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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(79) 322 final

Brussels, 21st June 1979

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COMMISSION REPORT TO THE COUNCIL
ON MEASURES TO PROMOTE THE CONSUMPTION
OF COAL IN THE COMMUNITY

REPORT BY THE COMMISSION TO THE COUNCIL
ON NATIONAL COAL PRODUCTION POLICIES IN THE COMMUNITY

REPORT BY THE COMMISSION TO THE COUNCIL
ON NATIONAL COAL IMPORT POLICIES
AND THE WORLD COAL MARKET

COMMISSION REPORT
on
measures to promote the consumption of
coal in the Community

At the Council meeting of 27 March 1979 the Commission was asked to submit a report on the following points as quickly as possible :

- on the measures already taken or in preparation by the Member States and by the Community to promote the use of coal for the generation of electricity and for other sectors, in particular industrial;
- on the results of these measures in each Member State;
- on the progress likely to be achieved and the national or Community legislative or financial measures which might produce such progress.

The report is hereby submitted.

The measures to promote the consumption of coal in the Community

I. INTRODUCTION

1. When the oil crisis broke out in 1974, the Council decided for reasons connected with the security of energy supply that the Community's coal production should be stabilized under satisfactory economic conditions at a level of 270 million t (= 250 million tce) until 1985.

Coal imports from non-Community countries were also to be increased.

2. Because of its lower price, coal imported from non-Community countries is competitive and finds a market in the Community without any aid measures on the part of the importing countries. When staking out its potential market in the Community, imported coal is sometimes even hit by restrictive measures.
3. The Community's coal-mining industry is not competitive on its own. As a result, because of the politically motivated production target, support measures have to ensure the consumption of the coal produced.
4. Measures helping to solve environmental problems may be of particular importance in the energy sector but they affect the various energy sources in different ways. There are wide-ranging environmental protection measures in the coal sector, too. However, because of regional conditions, the ecological problems in the individual countries are of widely varying importance. The report does not cover these measures.

II. Description of the measures

A. National measures

The measures listed below concern only the coal-producing Member States. None of the non-coal-producing Member States have taken measures to promote the use of coal. These countries would, however, make a small financial contribution if they participate in the common financing of Community measures.

Subsidies

5. The most important factor in maintaining coal consumption and thus coal production in the Community is the financial measures taken by the Governments of the coal-producing Member States. The production companies are given aids, enabling them to invest, rationalize, modernize and compete, thus giving them a chance of survival.
6. Subsidies are prohibited under Article 4(c) of the ECSC Treaty. But the Community established in 1964/65, because of social and coal policy problems, the legal basis for granting aids to the coal-mining industry. The actual legal framework comprises :
 - Decision 73/287/ECSC (the coking coal scheme)
 - Decision 528/76/ECSC (general system of aids)
 - approval of other measures.

7. The Governments of the Member States have made varying use of the possibility of granting various forms of aid and have thereby acted in accordance with national conditions and national economic policy considerations. Table A of the Annex lists all these measures and the amounts of aid paid in 1978. The Table reveals the following points :

- The coal-mining industry is granted aid to cover old debts in all coal-producing countries, although the amount varies. The old debts are costs arising for the companies as a result of the closure of pits. The aids cover only part of the actual old debts but make it easier for the companies to meet these costs at all.
- The indirect aids to promote current production concern specific measures of secondary importance :
 - Federal Republic : the granting of special depreciation rates for the companies
 - France : a State contribution to CERCHAR
 - Belgium : various social welfare measures for coal-miners.
- The structure of the direct aids to current production varies between Belgium and France on the one hand and the Federal Republic and the United Kingdom on the other. Belgium¹ and France grant aids only to cover losses; the Federal Republic and the United Kingdom employ various types of aid² :
 - The aids for coking coal are production aids which in practice, represent aids to cover losses.
 - Overall, the varying financial situation of the coal-mining industry leads to widely varying aids per tonne; the aid per tonne rate is lowest in the United Kingdom.

¹ The relatively low amount recorded for investment aid in Belgium serves only to maintain the technical safety of the mines.

² See "Report by the Commission on national coal production policies in the Community" (p. 3 and 4).

8. The amounts paid in aid only partly cover the companies' losses. However, the companies' remaining losses after the payment of aid are so low that they are able to survive while experiencing difficulties.
9. Apart from the amounts of aid recorded in Table A, the Member States grant aids for coal research. The totals are as follows :
- | | |
|-------------------------------|-------------------|
| - Federal Republic of Germany | 115.0 million EUA |
| - Belgium | 2.8 million EUA |
| - France | 27.5 million EUA |
| - United Kingdom | 40.0 million EUA |
10. The Governments of the Member States planned no new measures apart from those indicated in Table A for 1978. Changes in the grant of aid have occurred in the past only as a result of changes in the amounts of aid. The amounts of aid have risen continually since 1975 and reached the level indicated in Table A in 1978.

