

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(81) 598 final

Brussels, 23 October 1981 ~~EXCHANGE~~

## REPORT FROM THE COMMISSION TO THE COUNCIL

on the application of Commission Decision 528/76/ECSC  
regarding the Community system of measures taken by  
the Member States to assist the coal-mining industry

-----

COM(81) 598 final

INTRODUCTION

1. By way of an introduction to the background leading up to Commission Decision No 528/76/ECSC<sup>1</sup>, it should be pointed out that at the beginning of the sixties - as a result of competition from oil - the Community's coal-mining companies were in a very difficult position where sales were concerned and, as a result, were forced to close down a large number of pits. The pit closures and the resulting laying-off of workers assuming such proportions in 1964/65 that social unrest in the coal-mining areas was on the cards and political action was required<sup>2</sup>. It was necessary to adjust output to the sales potential, and the rate of closure of pits had to be slowed down in order to relieve regional and social problems. During this process of adjustment, the coal-mining firms received subsidies from the competent national authorities in order to remain financially viable. As, pursuant to Article 4(c) of the ECSC Treaty, subsidies are not allowed, in 1965 the High Authority adopted Decision No 3/65<sup>3</sup> - pursuant to the first paragraph of Article 95 of the ECSC Treaty - whereby State aid could be granted to the firms if this facilitated the process of adjustment and if the subsidies were approved by the High Authority beforehand.
  
2. The competitive and financial position of the Community's coal-mining firms scarcely improved in the period of operation of Decision No 3/65 from 1965 to 1970, and subsidies were still required. However, experience acquired as a result of applying Decision No 3/65 enabled the Commission to amend the Decision on a number of points rather than simply extending its period of validity. The new Decision (No 3/74<sup>4</sup>) still adhered to the principle of

---

1) Commission Decision No 528/76/ECSC of 25 February 1976 regarding the Community system of measures taken by the Member States to assist the coal-mining industry (OJ No L 63 of 11 March 1976).

2) Protocol on energy problems of 21 April 1964 (OJ No 69 of 1964).

3) OJ No 31 of February 1965, p.480.

4) OJ No L 3 of 5 January 1971, p.7.

adjusting output to sales conditions while avoiding serious disturbances to the social conditions prevailing in the coal-mining areas.

This Decision was in force until 31 December 1975.

3. The hope that the Community coal-mining industry could achieve financial balance between costs and earnings by 1975 was not realized. On the contrary, losses per tonne rose from some 3 EUA in 1970 to almost 5 EUA in 1975.<sup>1</sup> The firms were not viable unless they were subsidized, and as it seemed likely that subsidies would be needed for the foreseeable future, there needed to be a legal basis for granting the aid in question. The question therefore arose as to whether the period of validity of Decision No 3/71 should be extended or whether a new Decision should be adopted.
4. Events on the world oil market in 1973/74 led the Commission and the Council to abandon the objective of adjusting Community production to the sales potential - on the grounds of the security of supply in general - in favour of increasing coal consumption and stabilizing output in the Community under satisfactory economic conditions. As a result, Decision No 3/75 had to be replaced by a new Decision with a different emphasis.

The Commission therefore adopted Decision No 528/76/ECSC of 25 February 1976 which sets out the new approach and criteria and conditions whereby aid may be granted<sup>2</sup>. The most important aspect of the new approach was that subsidies

- 
- 1) Comparable figures (EU-6). The United Kingdom is not taken into account as it was not a member of the Community in 1970.
  - 2) In order to make it easier for the Member States' Governments to apply Decision No 528/76 and to clarify the system of aids as a whole, the Commission adopted Decision No 2514/76/ECSC of 30 September 1976 which provides guidelines for the notifications to be made to the Commission and the aid calculation procedure (Decision No 2514/76/ECSC regarding the Community system of measures taken by the Member States to assist the coal-mining industry.

to adjust output to sales potential would be allowed only in the case of coalfields with a low level of productivity, while coalfields with a high level of productivity could receive subsidies to stabilize or increase their production capacity. In addition, the establishment of the system of aids for a lengthy period of time was part of the new approach, with a view to making it easier for firms to take decisions concerning investment and production. As a result, the period of validity of Decision No 528/76 was set at ten years - from 1976 to 1985.

