

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## MEMORANDUM

on

the financial aid awarded by the  
Member States to the coal industry  
in 1977

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## CHAPTER I

### INTRODUCTION

1. This memorandum examines the financial aid awarded to the coal industry by the Member States in 1977 from the point of view of its compatibility with the provisions of Commission decision N° 528/76 ECSC<sup>1</sup> and with the proper functioning of the common market.
2. The 1977 memorandum follows a different pattern from that of previous memoranda. This change was made necessary by the fact that aids per tonne have increased in the Member States and producers are holding large stocks, which means that there must be a particularly careful examination of the competitive situation, so as to prevent aids from disturbing the proper functioning of the common market. The Commission has consulted individual undertakings about the problems they are facing. The information thus gained has been used in evaluating aids from the viewpoint of their effectiveness in respect of competition. For this reason the main part of the document is devoted to the economic and financial problems of the undertakings and the competitive situation on the coal market. On the basis of these facts the compatibility of aids to current production with the proper functioning of the common market as set out in Article 3(1) of Decision N° 528/76 is examined. In an Annex the individual aid measures are described, as has been customary, and their compatibility with the other provisions of Decision N° 528/76 examined.
3. Under Article 2 of Decision N° 528/76, the Commission received information regarding aid measures for 1977 from the Governments of the following Member States:
  - the German Government,  
in a letter dated 6 January 1977;
  - the French Government,  
in a letter dated 12 January 1977;
  - the British Government,  
in letters dated 16 January,  
3 March  
1 April 1977.

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<sup>1</sup> Official Journal of the European Communities N° L 63 of 11.3.1976; p. 1.

- the Netherlands Government,  
in a letter dated 14 January 1977
  - the Luxembourg Government,  
in a letter dated 18 December 1976
  - the Danish Government,  
in a letter dated 26 November 1976
  - the Irish Government,  
in a letter dated 31 January 1977
  - the Belgian Government,  
in letters dated 27 May and 8 August 1977
4. Where the Commission obtained knowledge from the reports of Member State Government of economic facts which are covered by the obligation of professional secrecy as set out in Article 47 of the ECSC Treaty, these were not included in this memorandum.
5. In calculating the amount of aid per tonne for 1977, the following output was used as a basis (millions of tonnes, tonne-for-tonne) :

Germany	94.5
France	21.0
Britain	122.0
Belgium	7.0
	<hr/>
Total	244.5
	=====

6. For converting the aid amounts expressed in national currencies into European units of account, the following exchange rates were used :

1 EUA =	2.68 DM
=	5.57 FF
=	0.65 L
=	41.00 Bfrs

7. The Commission's conclusions are set out in Chapter III.

## CHAPTER II

### The situation on the common market in coal in 1977 and the trends in financial aid to the coal industry

#### 1. The situation on the common market in coal

This memorandum deals only with the most significant details of coal market developments, specifically those which are of importance for the granting of aids and the competitive situation. The figures given refer to the current year and are therefore estimates.

The total 1977 demand for coal is not expected to be substantially higher than the 1976 demand. Some changes are to be expected in the structure of this demand, since the demand for power station coal is likely to increase slightly, while the coke-oven requirements will remain unchanged and a reduction in the domestic coal sector is to be expected. Consumption of industrial coal will presumably increase somewhat. Changes in demand are running parallel in all Community countries and are related to the difficulties experienced by the steel industry (coking coal) and the rising overall consumption of electricity, to meet which there is likely to be increased generation of electricity using steam coal.

It should be pointed out that the demand for coal is not the result of free competition with other energy carriers. Energy consumption expanding relatively weakly, there are unused refinery capacities in the oil industry, coal producers have large stocks on their hands, coal imports from non-Community countries are likely to continue increasing and more natural gas and nuclear energy is being put on the energy market; all these facts lead one to expect stronger competition which the Community coal producers cannot face with nothing but their own resources. This means that aids and protective measures will again be needed to strengthen the capacity of Community coal to compete with other energy carriers, or to make it possible to sell it at all.

However, this is in the interests of the Community's long-term energy plans, i.e. stabilization of Community production.

It is of importance for the problems of the coal market in 1977 that the overall demand for coal, which is remaining stable as compared with 1976, can be met from three sources :

- the current production of Community coal;
- the large stocks of Community coal;
- imports from non-Community countries.

Forecasts by the Governments of the Member States show that coal imports from non-Community countries will increase in 1977, mainly because of the increased use of steam coal. As regards Community coal, some increases in stocks - in so far as increases are technically possible - and/or a decrease in production are to be expected.

Under these circumstances it can be foreseen that it is going to be very difficult to obtain acceptance of higher prices for Community coal to offset rising production costs in 1977 - with all that this implies for the financial situation (failure to cover costs) of the mining companies. However, there are two exceptions :

- British steam coal is relatively well-placed to compete with fuel oil.
- Under the third electricity-from-coal law, Community steam coal can be sold to German power stations at break-even prices. The extra costs incurred by the power stations in buying coal instead of oil are offset from a fund maintained by levies.

At the same time, it must be pointed out that prices on the Community's steam coal market are not so much influenced by fuel oil as coming increasingly under pressure from imported steam coal.

Polish and South African steam coal is being offered at between \$ 30 and \$ 35 cif Europe. These prices are far below the price of fuel oil or natural gas and have thrown the fuel market into turmoil. The Community's coal industry is faced in 1977 with the problem of holding its own in the market by adjusting its prices in response to specific circumstances so as to meet drops in prices caused by imported coal.

Prices are also on the move on the coking coal market. In October 1976 the Commission noted an average price of \$ 63.80 per tonne for coking coal supplied by Australia and the USA under long-term contracts; in the meantime, the price has gone down to \$ 62.00 per tonne. Furthermore, a number of importers have managed to put coking coal on the market at a price of \$ 50 per tonne, having obtained it under short-term contracts. Although there is a limited amount of this cheap coking coal, it has upset the market in the same way as happened with steam coal and causes the well-known difficulties which the undertakings find in defending the market against price drops.

