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THE COMMUNITY COAL MARKET SITUATION

(Communication by the Commission to the Council)

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Introduction

1. Coal is by far the Community's biggest domestic energy source and contributes around 20% of total energy supplies. It is vital that production should be maintained, and so far as possible increased within economically justifiable limits, if the Community is to reduce its energy import dependency below the current 60% level. Production, now at 228 million tons[1] per year, has fallen by nearly 9% since 1973 and is well below the 1985 target of 250 million tons.

2. In its message to the Council of 9 December 1976[2], the Commission analysed the situation, and pointed out that the 1985 target is endangered by the stresses and uncertainties for the coal industry resulting from steep rises both in stocks and in coal imports from outside the Community.

3. Clearly, in pursuing the aims of energy policy, a balance must be sought between the interests of coal producers and coal consumers.

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(1) Coal tonnages are calculated in t.c.e. representing 7 000 k/cal per kg

(2) Doc. COM (76) 667 final

Internal Community Situation

4. Two types of coal and their respective production and market are of prime importance for the Community's energy balance: coking coal for the steel industry and steam coal for electricity generation. In 1976, consumption by the former amounted to 73 million tons and by the latter to 119 million tons, or 40% of fuel consumption by conventional power plants.

5. Consumption by the steel industry is determined primarily by the economic climate: it has fallen by 10 million tons (13%) since 1973. An overwhelming proportion of the intra-Community trade, amounting to 15 million tons of coal and 6 million tons of coke in 1976 was for consumption by the steel industry.

On the other hand, coal consumption for electricity generation is largely determined by the prices and availabilitieis of alternative forms of primary energy, by the existence of the requisite plant and by the policies of governments and public authorities. All these currently favour coal consumption near the point of production and offer little scope at present for intra-Community trade. Indeed, little such trade has taken place during the last years, largely because Community extraction costs are higher than for third country supplies and are not compensated for by lower transport costs for Community coal.

6. Due to this pattern of consumption, the Community coal industry has suffered the full impact of the recession in the steel industry without having been able to benefit substantially from the rise in coal demand for electricity generation. As a result, producers' coal and coke stocks stood at 21% of annual coal production at the end of 1976 even though Community coal production had fallen by close on 9% since 1973, and stocks continue to show a tendency to rise. On the other hand, imports from third countries have increased by 42% over the same period[1].

1) See statistical annex.

Interrelation between Community Coal Production and Third Country Imports

Coking Coal

7. No very significant developments in the case of coking coal for the steel industry are expected during the next few years. Imports take place mainly within the framework of long-term contracts or comparable arrangements. Quantities tend to be fairly stable throughout steel industry trade cycles.

8. However, added to these are spot offers from suppliers outside the Community which exercise disproportionate downward pressures on prices during periods when supplies exceed demand, as during the current worldwide steel industry recession. As this is likely to persist for some time, a continued rise in the Community coal industry's stocks of coking coal and coke must be expected in the absence of remedial measures or of price alignments. This threatens to involve the industry in unacceptable losses.

9. The burden either of excessive stocks or of heavy losses produces pressures for the curtailment both of current production and of investment in future productive capacity regardless of long-term prospects. As the known economically exploitable supplies of good coking coal throughout the world are limited, the emergence of a sellers' market for this quality must be expected, resulting in prices which are likely to continue to make Community production competitive in the long-term.

Power Station Coal

10. The largest proportional increases in coal consumption for electricity generation since 1973 have taken place outside the two principal coal producing member countries. For the reasons indicated in paragraph 6, these have largely been met from increased third country imports in spite of rising stocks of Community supplies.

11. So far, the world market in power station coal has not reached the size and organization of that in coking coal. Although long-term contracts are acquiring growing importance, deliveries under short-term contracts or of spot quantities, including quantities of surplus coking coal, continue to play an important part. As the Community's power station coal is generally consumed close to the point of production and under the same national administration, third country imports do not exercise the same short-term pressures on existing Community producer/consumer relationships as those of coking coal, but they inhibit the development of intra-Community trade.

12. In contrast to the coking coal market, great uncertainties overhang the worldwide prospects of demand and supplies of power station coal. Although there are ample economically recoverable reserves in many parts of the world, their exploitation requires much larger infrastructure investments than increased Community production and development of intra-Community trade, and is subject to political uncertainties. In some cases these investments will be a worthwhile contribution to the development of the countries concernes, but there will remain significant Community reserves which could and should be economically exploited.