Protective measures

11. For the sake of completeness, it should be mentioned that the Member States possess various forms of special protective measures (e.g. taxes on fuel oil) which are not, however, relevant in this context.
12. None of the Member States imposes duty on coal imported from non-Community countries though there exists legally a possibility in the Federal Republic of Germany.

Coal imports are subject to restrictive^{or} coordinating measures affecting quantity as follows :

- in the Federal Republic as a result of the maximum annual import quota of 5.5 million t;
- in France as a result of the coordination of coal imports with the sales requirements of the Charbonnages de France, conducted by the ATIC.

13. The UK government recently has given notice of its intention to restrict by licensing the import of coking coal from third countries.

Other measures

14. The specific measures to promote the use of Community coal in power stations in the Federal Republic are based on the third electricity-from-coal law (see Table A). This law provides for an annual coal burn averaging 33 million tonnes of Community coal by public and private electricity producers in Germany up to 1986.
15. The French and British Governments persuade and press the electricity industry to use Community coal.

B. Community measures

16. In 1978 the Commission financed the following payments to the coal-mining industry from the ECSC budget :
- on the basis of the ECSC Treaty:
 - Article 54 : interest subsidies on investment loans for one project :
9.0 million EUA
 - Article 55 : research aids : 16.0 million EUA
 - Article 56 : social and redeployment measures : 15.0 million EUA¹
 - on the basis of Decision 73/287 : aid for coking coal : 6.0 million EUA.
17. Loans totalling almost 300 million EUA in 1978 were granted to the coal mining industry under Article 54 which split up as follows :

Colliery investment (underground)	191.67 million EUA
Colliery investment (surface)	64.74 million EUA
Coke oven plants	5.80 million EUA
Power stations, district heating	35.08 million EUA
Training facilities	0.26 million EUA
	<hr/>
	297.55 million EUA

18. The Commission has adopted decisions allowing the Governments of the Member States to grant aids to the coal-mining industry (see point 6 above).

¹ estimated

Decision 73/287/ECSC sets up a special aid system for coking coal and coke for the steel industry.

Decision 528/76/ECSC creates a Community system of measures taken by the Member States to assist the coal-mining industry.

19. In 1975 directives of the Council were issued to restrict the use of fuel oil and natural gas in power stations.
20. The Community is helping to finance demonstration projects of which coal gasification and liquefaction could be of particular significance for future coal consumption. (50 million EUA for 4 years).
21. The Commission has submitted various proposals to the Council:
 - 1977 : a proposal for a Community aid system for financing cyclical stocks of hard coal, coke and patent fuel.
 - 1978 : a proposal for a Community aid system for intra-Community trade in power station coal.
 - 1978 : a proposal for a Community aid system for the construction of coal-fired power stations.
 - 1978 : proposal for improving and extending the existing scheme for coking coal.

All those measures are planned for a period of three years in order to alleviate the coal-mining industry's current difficulties. They are also intended to create solidarity in the coal sector between the producer countries and the consumer countries when solving the Community's energy problems, and a decrease of the intra-Community coal trade should be avoided because coal production would be diminished consequently.

III. Results of the measures

22. It is difficult to quantify the results. What would have been the trend if no measures had been taken ?

The use of Community coal would certainly have dropped considerably and coal or oil imports would have risen correspondingly.

Production would certainly have dropped drastically. This drop would have become irreversible with the reduction in capacity. Companies would probably have folded, leading to all the social problems and the consequences for the security of Community energy supply.

23. Compared with this picture, the actual development shows that the measures have been moderately successful, although evidently it has not been possible to overcome all difficulties.

The subsidies enabled the companies to pursue an appropriate price policy and market support policy on the most important markets in order to stabilize sales as far as possible. Other, consumer-related, measures had a complementary effect. Consumption could not indeed be increased completely to the level of Community production - the producers had accumulated around 57 million t of coal and coke by the end of 1978 but the undertakings were able to survive under difficulties without losing productive capacity.

The number of producing pits in the Community has dropped between 1974 and 1978 (D = 12, F = 11, B = 9, UK = 39), but these closures have been made for reasons of rationalization (exhausted deposits, obsolete installations, pit mergers).

24. The measures taken have not stabilized consumption in all Member States or in all sectors (see section A of Table C).

Coal deliveries to coking plants could not be stabilized as the consumption of coke by the steel industry dropped as a result of the steel crisis.