Prices for domestic coal are also under some pressure. The supply of Community anthracite is on the decrease, because it is no longer profitable to mine it, while imported anthracite - primarily from Russia - is so cheap, particularly in the Benelux states, that it is able to compete with light fuel oil and natural gas.

There is every indication that in 1977 excess supplies of Community coal will be available on the Community market and that prices will come under pressure not only as a result of this situation but also because there could be stronger competition from other energy carriers. As regards oil and non-Community coal, it should be noted that not only prices but also changes in currency parities may exert a decisive influence on the competitive situation, since the prices of these imported energy carriers are calculated in US dollars.



2. The financial situation of the coalmining undertakings in the Community

In view of the competitive situation on the Community coal market described above, the mining undertakings will find scope for price increases in 1977 only in some cases and under special circumstances. However, it may safely be assumed that production costs will continue to rise in 1977.

The increase will vary in individual countries depending on the inflation rate. However, it may be assumed that for all mining undertakings in the Community the discrepancy between the rise in output per manshift and in wages will mean increased costs. The 1977 increase in output per manshift is unlikely to exceed a rate which may average 3% for the Community. Wage increases - however such they may vary from country to country - will certainly exceed the increase in o.m.s. and, in view of the high labour-cost-intensity of coal mining (60 % of the total production costs are labour costs), the increase in total production costs will probably exceed the general inflation rate, i.e. there will be increases in real costs.

In 1976 the returns from coal sales only partially covered production costs.

Table A

Production costs<sup>1</sup> and returns of Community coal mines in 1976

EUA/t (t for t)

	Production costs	Returns	Difference
Germany	51.-	47.-	- 4.-
Belgium	72.-	43.-	- 29.-
France	56.-	38.-	- 18.-
Britain <sup>2</sup>	30.-	29.-	- 1.-

<sup>1</sup> full costs, including capital service and depreciations; rounded-off figures;

<sup>2</sup> including opencast mining

What with rising costs and small room for price increases, the financial situation of the mining undertakings is bound to deteriorate in 1977. The logical consequence of this is that they will need larger subsidies.

3. The trends in financial aid by the Member States to the coal industry in 1977

Aids granted under Article 4 and 5 of Decision No 528/76 are compatible with the common market, provided they do not exceed certain limits. Aids under Article 4 are for social security benefits and those under Article 5 to help cover inherited liabilities. The relevant explanations are to be found in the Annex on pages A1 to A8. Such measures are therefore not included in the examination of the proper functioning of the Common market. The figures are in Table 1 of the Annex. They show that, in comparison with 1976, there<sup>are</sup> some considerable increases in 1977. As regards social measures within the meaning of Article 4, the increases are mainly the result of the constantly deteriorating ratio between employed and those receiving unemployment benefits. The rise in the cost of covering inherited liabilities within the meaning of Article 5 is partly the result of further pit closure because of rationalization and partly of increased prices and costs in some categories of inherited liabilities (costs for closures, water supply and disposal of waste water, free delivery of coal to workers, etc.).

Aids to current production are those direct and indirect measures which are defined in Articles 7 to 12 of Decision No 528/76 and which provide the criteria in judging the proper functioning of the common market. Details of these measures and what they cost are available in the Annex (page A8 onwards or Table 2).

Comparing developments in 1977 with those in 1976, we see the Member States expect the financial situation of the mining undertakings to deteriorate and have increased aid sums accordingly (see Table B).

Table B

Aids to current production

	Total sums		Amounts per tonne	
	Million ECU		ECU	
	1976	1977	1976	1977
Germany	223.5	373.6	2.32	3.95
Belgium	177.6	215.3	24.67	30.75
France	312.2	415.0	14.26	19.77
Britain	25.8	59.1	0.21	0.48
Community	739.1	1 063.0	2.98	4.35
of the total sums the following were allocated to :				
- direct measures	37.0	58.5	0.15	0.24
- aids to coking coal	49.7	233.0	0.20	0.95
- indirect measures	652.4	771.5	2.63	3.16
breakdown: Art. 7 (Investments)	110.8	94.6	0.45	0.39
Art. 8 (Personnel)	43.8	46.9	0.17	0.18
Art. 9 (Stocks)	29.2	16.6	0.12	0.07
Art. 10 (Strategic reserves)	27.6	44.8	0.11	0.18
Art. 11 (Power station coal)	-	10.3	-	0.04
Art. 12 (Loss coverage)	441.0	557.8	1.78	2.28

These figures show that it is mainly the coking coal aids and the aids for covering operating losses which have increased. They also show that the differences between the producing countries as regards the amount of aid per tonne granted have increased. Belgian and French aids are unusually high in comparison with those in Germany and Britain. The sum of 3.96 ECU per tonne for Germany in this international comparison following the provisions of Decision No 528/76 is correct statistically and according to the definition, but it has only a limited validity for a substantial comparison with the other Community countries. This is due to the third electricity-from-coal law, which lays down that German power stations must buy steam coal from the coal industry at break-even prices.

The additional cost, incurred by the electricity companies by using coal instead of oil is offset by increasing electricity prices. In 1976 this offset amount was some DM 1.5 thousand million (= 5.37 EAU/t coal output). This sum is not included in the list of aids, since it is not a state aid.

The information contained in Chapter II of the Annex (see page A/8) shows that the financial measures planned by the Member States for 1977 are compatible with the criteria set out in Articles 7 to 12 of Decision No 528/76. However, it is necessary that all aids be examined for compatibility with the proper functioning of the common market as set out in Article 3(1) of Decision No 528/76.

4. Compatibility of the financial measures planned for 1977 with the proper functioning of the common market

(a) General points of view

(a.1) The aid amounts per tonne for 1977 cited in Table B on page 8 show that the German and British amounts are relatively small and that there is a considerable gap between them and those granted by Belgium and France. This difference in amount is not to be regarded as indicating a distortion of the competition between the coal producers. Essentially, the common market in coal consists of geographically separated sub-markets which are not subject to competition from several Community producers. There are only a few "contested" areas in which several producers offer their products at the same time and the quantities of coal sold in these areas are relatively small, accounting for only about 2% of output. Alignment by Community producers on the prices of other Community producers applies only to 2.7 million t, 1.1% of Community output, in 1976. In view of this, it cannot be stated that competition is being disrupted because there are such differences in the amount of aid granted. There are, however, problems in individual cases, as checks by the Commission showed; remarks on this topic follow under (b).