Problems connected with Third Country Imports

13. The following conclusions arise from paragraphs 7 - 12

(a) The present downward trend on the coal market is affecting only the Community's coal industry, imports having grown in relative and absolute terms.

(b) Spot imports of coking coal have had a depressing effect on prices of disposals from Community producers in the circumstances of the recession.

(c) Imports of steam coal have risen because of rising power station demand, while Community coal supplies have not been able to acquire larger market shares and intra-Community trade has not been practicable because of high costs.

(d) In view of the history of instability of sales of Community coal and the growing volume of imports, coal producers are uncertain about future production plans and about investment in new capacity. The short-term outlook is aggravated by further accumulation of stocks.

Commission Proposals

14. The Community must continue to encourage the consumption of coal so as to reduce oil imports, and imported coal has an important rôle to play; the 1985 target approved by the Council in 1974 was for domestic production of 250 million tons and imports of 50 million tons. But in view of the recent tendency for imports to rise while domestic production falls, the Commission believes that the situation should be kept under close review, and intends to take the following actions:

1. Annually, to report in detail on third country coal imports and to issue forward assessments of the Community coal market in the light of forecasts of Community production, of the development of different market sectors, and of coal imports from third countries.

2. Regularly to examine the forward assessments of the Community coal market with high level representatives of the member states with a view to endeavouring to arrive at common policies.

3. To take appropriate initiatives to encourage the member states to introduce automatic licencing procedures for coal imports from third countries and transmit probptly to the Commission such information as it requires about these imports for the preparation of its reports and assessments.

15. This is the minimum action necessary to enable the Community to keep a watch on the situation. If further developments show the need for further action, these can be considered at the appropriate time.

16. Measures to support Community coal production, and to encourage intra-Community trade in coal, are being pursued separately.

Statistical Annex

Table 1 shows the position of coal in the primary energy balance sheets of the Member states; detailed data for 1976 are not yet available.

Table 2 shows coal consumption trends in the four main sectors: coking plants (mainly the steel industry), power stations, domestic and other consumers. Leaving aside power stations, there have been reductions in both disposals and consumption since 1973, particularly if the trend of coke stocks at coking plants is taken into account (see Table 5). In the case of the coke market, the fall in consumption is a direct consequence of the recession in the steel industry. Coal-burn in thermal power stations was larger in all member countries, particularly so in Germany and France.

Table 3 Coal production has been declining continually since 1973, partly because of falling sales and partly as a result of stagnating productivity.

Tables 4 & 5 The figures of rising stocks should be seen in the context of falling production. For the United Kingdom about 8 million tonnes of power station stocks, stored at the NCB's expense, should be added to Table 4 to bring the relevant figures up to date for the end of 1976.

Table 6 shows the trend of coal imports during the past four years and forecasts by the Member States for 1977. According to these, total coal imports in 1977 would be 50% up on 1973, in spite of lower overall demand for coal.

Tables 7 & 8 The figures for steam coal and other grades are estimates, as statistics for the utilization of imported coal by sectors of consumption are available only for coking plants. Statistical returns have long been made for coking plants but were not introduced for power station supplies until 1976. It is nevertheless abundantly clear that the sharp rise in imports is attributable to a large increase in the use of steam coal, despite a drop in total fuel consumption in thermal power stations in 1974 and 1975. However, coking coal imports also deviate significantly from the falling demand trend resulting from the depressed condition of the steel industry.

Tables 9 & 10 The deliveries and purchases of hard coal and coke in intra-Community trade show the contraction in the common market for coal in 1975 and 1976 compared to the base year of 1973.

Table 11 presents a consolidated forecast of the Community coal market in 1977 based on information obtained from Member States and coal producers in November/December 1976. The "balance sheet" shows a further rise in stocks totalling 8 million tonnes (including coke). The following comments should be made:

B: Some figures may be optimistic as the trend for the steel industry is still uncertain.

D: An additional 2 million tonnes for stocking at power stations (originally envisaged for 1976) may be purchased by the electricity generating industry.

F: Destocking 1.2 million tonnes is an optimistic assumption and depends on a steel industry recovery by 3 to 5% and Electricité de France burn the planned 14.2 million tonnes.

GB: Higher production, e.g. 127 million tonnes will be achieved with a more effective productivity scheme. On the other hand, disposals to the power stations might be lower by ± 3 million tonnes. In the event of both higher production and lower coal burn, additional stocks arising could reach 7 million tonnes.