Decreases were also recorded in domestic and other industrial sectors, although stabilization can be detected since 1975.

The measures have had distinct consequences in the power stations. Coal consumption has increased; the amount of electricity generated from coal is increasing while that generated from hydrocarbons has decreased.

Electricity generation in the Community (TWh)

	<u>from coal</u>	<u>from oil and natural gas</u>
1974	294.2	438.4
1978	377.0	414.0

The former trend for coal-generated electricity to stagnate and electricity from oil and natural gas to increase considerably - which could be observed up to 1974 - has been halted.

25. The relatively favourable trend towards coal in the electricity sector, however, gives rise to the following comments:

- The increase in consumption does not alter the fact that Germany and the United Kingdom account for 80% of the solid fuels used for the generation of electricity in the Community.
- Investment in new coal-fired power stations has not kept pace with that in oil- or gas-fired plant leading to a deteriorating position for the former compared to the latter and aggravating the average age and thermal efficiency gap between the two types of generating facilities. As can be seen from Table B, only 4,487 MW of new coal-fired power station capacity will be taken into service in the Community in 1979 and 1980.

26. Trends of investment in electricity generating installations up to 1985 indicate that the rate of installation of oil- and gas-fired capacity in the Community is much greater than that of solid-fuel-fired capacity, as the following Table shows:

The Development of Power Station Capacity in the Community
(Source: Member States' 1978 National Programmes)

	<u>1977</u>	<u>1985</u>	<u>GW (Net)</u> <u>1990</u>
Solid Fuels	103.4	119.1	130.2
Oil and Gas	105.0	132.5	126.0
Hydro	35.5	39.6	41.8
Nuclear	18.5	84.9 (79.6)	154.8 (140.7)

() = Downward revision of nuclear capacity forecast since mid-1978

It should be noted that, even if the projected increase in solid-fuel-fired capacity to 120 GW by 1985 is in fact achieved, this will be barely sufficient, at current plant utilisation rates¹, to absorb the 176 m.t.c.e. of solid fuel contribution to electricity production forecast for that year.

Furthermore, it is foreseen that the oil use in power stations in 1985 will be 30% (18 m.t.o.e.) greater than in 1978, despite the above solid fuel contribution, and the oil use may be even greater if the current reduced nuclear capacity estimates are reflected in increased oil burn.

It should also be noted that the 130 GW of solid-fuel-fired capacity shown in the above Table for 1990 includes much new plant for which firm decisions have not yet been taken. The reduction in the nuclear capacity estimates is much greater than that for 1985 and the achievement of the 140 GW currently forecast must be open to doubt. In this situation the possible increased recourse to oil could be even greater than in 1985.

¹ Plant utilisation rates are dependent, inter alia, on the age structure of the solid-fuel-fired capacity. Precise indications of the structure are not currently available, but the services of the Commission hope to have these indications in the near future.

This undesirable trend of increasing oil consumption can be halted only by Member States' efforts to:

- ensure the timely completion of current commitments for increased solid-fuel burning capabilities;
- take early decisions on further new solid fuel capabilities.

27. If looking at the trend of total consumption country by country (section B of Table C), the following picture emerges:

- The downward trend in Germany mainly reflects the weak economic position of the steel industry.
- Consumption is increasing in France because of the larger amounts used for generating electricity.
- The situation is stable in the United Kingdom; it has been possible to compensate for the drop in demand in various sectors of use by increasing consumption for the generation of electricity.

In general, coal consumption does not seem to rise in the other countries since 1976.

28. Community coal has not been able to keep up with imported coal as regards the consumption trend (see section C of Table C). The increase in coal imports concerns only power station coal. The imported power station coal has largely found an outlet on new markets, in particular in France and Denmark, as it would have required considerable financial sacrifices to supply Community coal to these markets.

29. The intra-Community trade in coal, 85% of which is accounted for by German coal (mainly coking coal), declined up to 1977 because of the weakness of the Community steel industry (see section D of Table C). There was no

increase until 1978 when German companies supplied Denmark, France and Belgium with more power station coal despite the considerable financial sacrifice.

30. The trend of coal production in the Community (see section E of Table C) shows that, despite all the support measures, it has not been possible to prevent a decline to a level which is relatively far below the "stability-oriented" production of 270 million t (t=t). This is due to two reasons:

- As it was not possible to find an outlet for all the production between 1975 and 1977, the companies accumulated large stocks (62 million t at the end of 1977, 57 million t at the end of 1978), leading to part-time work particularly in the Federal Republic. This measure prevented the loss of production capacity as a result of a shortage in outlets.
- Pits are often closed for rationalization purposes. Once Community production stabilized and marginal pits were closed, the existing modernized or newly opened pits had to increase production; so far, this has not been done to the necessary extent, partly because old capacity was not scrapped at the same time that new capacity was created and partly because the market does not justify any increase in production.