(a.1) Supplies of coal and coke to the Community in 1977 can be regarded as assured. Pit closures envisaged in 1977 as part of rationalization measures will have no influence on supplies. The large pithead stocks and current production provide absolute security of supply. Though production will be reduced in some cases by introducing short-time working, this is being done only to slow down the growth of stockpiles. It may therefore be said that aids will not affect supply in 1977.

(a.3) According to the forecasts there will be no noticeable change in the volume and structure of coal trade within the Community in 1977. The total volume in 1977 - as in 1976 - will amount to some 15 million tonnes. The largest share of this will be accounted for by German coking coal deliveries to other Community countries.

Table C

Coal deliveries to other Community countries      1 000 t

	Germany	Belgium	France	Britain	Total
1976	12 585	310	550	1 555	15 000
1977	12 540	300	475	1 730	15 045

Deliveries of German coking coal to other Community countries are closely related to the situation in the steel industry. Because of the specific suitability of this coal the real competitive problems are not between Community producers, but in relation to coking coal imported into the Community.

Belgian steam and home coal is sold in France and Germany. The amounts are small and have to compete with coal imported from non-Community countries.

France exports mainly steam coal, predominantly from Lorraine to Southern Germany. The Commission found that there were some price problems in connection with these deliveries in 1976, which were settled in 1977 (see (b.4)).

Britain exports steam coal, mainly to Germany, Belgium, France and the Netherlands. In the light of overall British production, these exports are relatively small and, in view of the rising imports of steam coal from non-Community countries, it might well be asked why this relatively cheap coal has not become more firmly established on the continental market. This question cannot be answered by pointing to distortions of competition with other Community producers. In Germany the sale of British steam coal to power stations near the coast depends on the pressure of competition from non-Community coal. As regards the conclusion of long-term supply contracts and the application of the third electricity-from-coal law, it must be pointed out that this law applies not only to German coal but also to coal from other Community countries. In the other Community countries British coal is subject exclusively to the strong competition of imported non-Community coal. Prices for South African, Australian and US steam coal, cif Europe, are 33-34 S/t. Power stations in France, Belgium and the Netherlands demand that British prices be brought down to that level, but the British producer is not always prepared to do this. Contracts or sales are therefore relatively rare.

Generally speaking, the conclusion can therefore be drawn that aid measures have little influence on intra-Community trade.

- (a.4) Rationalisation of output is to be achieved in 1977 by two forms of aid : a number of non-viable pits are to be closed in France's Nord/Pas de Calais and Centre-Midi coalfields, the pace of the closures being so arranged that regional

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and social problems will be avoided; the same applies to closures in Southern Belgium. In Germany investment aids are being granted to enable undertakings to modernize the pits. All these measures serve to rationalize Community coal output, free the Community from the burden of unprofitable pits and maintain in a competitive condition those pits which have been chosen to provide future supplies.

**(b) Particular aspects affecting the trend in coal prices**

(b.1) Changes in coal prices in a number of selected Community coalfields can be seen in the following table.

**Table D**

**Trend in coal prices in national currency per Tonne**

	Date	Steam coal		Coking coal	
		1.9.76	1.3.77	1.9.76	1.3.77
<b><u>Germany</u></b>					
RAG	DM	157.50 <sup>1</sup>	157.50 <sup>1</sup>	165.50	165.50
Saarbergwerke	DM	173.00	173.00	180.00	180.00
Aachen	DM	157.00	157.00	167.50	167.50
<b><u>Belgium</u></b>	Bfrs	2 450.00	2 450.00	1.6.76 : 1.7.76 : 1.1.77 :	2 350.- <sup>2</sup> 2 150.- <sup>2</sup> 2 050.- <sup>2</sup>
<b><u>France</u></b>	Date	1.9.76	1.4.77	1.9.76	1.4.77
Nord/Pas-de-Calais	FF	-	-	320.00	340.00
Lorraine Nuts 2	FF	235.00	250.00	338.00	360.00
Nuts 5	FF	209.00	222.50		
<b><u>Britain</u></b>	Date	1.9.76	1.3.77	1.9.76	1.3.77
North Yorkshire	£	22.05	25.35	25.10	28.85
Nuts 2	£	19.98	22.98		
Nuts 5					

<sup>1</sup>Long-flame coal nuts 5

<sup>2</sup>Agreed price for sales to the steel industry

As the table shows, coal prices remained stable only in Germany between the autumn of 1976 and the early part of 1977; they went up in France and Britain, while the price of coking coal in Belgium fell.

- (b.2) As provided for by the third electricity-from-coal law, German steam coal prices are linked to the production costs of the mining industry and are higher than the prices for heavy fuel oil. There are no indirect aids to industrial coal consumers.

Prices for German coking coal are the same as those of imported coking coal, so that there are no indirect aids to industrial consumers.

- (b.3) No problems are expected in 1977 with the prices of British steam and coking coal; they are unlikely to bring about indirect aids to industrial coal consumers.

- (b.4) French steam coal is sold at prices aligned on a composite price formed from the relatively low price for imported non-Community steam coal and the prices of fuel oil. There are no indirect aids to industrial coal consumers. The same applies to coking coal prices, which are the same as those for imported coking coal.

The Commission found that there <sup>were</sup> some difficulties in 1976 in connection with sales of French steam coal on the South German market, where Lorraine coal is in competition with Saar coal. In some cases the price of French steam coal was slightly less than that of German fuel oil. Steps were taken to see to it that in 1977 the undertakings in question would not undercut fuel oil.



The Commission has also been concerned since 1976 with difficulties arising from the sales of french industrial coke from the Centre-Midi coalfield on the Italian market. The negotiations with the parties concerned were still going on when this memorandum was written. Should they be unsuccessful, the Commission reserves the right to take appropriate measures.

- (b.5) As provided for by Belgium's energy price pool, the prices of Belgian steam coal are based on those of rival fuels. This means that there are no indirect aids to industrial coal consumers.