5. Given the circumstances in 1975, it was impossible to forecast to what extent the competitive and financial situation of the coal-mining undertakings would change in the following ten years. Neither was it possible to foresee exactly how useful the new Decision and implementing Decision would prove to be. That is why :

- Section V of the preamble to Decision 528/76 lays down that "the Commission will inform the Council during 1980 of how this Decision is being applied";

- Article 18 (2) of Decision 528/76 provides for the possibility of revoking or amending the Decision five years after its entry into force should any new developments render this necessary.

6. The experience gained from the practical implementation of Decision 528/76 between 1976 and 1980 is described below. Chapter I is therefore a general survey of developments in the coal market and in competition insofar as they affected aids. Chapter II describes the aims of Decision 528/76 and the difficulties to be overcome if the aims were to be achieved. Chapter III deals with the problems arising in connection with the practical application of the Decision and Chapter IV sets out the conclusions.

CHAPTER I

Changes in the coal market and in the financial situation of the undertakings of the Community's coal-mining industry

7. Various measures introduced by the Community and the Member States' Governments to reduce oil consumption or increase coal consumption, and particularly the changes in the relative prices of different energies together with the consequent consumer reaction, helped to increase coal consumption in the Community between 1975 and 1980. Whilst the Community's total primary energy consumption - 864 million toe in 1975 - rose only slightly (by 8%) to 932 million toe in 1980, coal consumption during the same period rose from 282 million t (tonne for tonne) to some 316 million t, i.e. by 12%. Although the real increase in coal consumption may appear modest it should be remembered that it marks a significant change in trend as coal consumption in the Community had fallen by 80 million t in the period 1970 to 1975. This change in coal consumption is reflected in varying degrees throughout the Community.
8. The use of coal in power stations<sup>1</sup> has contributed significantly to the new trend. The consumption of power station coal in the Community has increased so rapidly from 125 million t in 1975 to 181 million in 1980 that it more than compensated for the drop in the demand for coke (due mainly to the crisis in the steel industry) and other sectors. This means that it was deliveries of power station coal that predominated and brought about a restructuring of the coal market. Deliveries to power stations<sup>1</sup> accounted for 44% of total coal supplies to all consumers in the Community in 1975, compared with 58% in 1980.
9. The revival of the Community coal market was not due entirely to Community coal production. The quantities of coal imported rose from 41 million t in 1975 (14% of total consumption) to some 74 million t in 1980 (25% of total consumption).

---

1) Excluding electricity generated privately by industry

and the emphasis shifted from coking coal to steam coal. Between 1975 and 1980 coking coal imports into the Community rose by 11 million (i.e. 64%) whereas imports of steam coal rose by 22 million t (i.e. 113%).

10. This increase in coal imports into the Community can be ascribed to several factors :

- For purely technical reasons, Community production could not have kept up with the rise in demand (+ 34 million t in the period 1975 to 1980).
- Some Community coal is sold at world market prices and some at higher prices. As selling at world market prices means heavy losses for Community producers - and an equivalent requirement in subsidies - it is not possible for financial reasons to sell unlimited amounts of Community coal.
- Imported steam coal is getting steadily cheaper than heavy fuel oil. In 1980 the price of heavy fuel oil to industrial consumers was some \$ 135/tce<sup>1</sup> whereas imported steam coal cost around \$ 50/t. As coal was substituted for fuel oil, imported coal was in a position to take advantage of the large market potential. So far it has also remained more flexible with regard to supplies.