IV. Potential progress

31. The measures taken by the Governments of the coal-producing countries - listed in Chapter II of this report - show that extensive efforts have been undertaken with a high financial outlay.

There is no reason in the present situation to recommend that the Governments of the coal-producing Member States take new measures. If the situation of the coal market should change, the subsidy systems set up by the Commission give sufficient scope for taking new or abolishing existing measures.

Past experience has also shown that it is not possible to ask the Governments of the coal-producing Member States to increase the amounts of aid for the existing measures in order to ease the difficulties of the coal-mining industry. Production capacity serving intra-Community trade may have to be closed down as the "export" of the high subsidies on these supplies can no longer be borne by the public budget of the producer country. Community production could not be stabilized if this occurred.

32. Compared with the national efforts, the Community's financial measures are few.

Community measures would therefore be useful in such a situation, although it must be ensured that they complement, and so do not conflict with, national measures. If Community solutions were put forward according to these criteria, this could represent progress towards distributing the cost of producing Community coal at least partly amongst all Member States in order to provide a better guarantee of stable Community production.

Table A

Financial measures (1) awarded by the Member States
in favour to the coal industry in 1978

million EUA (2)

	Belgium	Germany	France	United Kingdom	Community
A. <u>General measures</u>					
a) Aid to cover inherited liabilities	0.4	203.4	70.7	22.0	296.4
b) Aid for current production					
i) indirect aids	17.4	9.1	5.9	-	32.4
ii) direct aids for					
- investment and innovation (3)	7.0	319.9	-	-	326.9
- qualified personnel	-	43.1	-	5.2	48.3
- stocks	-	48.0	-	56.2	104.2
- steam coal	-	-	-	45.8	45.8
- covering losses	144.5	-	431.6(4)	76.9	653.0
B. <u>Aid for coking coal</u>	80.4	442.3(4)	1.7	7.7	532.1
C. <u>Other aids</u>	-	692.3(5)	-	-	692.3
D. <u>Total (A+B+C)</u>	249.7	1.758.1	509.8	213.8	2,731.4
E. <u>EUA per tonne of production</u>	37.89	19.51	26.01	1.75	11.47

¹ Financial measures in the social security field are not included

² 1 EUA = 2.60 DM
5.63 FF
41.00 BFR
0.65 UKL

³ Estimated total investment in 1978 in the coal industry (million EUA): Germany 310, Belgium 24, France 48, United Kingdom 556.

⁴ Provisional

⁵ Third "Versäromungsgesetz"

Table B

Solid Fuel Burning Capabilities¹

(Public supply only)

(in MW (Net))

	New capability added from 1974 to 1978 (inclusive)		New capability expected to enter service in 1979 and 1980	
	By conversion	New plant	By conversion	New plant
Belgium	706	-	-	-
Denmark	582	-	808	980
Germany	-	4,301	-	1,782
France	2,470	-	-	-
Ireland	-	37	-	-
Italy	1,220	-	1,796	-
Luxembourg	-	-	-	-
Netherlands	692	-	-	1,223
United Kingdom	-	3,617	-	502
Community	5,670	7,955	2,604	4,487

¹Source: UNIPED

Table C

Development of coal consumption in the Community

million t (t=t)

A. By consumer groups

	1974	1975	1976	1977	1978
Power plants	129,3	127,0	149,6	151,5	159,2
Coking plants	107,0	102,6	99,5	89,0	82,6
Industry (incl. steel)	18,3	16,1	15,5	16,1	15,9
Domestic use (incl. patent fuel)	33,8	28,0	25,6	25,2	25,1
Others	8,0	6,7	4,6	5,2	4,6
Total	296,4	280,4	294,8	287,0	287,4

B. By countries

Belgium	18,6	14,8	15,8	15,6	16,7
Germany	97,7	85,7	89,0	81,2	81,6
Denmark	3,0	3,4	4,6	5,4	5,7
France	39,9	36,9	43,2	41,9	43,2
Ireland	0,8	0,6	0,7	0,8	0,8
Italy	13,3	12,3	12,7	12,6	12,1
Luxembourg	0,6	0,5	0,6	0,5	0,6
Netherlands	4,2	3,8	4,8	4,7	5,3
United Kingdom	118,2	122,4	123,4	124,3	121,4

C. By origin

Imported coal (from third countries)	38,0	41,1	43,9	46,0	44,9
Community coal	258,4	239,3	250,9	241,0	242,5