As from 1 January 1977 the price of coking coal from the Campine field went down from Bfrs 2 150 per tonne to Bfrs 2 050 (see Table D). The price of Bfrs 2 050 per tonne is <sup>80</sup> Bfrs below the cif price of US coking coal on the basis of long-term contracts. This situation is the subject of negotiations between the Commission and the Belgian Government. Since a loss-covering subsidy of Bfrs 3 100.2 million was granted for the Campine field in 1977 on the basis of Decision No 528/76 and a coking coal subsidy of Bfrs 2 700.0 was requested in accordance with Decision No 73/287, the Commission takes the view that the aids requested under Decision No 528/76 can be approved, but that examination of coking coal problems still under way can in no way be prejudiced. The Commission therefore reserves the right to return to the matter of approving loss-covering subsidies for the Campine field if necessary.

(c) Conclusions about the proper functioning of the common market

On the basis of the preceding facts the Commission has come to the following conclusions :

- German and British coal prices are not expected to disturb the proper functioning of the common market in 1977.
- The prices of France's Nord/Pas-de-Calais and Lorraine coalfields are compatible with the proper functioning of the common market. The prices of coke supplied to the Italian market by the Centre-Midi field represent a disruptive factor which may cause the Commission to take appropriate measures.
- Belgian prices for steam coal are compatible with the proper functioning of the common market. The Commission intends to continue negotiations with the Belgian Government on the coking coal prices of the Campine coalfield. The Commission reserves the right to return to the matter of approving loss-covering subsidies for the Campine field if necessary.

CHAPTER III

Conclusions

1. Predictions regarding the situation on the Community coal market in 1977 indicate a deterioration in the Community mining industry's financial returns. Stagnating sales, little increase in productivity, large pithead stocks and rising production costs will mean higher operating losses than last year. The result is that the amount of aid to be granted for current production in the Community has risen from 739 million EUA in 1976 to 1 063.0 million EUA in 1977; the Community average of aid per tonne of production rose from 2.98 EUA to 4.35 EUA.

The differences between the aid sums granted by the coal-producing Member States have increased.

2. The Commission examined the compatibility of the measures envisaged for 1977 with the provisions of Decision No 528/76 in each Member State, coming to the following conclusions :
  - The aids envisaged for the German and British mining industries' current production are compatible both with Articles 7 to 12 of Decision No 528/76 and with the proper functioning of the common market as set out in Article 3 of that Decision.
  - The aids envisaged for the current production of the French mining industry are compatible with Articles 7 to 12 of the Decision, but the proper functioning of the common market has been disrupted by difficulties arising from sales of French industrial coke on the Italian market. As regards approval of aid for the Centre-Midi coalfield, the Commission reserves the right to take appropriate measures.
  - The aids to the Belgian coal mining industry are compatible with Articles 7 to 12 of the Decision, but - because of the unsolved problem of the Campine coalfield's coking coal prices - the Commission reserves the right to return to the matter of approval of loss-covering subsidies for the Campine field, if necessary.

A N N E X

Survey of financial aid awarded by the Member States to the  
coal industry in 1977

Examination of the compatibility of the measures envisaged with  
the provisions of Decision No 528/76/ECSC

Tables

I. Aids not related to current production

These aids are related to social measures and the covering of inherited liabilities deriving from earlier pit closures.

A. Description and assessment of financial measures in the social security field

Article 4 of Decision No 528/76/ECSC states that contributions by Member States to the financing of social security benefits shall be considered compatible with the common market, provided that, for undertakings in the coal-mining industry, they bring the ratio between the burden per miner in employment and the benefits per person in receipt of benefit into line with the corresponding ratio in other sectors.

The following section is concerned solely with the amount of financial aid given in the social sector and, where appropriate, with cases where the limits set out in Article 4 of Decision No 528/76/ECSC have been exceeded.

A.1) GERMANY, FRANCE, BELGIUM

In Germany DM 7 160 million are envisaged to cover the deficit in the surviving dependants pension scheme of the mining industry as a whole, some 80% - DM 5 728 million - of which goes to the coal industry.

Information provided by the French Government show that state aid to the French coal industry in the social sector in 1977 will amount to FF 5 247 million. The following table gives details.

Source	Expenditure (in million FF)	Purpose
State	2.422.0	<u>Disability and old-age pensions insurance</u> Regular contribution amounting to 22% of wages subject to contribution, and additional State adjustment
General system	343.0	<u>Disability and old age pensions insurance</u> Regular contribution to cover part of "exceptional expenditure" (amount fixed by law)
General system	823.0	<u>Insurance against industrial accidents and occupational diseases</u> Regular repayment of inherited liabilities
General system	599.0	<u>Sickness insurance</u> Treatment benefits
State	641.4	<u>Disability and old-age pensions insurance</u> "Exceptional expenditure" in coal-mining industry within the meaning of Article 4 of Decision No 528/76
General system	419.0	<u>Supplementary scheme : workers' retirement pensions</u>
Total	5 247.4	

State contributions to the financing of social security benefits for the Belgian mining industry may be estimated at Bfrs 22 558.0 million for 1977.

The following table gives details.

Source	Amount of State subsidies (million Bfrs)	Purpose
State	9 546.2 <sup>1</sup>	<u>Old-age pension and insurance of surviving dependants</u> Regular statutory contribution
State	1 748.9	<u>Old-age pension and insurance of surviving dependants</u> Contribution to cover the deficit
State	4 579.0	<u>Disability pensions insurance</u> Disability pensions
State	6 683.9	<u>Occupational diseases</u> 50% of the expenditure arising from miner's pneumoconiosis
Total	22 558.0	

<sup>1</sup> Commission estimate

Calculations by the Commission reveal that Germany, France and Belgium have not exceeded the limits set in Article 4 of Decision No 528/76 :

- In Germany the undertakings' actual welfare expenditure is DM 177 million (4.9%) higher than the normal expenditure defined in Article 4.
- In France the State subsidy to Charbonnages de France (FF 641.4 million) means that actual social expenditure and normal expenditure coincide.
- In Belgium the undertakings' actual social expenditure is Bfrs 265.3 million higher than the normal expenditure defined in Article 4.