11. Whereas hitherto fuel oil determined the competitiveness of Community coal, since 1975/76 there has been a fundamental change in the factors determining competitiveness. As a result of heavy price increases in the period 1975 to 1980, fuel oil has lost its edge vis-à-vis Community coal. However, Community

---

(1) Beginning of January 1980; price free at consumer's premises.

producers were unable to align prices for steam coal on the high fuel oil prices, as imported coal has entered the market as a new competitor. Having accounted for 25% of the market in 1980, imported steam and coking coal are still determining price levels in the coal market as a whole.. Price changes for imported coal are given in Table A below.

Table A

Changes in the price of imported coal

(Average cif prices for imports into the Community)

	<u>Coking coal</u> <sup>1</sup>	<u>Power station coal</u>
1975	61.70	..
1976	63.10	..
1977	62.10	31.30
1978	61.90	33.70
1979	65.30	37.90
1980	69.20	50.20

(1) Indicative cif price

12. Community producers are forced to align their prices on the price of imported coal. It is true that this alignment has allowed relatively big increases in returns per tonne expressed in US dollars, as can be seen from Table B below. But, as Table B also shows, trends in exchange rates between national currencies and the US dollar have put Community producers at a further disadvantage. During the period 1975 to 1980, the parities of the currencies of the Community's four coal-producing countries have risen against the dollar. As a result, the increase in returns per tonne of Community coal is considerably lower when calculated in national currencies - particularly those of the Federal Republic of Germany and Belgium - than when expressed in US dollars.

Table B

Index of changes in returns per tonne obtained by undertakings in  
the Community's coal industry (1975 = 100)

	1980	
	<u>Calculated in US\$</u>	<u>Calculated in national currencies</u>
Federal Republic of Germany	182 (1)	132 (1)
Belgium	126	99
France	161	156
United Kingdom	216	211

(1) According to the information received from German undertakings, and in compliance with their electricity generating laws, aids to coking coal and additional are included in the returns.

The above figures show that the Community's coal industry is in intensive price competition with imported coal and that the return per tonne has to be tailored to the market situation. In other words it was not possible to make returns keep up with increased production costs.

13. For several reasons -- such as fairly high wage increases, stagnating productivity, the effects of inflation, etc. -- the production costs of the Community's coal industry rose faster than returns in the period 1975 to 1980. Table C compares production costs and returns.

Table C

Index of changes in costs and returns per tonne in the Community's coal-mining  
industry

(Basis : national currencies)  
(1975 = 100)

	1980	
	<u>Costs</u>	<u>Profits</u>
Federal Republic of Germany	134	132 (1)
Belgium	139	99
France	164	156
United Kingdom	248	211

1) According to the information received from German undertakings, and in compliance with the third electricity generating law, aids to coking coal and additional receipts are included in the returns.



The result of the divergence between the costs and returns was bigger losses; i.e.; it became increasingly difficult to cover costs out of returns. In 1980 the proportion of the costs per tonne of coal produced covered by the returns was :

- 91 % in the Federal Republic of Germany (1)
- 48 % in Belgium
- 71 % in France
- 81 % in the United Kingdom

These average figures are not, of course, representative of the situation as regards the costs and returns of the firms' individual pits, since this situation varies considerably, and the Commission does not have at its disposal the operating data for the individual pits. However, it must be assumed that significant losses on the part of marginal pits not only absorb a comparatively large proportion of subsidies but also eat into the profits of the few profitable pits, where the same firm has both lossmaking and profitable pits.

---

(1) The returns include the aids to coling coal and additional receipts in accordance with the third electricity generating law. If these aids were subtracted from returns, it is estimated that German undertakings would cover only 69% of costs.

14. The growing tendency for companies to make losses necessarily led to aids being increased to keep the undertakings viable (see table D). Aids were so high in 1980 that certain governments found it difficult to make the necessary sums available out of their exchequers, as budgets had been pared down because of the generally unsatisfactory economic climate. Aids covered only part of the companies' actual losses.