D. Intra-Community exchange

Total deliveries	19,8	16,6	13,5	14,7	18,3
there of :					
from Germany	16	13,4	11,6	12,2	15,5
from the U.K.	1,7	1,9	1,1	1,7	2,1

E. Coal production

Belgium	8,1	7,5	7,2	7,1	6,6
Germany	101,5	99,2	96,3	91,3	90,1
France	22,9	22,4	21,9	21,3	19,7
United Kingdom	109,2(1)	127,8	122,2	120,7	121,7
Netherlands	0,8	-	-	-	-
Total	242,5	256,9	247,7	240,4	238,1

(1) Industrial dispute

REPORT BY THE COMMISSION

on

National Coal production policies in the Community

I

At its meeting on 27 March 1979, the Council concluded that; since

"Community production is of strategic importance for the supplying of the Community, the Commission should be invited to prepare an analysis of national policies to bring out the common features and the limits - notably economic - on the Member States' and the Community's action in this field".

That report is herewith submitted.

National coal production policies in the Community

I INTRODUCTION

1. Of the nine Member States of the European Community, only five produce hard coal : Belgium, the Federal Republic of Germany, France, Great Britain and Ireland. Ireland has not been considered in this report, since it produces only some 50 000 t annually.
2. In its 1974 decisions the Council recommended that Community coal production be stabilized at its 1973 level (270 million t, t=t) under satisfactory economic conditions as a coal policy target.
3. Stabilization of Community output does not mean a stabilization of the output of all pits, coalfields or countries. Varying circumstances require that output be reduced in low-productive coalfields and increased in those with high productivity.

Not only productivity, but also other factors such as the technical condition of the pits, geological conditions, the size of reserves, etc play a part in the closing or development of pits.

4. Ownership plays a part in the political measures taken by the governments of the Member States in respect of coal production. The mining industry is nationalized in France and Britain, so that the governments of those countries are able to exert a direct influence.

Belgium's coal industry is private, but the government is able to influence coal output through the granting of subsidies. The same applies to the Federal Republic of Germany, where mining companies are also privately owned, except in the Saar.

5. Subsidies payed in 1978 are indicated in Table A of the Commission's report on measures to promote the consumption of coal in the Community.

II. National policies

A. BELGIUM

6. The Belgian coal industry is in great financial difficulties. Returns from the sale of coal cover barely 50 % of production costs and the large subsidies provided by the Belgian Government are a considerable strain on the national budget. The limits to the amount of strain it will bear are discernible, for output is not maintained in all coal-fields.
7. The situation is not the same in both Belgian coalfields :
 - i) Production will cease by 1981 in the South coalfield. The closure of pits is set out in a government programme and closures have been staggered in such a way that they will not cause regional and social problems.
 - ii) Production in the Campine coalfield is to be kept at 7 million t annually with the help of subsidies, to supply the Belgian steel industry with coke.

B. FEDERAL REPUBLIC OF GERMANY

8. The competitiveness of the German coal industry is poor and the financial situation of the mining companies difficult, even though cost-covering prices are obtained for power station coal under the third electricity-from-coal law. The industry needs relatively high subsidies (particularly for coking coal), which place a noticeable strain on the Federal Government's budget. Limits will become evident if the industry's need for subsidies continues to grow.

German output consists mainly of coking coal.

9. The subsidies granted by the Federal Government take a number of forms and are intended mainly as

- i) cover for inherited liabilities
- ii) investment aids and
- iii) coking coal aids.

10. The Federal Government is at present basing its plans on the assumption that output is to be stabilized at a level of some 90 million t.

Since German undertakings export some 28 million t of coal and coke to other Community and non-Community countries every year, it is an open question whether these deliveries, which are sustained by large public subsidies, should be maintained at their present level.

The two major criteria for granting subsidies are the avoidance of regional and social problems and the ensuring of the nation's energy supply.

11. The technical and economic situations in all German coalfields are more or less comparable.

C. FRANCE

12. The competitiveness of France's coalfields varies. All coalfields need government subsidies to cover their financial losses. These subsidies place a heavy strain on the French national budget. In any case, coal production does not have a high priority on France's list of energy sources :

- i) In some coalfields production cannot be increased for geological reasons.
- ii) Production covers less than 50 % of France's coal requirements and only about 7 % of its overall energy requirements.
- iii) Heavy use is made of opportunities to supply the country with cheap imported coal - some of it from French-owned mines in the USA.

13. The Government has set up production programmes for the individual coalfields :

i) By 1985 the Nord/Pas-de-Calais coalfield will reduce its output to 1 to 2 million t and the Centre-Midi field to 2 to 3 million. Pits are being closed down according to plan, in order to avoid regional and social problems.

ii) Annual production is being kept at some 10 million t in the Lorraine coalfield, since its financial situation is relatively good and the coal is needed to supply the steel industry with coke.