(A)  
2 UNITED KINGDOM

Apart from the general social security system - into which the coal industry is integrated - the United Kingdom possesses a special fund for paying additional benefits to former miners. The British Government will pay £ 28.2 million into the fund in the 1977/78 coal marketing year. This is the amount by which pension payments to former miners are higher than the expenditure incurred by the National Coal Board and the limits set in Article 4 of Decision No 529/76 are consequently exceeded.

Article 68 of the ECSC Treaty states that the methods used for fixing social security benefits shall not be affected by the Treaty if a change in the arrangements for the financing of social security does not produce any of the effects mentioned in Article 67(2) or 67(3), i.e. if the change in the arrangements does not provoke a serious disequilibrium. In these circumstances, the effects of the £ 28.2 million on the competitive position of British coal in the Community must be subjected to an examination embracing all aids. The examination conducted in Part I of this document revealed that the British aids did not disturb the proper functioning of the common market.

(A.3) Summary of financial measures in the social security sector

As Table 1 in the Annex reveals, State intervention in the social security sector of the coal industry will be 17.8% higher than in 1977 and will total 3 673 EUA.

B. Description and assessment of the financial measures to cover inherited liabilities

Pursuant to Article 5 of Decision No 528/76 measures taken by Member States to assist the undertakings to cover the costs arising from pit closures which are not related to current production and the sale of coal shall be compatible with the common market provided that the amounts involved in such measures do not exceed the amount of such costs, i.e., the inherited liabilities.



Any sums in excess thereof represent direct aid to current production and are to be regarded as aid pursuant to Articles 7 to 12 of Decision No 528/76.

(B<sub>1</sub>) GERMANY

For 1977 the Federal Government has planned the following measures to cover inherited liabilities :

	<u>million DM</u>
- Aktionsgemeinschaft scheme :	
- Closure premium	82.5
- Dispensation from obligations arising under the Equalization of Burdens Law	<u>22.5</u>
Sub-total	105.0
- Aid for water-control costs	94.3
- Aid to cover expenditure resulting from contraction	96.9
- Aid to cover inherited liabilities	185.5
- Aid to cover Ruhrkohle AG's closure write-offs	<u>48.0</u>
Total	<u>529.7</u> =====
	(= 197,6 million EUA)

All the above liabilities represent liabilities inherited by the undertakings, i.e. those resulting from the closure of pits in previous years, and therefore do not relate to current production.

These measures constitute aids also granted in previous years.

Through the Aktionsgemeinschaft Deutscher Steinkohlenbergbau (Action Association of German Coal-Mining Undertakings), the Federal Government pays the undertakings concerned a premium of DM 20/t of annual capacity for all closures undertaken in 1977. These closures are made to rationalize production. The aid covers only a small fraction of the actual costs that have to be borne by the undertakings in connection with closures.

The public authorities will pay DM 22.5 million to the equalization of burdens fund as aid to cover the equalization of burdens payments, and thereby release closed pits from their obligations. The level of the aid is equivalent to the costs charged.

The sum of DM 94.3 million for water control costs will be paid to the Ruhr mining industry specifically to cover the financial burden arising from closures since 31 December 1966. As a result of pit closures, the Ruhr coal-mining industry bore a heavy burden in the form of constantly rising contributions to water control associations and the Pumpgemeinschaft Ruhr (Ruhr pumping association). The aid does not exceed the actual additional costs to be borne by the undertakings.

The sum of DM 96.9 million to cover expenditure resulting from contraction is additional to the closure premiums which (as mentioned above) do not cover actual costs of closures. This measure concerns liabilities arising out of pit closures since 31 December 1972. The aid is spread over a period of five years in the form of a flat-rate payment of DM 30 for every tonne by which annual capacity is reduced, but not exceeding actual costs borne by the undertakings as a result of the closures.

The sum of DM 185.5 million as aid for covering inherited liabilities concerns those inherited liabilities arising from pit closures before 1 January 1973. The relevant German laws ensure that the aid does not exceed actual liabilities borne by undertakings.

The sum of DM 48.0 million as aid towards closure write-offs only concerns Ruhrkohle AG. In previous years the Ruhrkohle AG has had to include depreciation for assets lost as a result of pit closures which could not, however, be included in the profit and loss account since this would have bankrupted the undertaking. A special item was therefore introduced on the assets side of the balance and on 31 December 1976 this amounted to DM 670 million.

Because of the unfavourable economic situation, the undertaking is not in a position to write off this special item in annual instalments and the public authorities have therefore agreed to take over DM 480 million of the total sum - payable in 10 equal annual instalments of DM 48 million.

All the above measures show that the requirements of Article 5(1) of Decision No 528/76 are met. The total sum involved in these measures in 1976 is 197.6 million EUA and is included in Table 1 of the Annex.

(B<sub>2</sub>) FRANCE, UNITED KINGDOM, BELGIUM

For 1977, the French Government has allocated a sum of FF 321.0 million (57.6 million EUA) as aid towards covering inherited liabilities borne by Charbonnages de France. This sum in aid is intended to cover the following inherited liabilities :

	<u>Million FF</u>
Contribution to early retirement pensions	16.0
Premiums, lump sums for retrained personnel, cost of housing for those retiring early	51.0
Financial liabilities in respect of those retiring early	242.0
Concessionary allowances for those retiring early	12.0
Total	<u>321.0</u> =====

Broken down between coalfields as follows :

Nord/Pas-de-Calais	207.0
Lorraine	29.0
Centre-Midi	85.0

The Commission estimates that the actual liabilities borne by the Charbonnages de France are the same as the sum granted in aid.

In 1977 the British Government plans to introduce the following measures under Article 5 of Decision No 528/76 :

	<u>Million £</u>
Redundancy payments to miners affected by pit closures	6.21
Early retirement payments	2.38
Aid in respect of concessionary coal for pensioners	3.59
Total	<u>12.18</u> (18.7 million EUA)

The United Kingdom measures cover inherited liabilities arising out of pit closures; these liabilities are the same as the sum granted in aid.