Table B

Trend in financial measures<sup>1</sup> taken by the Member States to aid current production  
in the Community's coal-mining industry

(EUA/t)

1)

	Federal Republic of Germany	Belgium	France	United Kingdom	Community
1975 (3)	3.52	14.54	7.96	0.43	2.70
1976 (4)	2.62	23.08	13.55	0.23	3.00
1977 (4)	4.17	29.83	19.42	0.45	4.42
1978 (4)	10.00	36.46	24.46	1.52	7.59
1979 (4)	12.46	50.45	25.90	2.29	9.34
1980 (5)	11.75	47.33	25.64	2.32	8.87

- (1) Including aids to coking coal but excluding aids to cover inherited liabilities
- (2) Not taking into account the requirements of the third electricity generating law.
- (3) Calculated in accordance with Decision No 3/71.
- (4) Actual payments in accordance with Decision No 528/76.
- (5) Forecasts.

3) Total sums

Mill. EUA

1975 (3)	360.2	117.8	134.5	57.8	720.9
1976 (4)	251.6	166.2	296.9	27.0	741.7
1977 (4)	379.9	211.8	413.6	54.5	1.059.8
1978 (4)	898.4	240.6	481.8	185.2	1.806.0
1979 (4)	1.162.3	307.8	481.6	276.0	2.227.7
1980 (5)	1.093.7	298.2	461.4	287.4	2.145.7

CHAPTER II

Achieving the objectives of Decision No 528/76

15. The beneficiaries of the financial measures are the undertakings of the Community's coal-mining industry as defined in Article 80 of the ECSC Treaty, i.e. undertakings engaged in production. Trade, transport and consumption are not covered by Decision 528/76.

Where the economic activities of the undertakings engaged in production are concerned, the scope of Decision 528/76 is limited - it covers mines only (i.e. opencast or underground coal production).

Decision 528/76 therefore pursues objectives solely concerned with the coal producers' production or competitiveness problems, i.e.:

- maintenance, extension or rationalization of the production capacity of pits or coalfields which, having regard to their location in relation to markets, to their reserves of qualities in demand or their potential for improved production, appear best able to supply the Community's long-term energy coal and coking coal requirement under satisfactory economic conditions;  
(Article 1(1) of the Decision)
- further adaptation of the production of pits or coalfields having a low economic return to market conditions in such a way as to avoid causing serious economic and social disturbances in those regions where re-employment possibilities are still inadequate;  
(Article 1(2) of the Decision)
- maintaining the proper functioning of the Common Market in coal.  
(Article 3 of the Decision).

The observations below concern the realization of the objectives, and here it is necessary for reasons of content and logic to take the aims of Article 1(1) and (2) together.

Achieving the objectives set out in Article 1(1) and (2)

16. The Community's most productive coal-mining areas are in the United Kingdom, the Federal Republic of Germany and Lorraine in France. The Campine coalfield in Belgium is being kept going to provide coking coal for the steel industry.

Production in these areas in the period 1975 to 1980 was fairly constant if one compares 1975 production (243.0 million t) with 1980 (238.4 million t)<sup>1</sup>.

This is the overall trend for the above regions which naturally also include low yield mines. Some of the latter have been closed down in the course of rationalization, as can be seen from the number of active mines (which dropped from 297 in 1975 to 267 in 1980).

The reason for the slight drop in production in the highly productive areas is that the increased output of the better mines was not quite sufficient to balance the output lost through uneconomic mines being closed down. The opening up of new mines does not keep pace with the closure of uneconomic mines. This can hardly be expected in practice as it takes much longer to open up a new mine than to close down old ones.

17. Particularly extensive trimming measures were needed in the southern Belgian and French Centre-Midi and Nord/Pas-de-Calais coalfields. In these less productive areas output <sup>dropped</sup> from 13.6 million t in 1975 to 8.6 million in 1980, and the number of productive pits dropped from 34 to 17.

18. This means that in the period 1976 to 1980 a total of 47 pits was closed in the Community as a whole. The number of underground workers on the books dropped slightly from 341 500 in 1975 to 303 300 in 1980.

---

1) Production dropped slightly meanwhile but had recovered by 1980.