D. UNITED KINGDOM

14. The British coal industry is to increase its production; its competitiveness is good and the financial situation of the NCB is relatively satisfactory, although some subsidies are needed for underground mining. The productivity of its open cast pits (annual output : some 14 million t) is outstanding.

Britain's production consists mainly of power station coal.

15. Output will be increased to 130 million t or more in 1985. The British Government is providing financial support for the modernization of pits and to relieve the NCB of extraordinary costs.

Because of currently large stocks, thought is being given to possibilities of exporting coal to other Community countries. However, prospects are not good because of the financial sacrifices involved.

16. Productivity and financial situation vary considerably between the individual coalfields. Production planning for the coalfields and the industry as a whole is in the hands of the NCB.

The NCB has stepped up investments considerably and extensive measures have been taken to modernize pits and build new ones. The Selby field is being newly developed and is to have a production capacity of 10 million t as from 1985.

III. CONCLUSION

17. Despite differing national trends there are principles which are observed by all governments in the same way :

- a) closing down of marginal and worked-out pits for reasons of rationalization while taking regional and social problems into account.
- b) Development of good pits and fields to reduce production costs and cheapen the supply of coal.
- c) Coking coal production is given primary importance as a source of supply for the steel industry.

18. Adding up the estimated outputs of the individual Member States gives a total of 240 to 250 million t for the Community in the year 1985. This quantity is not far from the 270 million t which the Council was aiming at for the same year.

Compared to this forecast the actual production of 238,1 million t is lower but could be increased again. It should however be pointed out that closures which are subject to the criteria of operational rationalization by undertakings and of regional and social problems could not be synchronized with the totally different criteria of investment in new, up-to-date plant. The construction periods are long and the opportunities for providing funds for financing the investments are different in each undertaking. In short, close-downs and new ventures can be balanced out only over long periods of time.

19. Because of the strain imposed on public budgets by the granting of subsidies, limits are discernible, along with a threat to the future development of Community production. If aids - and supplies - are limited by the producing countries to their own markets, because their governments are no longer prepared to finance the burden of subsidizing exports, and no Community aid whatsoever will be made available, it appears out of the question that a Community production target of 270 million t will be met in 1985.

REPORT BY THE COMMISSION

on

National Coal Import Policies
and the World Coal Market

At the Council meeting on 27 March 1979 the Commission was asked to present a report

"on the various national approaches, within the Community, regarding coal imports and a study on the present situation of and the prospects of development for the (world) coal market".

The Commission submits this report herewith.

CHAPTER I

National coal import policies

I. INTRODUCTION

1. Cheap coal available on the world market provides an important stimulus for the consumption of coal instead of oil in the Community, particularly by electricity producers. Likewise, the price of coking coal and coke is an important factor in the competitiveness of the Community's steel industry, and the need to obtain these at lowest cost compatible with security of supply considerations is, therefore, paramount.
2. Table A in the Annex traces the development of coal imports into the Member States during the past 5 years under different angles.

The Community's largest coal importers are France and Italy. The major coal suppliers in 1978 were Poland and South Africa. The steep increase in the Community's coal imports was caused by the rise in steam coal imports.

II. NATIONAL IMPORT POLICIES

3. The ECSC Treaty provides that in the event of a coal shortage, the Community's coal production is allocated to all coal consumers in the Community on an even-handed basis (Article 59). There are no counter-vailing obligations on consumers with regard to coal imported into the Community in such greatly increased quantities or under such conditions as to cause substantial injury to Community coal producers.

"The ECSC Treaty does not provide for a common trade policy in coal and steel. Nevertheless, the Chapter X of that Treaty empower the Commission to take, under certain circumstances, action in the trade policy field, and to issue recommendations, to the Member States .

Up to now, no such actions have been taken on Community level; the different rules relating to imports of coal from third countries are national policies. The following list illustrates the various national concepts regarding coal imports".

4. Belgium : Imports are subject to variable licensing.

Germany : Duty-free imports of up to 5.5 mt per annum permitted in principle, subject to administrative licensing. This quota is open mainly to steam coal quality. Imports are restricted to the North German region.

France : Subject to import licences and handling by a government sponsored import agency (ATIC), the policy has been to import from third countries the quantities required after ensuring disposal of the government-planned level of indigenous production and of any supplies negotiated for deliveries from other Community countries.