For 1977, the Belgian Government has set aside a sum of Bfrs 44 million (1.1 million EUA), as aid towards covering inherited liabilities in its Southern coalfield. Of this sum Bfrs 14 million is to be used to cover damage from subsidence and Bfrs 30 million to cover water control charges. The Commission estimates that the costs arising out of subsidence and water control following pit closures for which undertakings in the Southern coalfield are responsible, are the same as the sum granted in aid.

To summarize, it can be said that the Belgian, French and United Kingdom measures listed above meet the criteria of Article 5(1) of Decision No 528/76.

(B<sub>3</sub>) Summary of the measures to cover inherited liabilities

As can be seen from Table 1 of the Annex, the planned state aids to cover inherited liabilities in 1977 will total 275 million EUA for the Community as a whole an increase of 26 % over 1976.

II. Financial aid relating to current production

All aids that are not social measures within the meaning of Article 4 of Decision No 528/76, or aids to cover inherited liabilities within the meaning of Article 5, are aids to current production.

Aid to current production may be granted directly or indirectly to undertakings.

A. Indirect financial aid to current production in the coal mining industry

Indirect financial aid covers all measures which Member governments announce in accordance with the first paragraph of Article 2(1) of Decision No 528/76 but which do not come into the category of the direct measures defined in

Articles 7 to 12 of the Decision. Indirect measures are reported to the Commission under Decision No 528/76 and assessed according to the provisions of the ECSC Treaty.

Only Germany, Belgium and France have announced indirect aid to the coal industry for 1977. No new measures have been taken.

(A<sub>1</sub>) Description of the German, Belgian and French measures

Germany proposes the following measure in 1977 :

Law to promote the utilization of coal in power stations  
(1st electricity-from-coal law). Probable reduction in  
tax revenue :

DM 100.0 millior  
(37.3 million EUA)

The indirect financial measures planned by the  
Belgian government in 1977 involve the following  
sectors :

Expenditure on season tickets or cheap holiday  
tickets for miners, pneumoconiosis sufferers

Bfrs 5.0 million

Subsidies to the Miners' National Pensions Fund to  
compensate for new expenditure on welfare arising  
from the increase in the miners' annual holiday  
allowance, the introduction of new sickness benefits  
and longer annual holiday (Article 32.12 and 32.14  
and Article 0104 in the Economic Affairs Ministry's  
Budget)

Bfrs 625.0 million

Total

Bfrs 642.0 million

=====

(15.7 million. EUA)

The French government plans a State subsidy of FF 30.0 million (5.4 million EUA) for the research programme of the "Centre d'Etudes et Recherches des Charbonnages de France (CERCHAR)" in 1977.

(A<sub>2</sub>) Assessment of indirect financial aid to the coal industry

The Commission has examined the above mentioned measures which have already been in force for several years, and does not consider that they violate the ban on subsidies set out in Article 4 of the ECSC Treaty.

(A<sub>3</sub>) Summary of indirect measures

Table 2 of the statistical annex gives the relevant figures under A2. In 1977 indirect aid to the coal industry rose to 58.5 million EUA as compared with 37.0 million EUA in 1976.

B. Direct financial aid to current production in the coal-mining industry.

In accordance with the provisions of Decision No 528/76, direct aid to current production includes all measures based on Articles 7 - 12.

(B<sub>1</sub>) Federal Republic of Germany

- a) The extent to which direct financial aid to current production in the German coal-mining industry is compatible with the provisions of Articles 7 - 12 of Decision No 528/76.

The Federal Government proposes to continue in 1977 the aids already granted in 1975/76. However, one measure: cover for the Ruhrkohle AG's amortization instalments, which continued in 1976 is being discontinued in 1977.

Legal basis under Dec. No 528/76	Measures	Amount of aid			
		Total		Per tonne of product.	
		Million DM	Million EUA	DM	EUA
Art. 7(1)	Investment aid	217.5	81.2	2.30	0.86
Art. 7(3) sub.s. 3	Promotion of innovation	36.0	13.4	0.38	0.14
Art. 8	Mineworkers' bonuses	115.0	42.9	1.22	0.45
Art. 10	Aid to security stocks	120.0	44.8	1.27	0.47
	Total	488.5	182.3	5.17	1.92

In addition to the aids mentioned above the Federal Government is to grant a coking coal aid to the value of DM 446 million, an aid to production pursuant to Decision No 287/73. The aid covers four quarters, three of them in 1977 (DM 334.5 million) and one in 1978 (DM 111.5 million).

The investment aid of 81.2 million EUA is intended for investment projects in pits, coking plants, briquetting plants and pithead power stations. In 1977, total investment in the German coal-mining industry will come to over 350 million EUA. Investment aid will represent about 25 % of total investments.

In relation to the Community's new policy for coal, this investment aid is to be regarded as beneficial since it will promote the long-term stabilization of production in the German coalfields. The aid complies with the provisions of Article 7(1) of Decision No 528/76.

The sum of 13.4 million EUA to promote innovation is intended to ensure that research results are applied to production as quickly as possible. The aid covers just under half of the costs borne by the undertakings and is granted in respect of individual projects which, when completed, are likely to prove their economic worth to coal-mining in the medium term. The purpose and amount of this aid show that it is compatible with Article 7 of Decision No 528/76.

Mineworkers' bonuses, amounting to 42.9 million EUA, have applied since 1956. A bonus of DM 5 is paid for every shift worked underground, thus ensuring that the qualified mineworkers required for the German coal industry to increase its output stay in coal-mining. The measure therefore meets the provisions of Article 8 of Decision No 528/76.

The sum of 44.8 million EUA as aid towards building up long-term security stocks is a measure introduced by the Federal Government in order to increase the long-term security of energy supplies. For this purpose, the Notgemeinschaft Deutscher Steinkohlenbergbau (Emergency Association of German Coal-Mining Undertakings) bought up 10 million tonnes of coal and coke. The Federal Government covers only part of the actual current cost of maintaining these stocks in 1977, by granting an aid of DM 120 million. The aim and sum involved show that the measure meets the requirements of Article 10 of Decision No 528/76.