Recent events in the United Kingdom coal industry show the scale of difficulties that can arise not only over redundancies but at the mere announcement of the intention to move workers from mines that are running down to others that are to remain in production.

Under Article 56 of the ECSC Treaty the Commission, between 1976 and 1980, provided a total of 88.5 million ECU in subsidies to alleviate the employment consequences of pit closures.

19. The undertakings themselves made great efforts to increase productivity by increasing investment. Expressed in constant 1970 prices, investment in the Community's mines rose from 330.0 million EJA in 1975 to 698.3 million in 1980. This means that investment per tonne of production more than doubled - from 1.26 to 2.82 EJA. The investment credits made available to the coal-mining industry by the Commission have also (nominally) almost doubled from 161 million EJA in 1975 to 294 million in 1980.

However, the effect on productivity has been small. Average output per man-hour in the Community has risen from 407 kg in 1975 to 425 kg in 1980 (only 4.4% which gives an increase of less than 1% per year).

This stagnation in productivity is due to two factors :

- some of the investment made between 1975 and 1980 has not yet worked through to the production level, as the object of the investment was to make up for the lack of investment prior to 1975 and thereby create the basis for stabilizing production. In coal mining this takes a long time.
- On a purely technological level there are limits to increasing productivity. In all coalfields 95 to 98% of the winning and support operations are now mechanized.

20. Economic conditions have not improved satisfactorily in the Community's coal-mining industry. They have in fact deteriorated. However, as already mentioned in Chapter I, it is not the subsidy system but the situation on the market and the conditions of competition that are to blame for unsatisfactory returns.

As concerns the increase in production costs, the small increases in productivity on the one hand and the higher wages and equipment prices on the other raised real costs by 8% in the Federal Republic of Germany and 33% in the United Kingdom during the period 1975 to 1980. In its medium-term guidelines for coal<sup>(1)</sup>, however, the Commission has assumed that real costs would remain stable.

Maintaining the proper functioning of the Common Market in coal

21. Two factors are particularly important for ensuring the proper functioning of the Common Market in coal in accordance with Article 3 of Decision 528/76 :

- the level of aids;
- competition between the Community's coal producers.

22. Aids should be no higher than absolutely necessary and should not constitute indirect subsidization of industrial consumers (Article 3(3)).

The Commission's memoranda for the period 1975 to 1980 on the financial aid

---

(1) Medium-term guidelines for coal, 1975-1985, OJ C 22 of 3 January 1975

awarded by the Member States to the coal-mining industry<sup>1)</sup> include the results of analyses of the permitted level of aids and relative prices. The results show that aids have always been lower than the permitted level.

Subsidies to cover losses were in many cases much lower than the losses. In other words, the undertakings had to bear part of the loss themselves.

Prices for Community coal have never been lower than those for comparable competing imported energy carriers. The criterion of avoiding direct subsidies to industrial consumers has therefore **been met**.

23. When examining measures to assist the coal industry, intra-Community trade and the state of competition between producers must be taken into consideration (Article 3 (2)).

As can be seen from table D (page 8) there are relatively big differences between the amounts of aid per tonne granted by the different Member States. This could distort competition between producers. In fact, from the information the undertakings have provided for the Commission, no such distortion has occurred because there has been less competition between producers. This is illustrated by the following criteria :

- The amounts of coal sold at aligned prices resulting from competition between coal producers in the Common Market in coal were small and have decreased further from 1.5 million to in 1975 (0.6% of Community production) to 0.7 million in 1979 (0.3% of production). Not all the figures for 1980 have been received yet but from those available it is clear that there has been a further decrease.

---

(1) 1976, COM(77)127  
1977, COM(77)570  
1978, COM(77)357  
1979, COM(80)349  
1980, COM(81)96

- The amount of coal traded within the Community has hardly changed between 1975 (15.9 million t) and 1980 (15.5 t); only the pattern has altered slightly. Because of difficulties in the steel industry the amount of coking coal trade has decreased whilst the amount of steam coal has increased.