If all adverse effects materialize the arithmetical result for the Community would be a new rise in coal stocks by ± 11.4 million tonnes plus another 3 million tonnes of coke (converted to coal equivalent) thus increasing total stocks at collieries, at coal industry coke ovens and at power stations in the United Kingdom, stored at the NCB's expense, to some 71 million tonnes at the end of 1977.

Table 1: Gross inland consumption of primary sources of energy and coal share
(in million t.c.e.)

	1973	Coal share in %	1974	Coal share in %	1975	Coal share in %
B	66,4	25,2	64,8	28,1	59,6	22,5
DK	28,0	11,4	25,6	10,9	25,3	12,3
D	379,8	22,4	372,4	23,2	345,5	19,7
F	256,6	15,5	250,1	16,0	234,5	14,9
IRL	10,7	0,7	10,3	0,8	9,3	0,8
I	182,6	6,0	188,1	6,7	181,7	6,2
L	7,3	49,3	7,9	49,3	6,4	43,8
NL	87,8	5,1	86,0	4,8	83,9	4,2
GB	318,2	36,1	306,6	33,5	291,3	35,8
EC	1.337,4	20,9	1.311,8	20,7	1.237,5	19,6

Table 2: Inland deliveries of coal according to consumers' sectors
(in million tonnes; t = t)

	1973	1974	1975	1976 (1)
Coke ovens	107,0	108,1	102,6	101,6
Power plants	127,2	118,7	123,5	146,9
Domestic	23,8	23,2	19,0	19,6
Others	42,3	45,2	36,9	23,9
Total	300,3	295,2	282,0	292,0

(1) Provisional

Table 3: Hard coal output (in million tonnes; t = t)

	1973	1974	1975	1976 (1)
B	8,8	8,1	7,5	7,2
D	103,7	101,5	99,2	95,3
F	25,7	22,9	22,4	22,4
IRL	0,1	0,1	0,1	0,1
NL	1,8	0,8	–	–
GB	130,2	109,2 (2)	127,8	122,0
EC	270,3	242,6	257,0	247,0

(1) Provisional
(2) Output affected by miners' strike

Table 4: Hard coal. Total colliery stocks (end of period) - million tonnes

	1973	1974	1975	1976 (1)
B	0,2	0,2	0,8	1,0
D	9,0	2,4	9,3	11,9 (2)
F	3,4	3,2	5,5	4,1
NL	0,4	-	-	-
GB	10,9	6,0	10,6	8,9
EC	23,9	11,8	26,2	25,9

(1) Provisional
(2) of which 3.8 million tonnes Federal reserve

Table 5: Coke oven coke. Total producers' stocks (end of period) - million tonnes

	1973	1974	1975	1976 (1)
B	0,2	0,3	0,1	0,2
D	7,3	1,7	8,2	12,2 (2)
F	0,5	0,3	1,1	2,2
I	0,7	0,7	1,1	0,8
NL	-	-	-	-
GB	2,3	1,0	2,4	2,5
EC	11,0	4,0	12,9	17,9

(1) Provisional
(2) of which 3.0 million tonnes Federal reserve

Table 6: Hard coal imports (in million tonnes)

a) according to country of destination

	1973	1974	1975	1976 (1)	1977 (2)
B	3,4	4,3	2,4	3,5	3,1
DK	3,0	3,5	4,1	3,6	4,4
D	4,5	4,8	5,8	5,0	5,2
F	5,4	8,8	10,9	13,5	16,6
IRL	0,6	0,8	0,5	0,4	0,4
I	8,7	9,3	9,6	9,4	10,1
NL	2,8	3,0	2,8	4,0	3,6
GB	1,4	3,5	5,0	3,0	2,3
EC	29,8	38,0	41,1	42,5	45,7

(1) Provisional
(2) Member States' forecasts

b) according to country of origin

	1973	1974	1975	1976 (1)	1977
USA	10,1	12,7	13,8	14,5	.
PL	12,3	15,3	14,6	15,1	.
SU	3,7	4,1	3,7	3,8	.
AUS	2,2	3,8	5,8	4,7	.
ZA	0,7	1,3	1,7	3,4	.
Others	0,8	0,8	1,5	1,1	.
Total	29,8	38,0	41,1	42,5	.