The foregoing remarks show that the financial measures planned by the Federal Government for 1977 in favour of the German coal-mining industry comply with the provisions of Articles 7, 8 and 10 of Decision No 528/76.

(b) The extent to which direct measures in favour of current production in the German coal-mining industry are compatible with the proper functioning of the common market

An assessment of the extent to which German aids are compatible with the proper functioning of the common market requires consideration of all direct and indirect aids for current production in 1977 (Article 3(2) of Decision No 528/76).

The relevant figures are given in a summary table (see Statistical Annex, Table 2).



By this method of calculation, the total proposed aid under the German measures amounts to 373.6 million EUA, i.e. 3.95 EUA/t.

As regards the compatibility of German aids with the proper functioning of the common market, reference is made to the comments in the main body of this document (see p. 9).

(B<sub>2</sub>) France

- (a) The extent to which direct financial aid to current production in the French coal-mining industry is compatible with the provisions of Articles 7-12 of Decision No 528/76

The French Government did not provide for any new measures in 1977, but continued with aids instituted in previous years; this involves only loss-covering aid;

Legal basis under Dec. No 528/76	Measure	Total		Per tonne of production	
		million FF	million EUA	FF	EUA
Article 12	(a) Cover for the losses by the central administration of the Charbonnages de France	196.0	35.2	9.33	1.68
	(b) Cover for the coalfields' operating losses	2 080.2	373.5	99.06	17.79
	Total	2 276.2	408.7	108.39	19.47

In addition in the above mentioned aids, an aid for coking-coal of FF 4.4 million is to be granted.

Part of the French aid to cover losses is paid to the head office of Charbonnages de France, which keep separate accounts from those of the coalfields, and part is paid to the coalfields, but the reasons for granting aid vary since the situation varies from coalfield to coalfield.

For the purpose of assessing aid to head office, Charbonnages de France has to be regarded as a single company; i.e. the aids to head office and to the coalfields are consolidated. According to the estimates and interim results so far available for 1977, it is probable that the total sum in aid, namely FF 2 276.2 million will remain below the anticipated total losses of Charbonnages de France.

The following points are relevant in connection with aid to the individual coalfields;

- In 1977, the Nord/Pas-de-Calais and Centre-Midi coalfields are to receive aid to cover losses. This aid will not nearly cover the losses of the coalfield, and even <sup>after</sup> it has been paid substantial real-asset losses to the coalfield will remain. These losses of assets are the result of pit closures. In these coalfields, six coking plants, briquetting plants and pits are likely to be closed in 1977, affecting approximately 2 000 employees. Further contraction is included in the future production plans for these coalfields and this is to be coordinated with measures to re-employ redundant miners in order to avoid serious economic and social problems in regions where re-employment opportunities are still inadequate. This means that the aid to these coalfields fulfils the requirements of Article 12(1), subsection<sup>1</sup> and 12(2) of Decision No 528/76.

- The aid to cover losses in the Lorraine coalfield will not cover all anticipated operating losses in the coalfield, but will go a long way towards it. No pits are to be closed in this coalfield in 1977. As far as possible, production there is to be maintained since the coking coal is essential for supplies to the steel industry. The purpose and amount of the aid therefore comply with Article 12(1), subsection 2, and Article 12(3) of Decision No 528/76.

(b) The extent to which direct aid in favour of current production in the French coal-mining industry are compatible with the proper functioning of the common market

Total direct and indirect aid to current production in the French coal-mining industry amounts to 415.0 million EUA for 1977 (= 19.77 EUA/t; see Annex, Table 2). In comparison with 1976 this means that the aid is higher by about 33 %.

As regards the compatibility of French aids with the proper functioning of the common market (Article 3(1) of Decision No 528/76), reference is made to the comments in the main body of this document (see p. 9).

(B<sub>3</sub>) United Kingdom

(a) The extent to which direct financial aid to current production in the British coal-mining industry is compatible with the provisions of Articles 7-12 of Decision No 528/76

For the coal marketing year 1977/78, the British Government plans the following direct aids to current production.

Legal Basis under Dec. No 528/76	Measure	Total		per tonne of production	
		million £	million EUA	£	EUA
Art. 8	Aid to attract skilled workers	2.6	4.0	0.02	0.03
Art. 9	Aid to producers' stocks	10.8	16.6	0.09	0.14
Art. 11	Aid to steel coal	7.0	10.8	0.06	0.09
Art. 12	Aid to cover pit losses	10.0	15.4	0.08	0.13
	Total	30.4	46.8	0.25	0.38

Particular attention is drawn to the fact that the figures for the above aids are provisional; when this memorandum was written negotiations between the British Government and the NCB had not been completed.

The aid to coking coal is estimated at £ 8.0 million for 1977.

The aid for attracting and keeping skilled workers (£ 2.6 million) is intended to cover the NCB's costs arising from rationalization and the transfer of production to the best pits. This results in outgoings on removals, transport, etc. The aid is compatible with Article 8 of Decision No 528/76.

When assessing the aid to <sup>cover</sup> costs for producers' stocks of coking coal (£ 25.4 million) it must be remembered that total pithead stocks and additional distributed stocks directly or indirectly financed by the producers total about 18 million tonnes. Given a monthly production of approximately 10.0 million tonnes, the volume of pithead stocks qualifying for aid is 8.0 million tonnes. This means that the per-tonne grant in aid is £ 3.2. The actual costs of maintaining producers' stocks (including depreciation and interest) are considerably higher than the sum granted. The aid therefore complies with the provisions of Article 9 of Decision No 528/76.

The aid granted to steam coal (£ 7.0 million) is a sum for deliveries of steam coal to Scotland. From the information provided by the British Government, the amount and purpose of the aid granted can be regarded as compatible with Article 11 of Decision No 528/76.

The aid of £ 10.0 million to cover operating losses will cover these losses only partially in pits situated in coal fields with low financial returns. In the coal marketing year 1977/78 more uneconomic pits will probably close down. The closure of the low-yield pits will improve the NCB's productivity. The NCB has taken measures to increase capacity in the high-return coalfields and to develop new coalfields. This will offset the drop in capacity resulting from the closures and render possible the long-term stabilization of production. This means that the aid fulfils the requirements of Article 12(1), subsection 1 and 12(2) of Decision No 528/76.