United Kingdom : Theoretically unrestricted under "open general licence" but pressure on the state-owned steel and electricity generating industries restricts imports to coal of special qualities not readily obtainable from indigenous sources. The United Kingdom Government has now notified to the Commission its intention to restrict by licensing the import of coking coal from third countries.

Denmark, Ireland, Italy, Luxembourg, Netherlands : Do not restrict imports.

5. The only Community measures directly bearing on imports from third countries on which agreement has so far been achieved between Member States concern the transmission of statistical data about coking coal imports for blast-furnace use and steam coal destined for power stations. Their purpose is to enable the Commission closely to follow market developments.

CHAPTER II

The situation and developments on the world coal market

I. THE SITUATION ON THE INTERNATIONAL COAL MARKET

6. Only a small proportion of world coal production is sold through foreign trade. In 1977 this figure was around 200 million tonnes out of total coal production of 2,500 million tonnes. Approximately 138 million tonnes or 5.5% of world production only were supplied via the world market proper¹, of which 90 million tonnes were accounted for by coking coal. The major part of production is sold within the producing countries. Few countries only export more than they use themselves.
7. The structure of the world coal market in 1977 is outlined in Table B in the Annex.

In 1977 the Community took a third (46 million tonnes) of all world market supplies, the second largest importer after Japan.

8. Geological mining conditions are generally better in the major coal exporting countries than in the Community. This partly accounts for the fact that world market prices for steam coal (CIF Europe approximately \$ 35 per tonne) and for coking coal (CIF Europe around \$ 63 per tonne) are lower than coal production costs in the Community.

II. FUTURE DEVELOPMENTS ON THE INTERNATIONAL COAL MARKET

A. Demand

9. Demand on the world market is certain to rise in the future. General economic expansion and the concomitant rise in energy demand will lead to an increase in demand on the world market. Production costs for coal sold on the world market are low, particularly for steam coal whose production costs are much lower than the world market prices for oil.

¹ Foreign trade after deduction of intra-Community trade, internal COMECON trade and USA supplies to Canada.

10. Any increases in production costs for world market coal in the future will undoubtedly have repercussions on world market prices. Prices will, however, rise if demand on the world market rises more quickly than supply. This might well be the case if the role of nuclear energy is less important than envisaged so far and if the technical processes of coal gasification or liquefaction become commercially exploitable.
11. It can be assumed that Japan and Western Europe will continue in the future to dominate the pattern of demand on the world market, importing additional quantities of power-station coal in particular. Demand for coking coal will rise less sharply on the world market, increasingly shifting, geographically, to the new steel production centres. High-quality coking coal will, however, remain in short supply.

Demand for world market coal in smaller industrialized and a number of developing countries is likely to rise more steeply, in percentage terms, than that of Japan and Western Europe. However, in view of the minimal absolute amounts involved, there will be little change in the present structure of demand on the world market.

12. According to national government forecasts, the Community's net coal imports will rise to approximately 80 million tonnes by 1990. The Commission's initial energy supply scenarios for the year 2000 point to a further substantial increase in the Community's import requirements.

A special report on coal by the ECSC Consultative Committee assumes that the EC coal market will grow to 450-600 million tce in 2000 of which 200-300 million tonnes would have to be imported from third countries.

B. Supply

13. A number of different types of study have been carried out recently by different bodies throughout the world into the possible development of world coal production and world market supplies up to the end of this century. The findings of these studies can only be summarized very generally in this report.

World coal production ¹ estimates for the year 2000 range between two alternatives (5 or 6,000 million tce). The differences between the two sets of results are mainly attributable to different assumptions regarding economic growth, real price levels for energy, the advance which will be made by nuclear energy and the intensity of coal policy strategy to promote the use of coal to replace oil.

14. The studies all concur on the following points with regard to coal supply :

- (a) The three major coal-producing countries, the USA, USSR and China, (approximately 60% of present world coal production) will provide the bulk of additional production but will also use a large share to meet their own needs. However, assuming that there is no change in the proportion of their production available for exports the USA and USSR would provide a growing volume of coal for the world market. Furthermore China may become a medium-sized world supplier.
- (b) Coal production will be stepped up in the coal-producing countries of the Eastern Block. But Poland's supplies to the world market are likely to rise only to a modest extent.
- (c) Within the group of more recent world market suppliers, Australia's production will experience the highest rise, the major share of which will be exported. Increased production in Canada and South Africa is not expected to be as export-orientated.

¹ Coal and lignite

(d) A group of newcomers (India, Columbia, etc.) will bolster the supply of traditional world market suppliers in the medium term, particularly that of steam coal.

