are set aside in the Preliminary Draft 1984 Budget (part of which for the support of investments in the production of lignite and peat in Ireland and Greece). The Commission envisages annual amounts of the same order of magnitude for the duration of the Regulation (5 years);
- granting aids to the reduction of stocks. 100 MioECU are set aside for this action in the Preliminary Draft 1984 Budget. The Commission envisages annual amounts of the same order of magnitude for the duration of the Regulation (3 years);
- granting subsidies for the increase of production capacities of lignite and peat in Ireland and in Greece (budgetary credits are included in the above-mentioned 300 MioECU).

##### 2. Appropriate measures for improving the transparency of price quotations for Community coal should be examined.

##### 3. A Regulation concerning aids to coking coal should be adopted before the end of 1983. 60 MioECU are set aside in the Preliminary Draft 1984 Budget and 120 MioECU for degressive annual payments over the 4 subsequent years.

5. SOCIAL MEASURES

5.1. Over the years, the rationalisation of the coal industry has led to the implementation of social measures foreseen in the ECSC Treaty. Article 56.2.b. of this Treaty empowers the Commission to intervene in favour of redundant workers. In particular, this includes measures which would temporarily maintain their level of income. For 3 years the contribution to these measures was less than 15 MioECU, but in 1982, 41 MioECU were devoted to this type of aid.

These measures will affect those categories of workers who, in the past, had been spared by the decisions concerning definitive redundancies. The new measures will require the reinforcement of readaptation aids which will necessitate an adjustment in the level of aids, or an extension of their duration, and responsibility must be taken, at an earlier age than hitherto, for workers who cannot be reemployed, as before, in the coal industry.

5.2. Furthermore, it is essential to instigate activities which, through the creation of new jobs, will combat the progressive disintegration of the socio-economic structure of the industrial area concerned.

In 1982, under Article 56.2.a. of the ECSC Treaty, 43 MioECU were earmarked for interest rebates to promote the creation of new jobs for the reemployment of workers who are covered by the ECSC Treaty in the coal and steel industries.

5.3. With regard to the restructuring which is under way in the coal industry, the Commission considers it no longer possible to finance new expenditure linked to coal policy from the ECSC budget which is already insufficient to cover the restructuring of the steel industry. In the Commission's opinion, the best solution would be to finance additional requirements from the EEC budget.

The Commission has already earmarked 60 MioECU for this purpose in the <sup>Preliminary</sup> Draft Budget for 1984 towards measures for restructuring the Community coal industries .

The Commission will submit to the Council, the necessary proposals to use these appropriations.

ANNEX 1

EXISTING MEASURES TO ASSIST THE SOLID FUELS SECTOR

Aid

- Decision 73/287/ECSC                      National aid in respect of coking coal and support in respect of intra-Community trade
- Decision 76/528/ECSC                      National aid to the hard coal industry

Industrial loans from the Community

- Industrial loans under Article 54(1) - investment in collieries and coke ovens etc.                      Decision on industrial loans at reduced interest rates - O.J. C79 of 29 March 1980
- Industrial loans under Article 54(2) - plants using Community coal (including infrastructure)                      Decision on industrial loans at reduced interest rates in order to encourage consumption O.J. C343 of 31 December 1982
- Industrial loans under Article 54(2) coking coal mines in non-member countries (supplies to the Community steel industry)
- EIB and NCI loans                      Investment to encourage the use of solid fuels (including infrastructure)
- "                      Investment in production, infrastructure and the utilization of lignite, brown coal and peat
- EMS interest rebates                      Loans for Italy and Ireland (see above, EIB/NCI loans).
- Loans for industrial reconversion (new employment, Art. 56.2.a.)

Loans for social purposes

- Miners' housing loans (Article 54 (2))
- Aid for the redeployment of miners (Article 56(2)b)
- Interest rebate loans for the reconversion of miners (Article 56(2)a)