(b) The extent to which direct measures in favour of current production in the British coal-mining industry are compatible with the proper functioning of the common market

In the coal marketing year 1977/78, aid to current production in the United Kingdom will total 59.1 million EUA (= 0.48 EUA/t) or, if the surpluses referred to in Article 4 are included, 102.5 million EUA (= 0.84 EUA/t); see Annex, Table 2). In comparison with 1976, this means that the aid for 1977 is higher by about 33 million EUA.

As regards the compatibility of British aids with the proper functioning of the common market, reference is made to the comments in the main body of this document (see p. 9).

(B<sub>4</sub>) Belgium

(a) The extent to which direct financial aid to current production in the Belgian coal mining industry is compatible with the provisions of Articles 7-12 of Decision No 528/76

In 1977, the Belgian Government intends to provide aid to cover operating losses. It also intends to provide an investment aid of Bfrs 241.3 million. This aid had already been provided for in 1976 and has been approved by the Commission; the aid will not be paid out until 1977 and is consequently not repeated here.

Legal basis under Dec. No 528/76	Measure	Amount of aid			
		Total		per tonne of prod.	
		million Bfrs	million EUA	Bfrs	EUA
Art. 12	Aid to cover losses Coalfield : Campine Southern	3 100.2	75.6	508	12.39
		2 383.1	58.1	2 648	64.56
	Total	5 483.3	133.7	783	19.10

In addition to the above aids, the Belgian government intends to grant a coking coal aid (Decision No 287/78) of Bfrs 2 700.0 million (= 65.9 million EUA) for the Campine coalfield.

Aid totalling Bfrs 5 483.3 million to cover operating losses is paid to the two Belgian coalfields for different reasons. The aid paid to the Campine coalfield will make up the difference between costs and returns.

The difference between costs and returns has to be almost totally covered because it is intended that this coalfield should provide coking coal supplies for the Belgian steel industry and must therefore maintain its output. The purpose and amount of aid granted to cover losses in respect of the Campine coalfield therefore comply with the conditions of Article 12(1), subsection 2, and Article 12(3) of Decision No 528/76.

The Southern coalfield, however, receives aid covering only approximately 80% of the difference between costs and returns. Here the intention is to ensure that only essentials are maintained and the pits remain viable in the short term only, so that the coalfield can be closed down as planned within a period (by about 1980) which will ensure that serious economic and social disturbances over the re-employment of redundant miners are avoided. Two pits in the Southern coalfield are due for closure in 1977, affecting approximately 1 500 miners. From all this it can be seen that the aid to cover losses in the Southern coalfield is compatible with Article 12(1), subsection 1, and Article 12(2).

- (b) The extent to which direct measures in favour of current production in the Belgian coal-mining industry are compatible with the proper functioning of the common market

In the Belgian coal-mining industry, aids for current production total 215.3 million:EUA (= 30.75 EUA/t) for 1977 (see Annex, Table 2).

As regards the compatibility of Belgian aids with the proper functioning of the common market, reference is made to the comments in the main body of this document (see pp 9 et seq.).





Aids not relating to current production

Table 1

million EUA

	Social security measures pursuant to Article 4 of Decision No 528/76			Aids to cover inherited liabilities pursuant to Article 5 of Decision No 528/76		
	Total		Infringements of Art. 4 (1977)	Total		Infringements of Article 5 (1977)
	1976	1977		1976	1977	
Federal Republic of Germany	1 762.1	2 137.3	-	149.6	197.6	-
Belgium	458.5	550.2	-	0.9	1.1	-
France	848.5	942.1	-	51.3	57.6	-
United Kingdom	47.8 <sup>1</sup>	43.4 <sup>1</sup>	43.4	16.3	18.7	-
Total for the Community	3 116.9	3 673.0	43.4	218.1	275.0	-

<sup>1</sup> The United Kingdom has an integrated social security system. The figure shown in this column covers only the special miners' pension fund which exists side-by-side with the general social security system.

Aid for current production in 1977 <sup>1</sup>

Table 2  
(million EUA)

	Unit	Federal Republic of Germany	France	United Kingdom	Belgium	Community
<u>A. Aids under Decision No 3/71</u>						
1. Infringement of Article 4	million EUA	-	-	(43.4)	-	(43.4)
of Article 5	million EUA	-	-	-	-	-
Total	million EUA	-	-	(43.4)	-	(43.4)
per tonne of production	EUA	-	-	( 0.36)	-	( 0.18)
2. <u>Direct measures</u>	million EUA	37.3	5.5 <sup>(2)</sup>	-	15.7	58.5
per tonne of production	EUA	0.39	0.26	-	2.24	0.24
3. <u>Indirect measures</u>						
Article 7	million EUA	94.6	-	-	-	94.6
Article 8	million EUA	42.9	-	4.0	-	46.9
Article 9	million EUA	-	-	16.6	-	16.6
Article 10	million EUA	44.8	-	-	-	44.8
Article 11	million EUA	-	-	10.8	-	10.8
Article 12	million EUA	-	408.7	15.4	133.7	557.8
Total	million EUA	182.3	408.7	46.8	133.7	771.5
per tonne of prod	EUA	1.93	19.47	0.38	19.10	3.16
<u>B. Coking coal aid (Decision No 73/287)</u>	million EUA	154.0 <sup>(3)</sup>	0.8	12.3	65.9	233.0
per tonne	EUA	1.63	0.04	0.10	9.41	0.95
<u>C. Total (A + C)</u>						
Totals	million EUA	373.6	415.0	59.1	215.3	1 063.0
per tonne of production	EUA	3.95	19.77	(102.5) (4) 0.48 (0.84)(4)	30.75	(1 106.4) (4) 4.35 (4.53)(4)

(1) Planned figures

(2) Including aid for interest relief grant for Charbonnages de France (0.1 million EUA)

(3) Total sales aids of 29.2 million EUA which the German coal-mining industry will probably receive. The German Government is to pay out a production aid of DM 334.5 million (= 124.8 million EUA) for three quarter of 1977.

(4) Including infringements of Article 4.