15. These estimates could be summarized, in simplified terms, by the following two alternatives :

	1977	2000	
		I	II
1. Coal production (incl. lignite) in 1,000 m tce			
Western industrialized countries	1.0	1.7	2.4
Developing countries	0.3	0.6	0.7
State-trading countries	1.5	2.7	2.9
Total	2.8 ¹	5.0	6.0
2. World market supplies in m tce	140	350	700

On these assumptions the Community should also be able to buy a larger volume of coal on the world market in the long term. If the Community's share of imports in world trade remains unchanged, in percentage terms, imports will range - in strictly arithmetical terms - between 115 and 230 million tce.

16. In these estimates we have assumed that there are sufficient coal reserves in the world. Geological mining conditions in the non-Community countries mentioned make production cheap; a large number of deposits are conveniently placed near the coast for export. The probable real rise in oil prices caused by shortage of supply will spur investment in expanding production capacity. Further delays or rises in the costs of developing nuclear energy would be further incentives. The transport and handling capacities of the majority of the exporting countries are being expanded and may be further extended by the end of the century. The Community's present port capacity should be able to cope with the expected 100% rise in coal imports by 1990.

¹ Of which hard coal production : Western industrialized countries 0.97
Developing countries 0.28
State-trading countries 1.28
Total 2.53

17. Problems may arise with the increase in production and exports described, if the increase in supply is provided mainly by the Western industrialized coal-producing countries. In the USA, for example, which is of special importance here, the relatively wide-spread environmental consciousness will hinder a rapid increase in coal production and consumption. Infrastructure would also have to be expanded to cope with a major rise in exports.

C. Conclusions

18. It is generally accepted that coal must make a growing contribution to the primary energy requirements of the Community in the coming decades.

Coal consumption may double by the year 2000 and it is certain that imported coal will play an increasingly important role. However, quantitative forecasts have frequently proved erroneous in the light of unforeseen political and economic events.

Notwithstanding vast and cheaply recoverable reserves of hard coal in overseas countries and the potential for greatly expanded production in some of these, it cannot be ruled out that various constraints may impede rapid development of the international coal market. Rising demand due to slower nuclear expansion or to a shortfall in oil may convert the present buyer's market for coal into a seller's market. As a consequence, the present gap between world market prices and Community production costs for coal may narrow.

Furthermore, coal producers in exporting countries may face obstacles such as environmental legislation, inadequate transport facilities or shortages of trained manpower. As a result, the world market for coal may prove less reliable than it appears today.

In any case, for the sake of secure energy supplies, the Community must pursue a dual policy with regard to coal. On the one hand, it must maintain a substantial and economically viable coal industry to avoid still greater dependence on imported energy. On the other, reliable trade relations with a variety of coal-exporting countries must be developed to meet growing long-term requirements for coal.

Table ABREAKDOWN OF COMMUNITY COAL IMPORTS

(million tonnes; t = t)

A. By importing countries

	1974	1975	1976	1977	1978
Belgium	4.3	2.4	3.5	3.2	2.7
Denmark	3.5	4.1	4.2	4.6	5.0
Germany	4.8	5.8	5.4	5.6	5.7
France	8.8	10.9	13.8	15.5	15.7
Ireland	0.7	0.5	0.5	0.7	0.7
Italy	9.3	9.6	10.0	10.3	9.6
Luxembourg	-	-	0.1	0.1	0.1
Netherlands	3.0	2.8	3.8	3.8	3.4
United Kingdom	3.4	5.0	2.6	2.1	2.0
Community	38.0	41.2	43.9	46.0	44.9

B. By major exporting countries

USA	12.8	13.8	14.2	10.7	7.6
Poland	15.2	14.6	16.0	14.8	14.9
Australia	3.8	5.8	4.5	6.7	6.7
South Africa	1.2	1.6	3.5	7.8	10.5
USSR	4.1	3.7	4.1	4.2	3.2
Other	0.9	1.7	1.6	1.8	2.0
Total	38.0	41.2	43.9	46.0	44.9

C. By types of coal

Steam coal	14.4	20.0	20.0	24.2	24.3
Coking coal	19.4	17.8	19.9	17.5	17.1
Other	4.2	3.4	4.0	4.3	3.5
Total	38.0	41.2	43.9	46.0	44.9

Table BSTRUCTURE OF THE WORLD COAL MARKET¹ IN 1977

(million tonnes)

Major exporting countries		Major importing countries	
USA	33.7	Japan	60.8
Australia	35.5	Community	46.0
Poland	22.1	Finland	4.3
USSR	13.2	Spain	3.9
South Africa	12.7	Brazil	3.5
Other	21.0	Other	19.7
Total	138.2		138.2

¹ Foreign trade after deduction of intra-Community trade, internal COMECON trade and USA supplies to Canada