(1) Provisional

Table 7: Hard coal imports, according to type of coal (in million tonnes)

Estimates

	1973	1974	1975	1976
Coking coal	17,0	19,4	17,7	18,9
Steam coal	8,0	11,7	17,8	19,1
Others	4,9	6,9	5,6	4,4
Total	29,9	38,0	41,1	42,5

Table 8: Hard coal imports 1976, according to end users' sectors
(in million tonnes)

	Coke ovens	Power plants	Others	Total
B	2,6	0,7	0,2	3,5
DK	0,1	3,5	-	3,6
D	0,1	3,2	1,7	5,0
F	4,3	7,5	1,7	13,5
IRL	-	-	0,4	0,4
I	7,7	1,5	0,2	9,4
NL	2,8	1,1	0,1	4,0
GB	1,3	1,6	0,1	3,0
EC	18,9	19,1	4,4	42,5

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Table 9. Intra-Community deliveries of coal (a) and coke (b) (in 1,000 tonnes)

		1973	1974	1975	1976 (1)
B	a)	343	376	508	320
	b)	329	360	236	300
DK	a)	–	–	–	–
	b)	10	–	6	10
D	a)	13.829	16.636	13.418	12.255
	b)	7.417	8.036	5.080	4.765
F	a)	816	529	461	550
	b)	667	876	454	360
IRL	a)	–	23	46	25
	b)	–	–	14	–
I	a)	–	–	–	–
	b)	40	81	66	70
L	a)	–	–	–	–
	b)	–	–	–	–
NL	a)	1.203	836	260	20
	b)	658	638	595	515
GB	a)	2.560	1.426	1.897	1.655
	b)	78	569	398	200
EC	a)	18.751	19.826	16.590	14.825
	b)	9.199	10.560	6.849	6.220

(1) Provisional

Table 10: Intra-Community receipts of coal (a) and coke (b) (in 1,000 tonnes)

		1973	1974	1975	1976 (1)
B	a)	3.807	5.163	3.854	3.740
	b)	980	1.324	594	555
DK	a)	6	12	12	10
	b)	108	109	105	80
D	a)	3.096	1.509	1.196	1.200
	b)	507	539	502	450
F	a)	7.069	7.579	6.459	5.100
	b)	3.624	4.568	2.770	2.700
IRL	a)	155	177	191	200
	b)	13	7	7	10
I	a)	2.902	3.520	3.068	3.000
	b)	64	78	121	45
L	a)	303	584	477	540
	b)	3.235	3.165	2.332	2.150
NL	a)	1.119	1.174	1.202	760
	b)	617	757	418	230
GB	a)	295	109	131	275
	b)	51	3	-	-
EC	a)	18.751	19.826	16.590	14.825
	b)	9.199	10.560	6.849	6.220

(1) Provisional

Table 11: Balance 1977 (in million tonnes; t = t)

	B	DK	D	F	IRL	I	L	NL	GB	EC
Production	7,2	-	90,5	20,8	0,05	-	-	-	125,0	243,6
Recoveries and corrections	0,7	-	6,3	1,6	-	-	-	-	1,6	10,2
Imports from third countries	3,1	4,4	5,2	16,6	0,4	10,1	-	3,6	2,3	45,7
Receipts from other ECSC countries	3,8	0,1	1,1	4,9	0,2	3,0	0,6	1,2	0,1	(15,1)
Total availabilities	14,8	4,5	103,1	43,9	0,7	13,1	0,6	4,8	129,0	299,5
Power stations (mines, public and autoproducers)	3,3	3,8	37,5	21,5	0,05	1,5	-	1,0	80,6	149,3
Coke ovens	8,3	-	39,4	14,5	-	11,1	-	3,7	23,4	100,4
Industry	1,0	0,5	2,4	2,8	0,1	0,2	0,6	.	7,9	15,5
Domestic	1,7	-	2,5	3,1	0,5	0,1	-	0,1	11,0	19,0
Miscellaneous	0,2	0,2	3,2	2,6	-	0,2	-	-	2,2	8,6
Total inland	14,5	4,5	85,0	44,5	0,7	13,1	0,6	4,8	125,1	292,8
Exports to third countries	-	-	1,2	0,1	-	-	-	-	0,2	1,5
Deliveries to ECSC countries	0,3	-	12,5	0,5	-	-	-	-	1,7	(15,1)
Stock movements										
a) coal	-	-	+ 4,4	- 1,2	-	-	-	-	+ 2,0	+ 5,2
b) coke-oven coke	-	-	+ 2,0	+ 0,2	-	-	-	-	-	+ 2,2