From this it is clear that, as far as can be seen, the aids have not distorted competition between producers, and the criteria of Decision 528/76 have therefore been met.

24. From developments over the last few years, as described in Chapter II, it may be concluded that the expectations embodied in Decision 528/76 have been fulfilled.



CHAPTER III

Problems arising in the practical application of Decision No 528/76

25. Under the Decision Member States' Governments have to apply to the Commission by 1 November of each year for authorization of their aid programmes for the following year.

In practice, the Member States' applications frequently arrive well after 1 November and authorizations are equally delayed. The delays in sending communications by the Member States' Governments are due to various technical and political factors.

The technical problems arise out of the fact that the financial forecasts which have to be made each autumn for the following year in the coal-mining industry depend on production levels, returns, wages, productivity, the cost of materials, etc.

Politics also enter into the equation since experience in the last few years has shown that Member States' Governments tend to delay decisions on the amount of aid they intend to give their industry or postpone having to make binding commitments to the coal undertakings because such decisions represent political commitments which might have far-reaching consequences.

However valid these arguments may be, it must be said that for reasons of principle the authorization of aids after they have actually been paid must not be allowed to become standard practice. Prior authorization by the Commission is necessary, for instance in order to detect in good time and prevent the distortion of competition. In future, therefore, delays in communicating aid plans to the Commission must be avoided.

26. In some instances the practice of granting subsidies has raised problems which affect the application of Decision 528/76; these are caused not by the Decision itself but by the whole question of subsidization.

- Social welfare in the coal-mining industry is organized differently in the different Member States. In the Federal Republic of Germany, in France and in Belgium there are special insurance schemes for the coal industry whereas coal miners in the United Kingdom come under the national insurance system. Under the integrated systems the social costs borne by coal-mining undertakings, expressed as a proportion of production costs, are relatively lower than those under a special scheme. This can affect competition and the level of subsidies. But none of this can be altered, since the social insurance systems of the various countries, together with the administrative structures and legal bases, have been in force over a long period and must be regarded as a fact of life.
- Some measures (e.g. loan guarantees, liquidity aids, interest rebates, special tax rules for amortization, revaluation of fixed assets, etc.) have been introduced which influence production costs. However nobody - not even the Commission - can quantify the consequences in terms of costs.
- In some cases charges have been laid on the consumers of coal (e.g. the third electricity generating law in Germany and special requirements for utility companies in other countries to use coal). Such measures transfer financial advantages indirectly to indigenous coal production, and reduce considerably transparency and comparability of national funding within the framework of Decision 528/76. In legal terms, charges imposed upon consumers are not aids, and, therefore, not covered by the Decision.
- Limiting aids solely to coal production creates the problem familiar to all coal producers of drawing a line in the cost accounts between the undertaking's mining and other activities. CEPCEO's working party on costs and returns has established principles that are standardized as far as possible and are used in practice. Unfortunately, however, it has to be said that there are no standard

methods for accounting for Community aids. An international comparison of profits in the coal-mining industry of the various Community countries would therefore be of limited significance. Experience has shown that the only valid comparison are those between relative levels.

27. As the above observations show, practice with regard to subsidies has caused certain problems and difficulties, but these have arisen not as a result of the way in which Decision No 528/76 is framed but because of the very nature and characteristics of the aids. The significance and suitability of the Decision are in no way diminished by this.

CHAPTER IV

Conclusion

Since 1976 when Decision 528/76 entered into force the financial position of the coal mining industry in the European Community worsened significantly as can be seen from the foregoing. Hence, the problems of the Community's energy supply and the situation on the world coal market have undergone profound changes. In giving itself new energy objectives for 1990, the Community has begun to adapt its structure and its conditions of supply and consumption. It, therefore, seems logical to take, in the context of a coherent energy policy, a fresh look at all questions related to a common coal policy. As this will take some time, the Commission does not intend, at this moment, to propose any modifications of the system of measures taken by the Member States to assist the coal mining industry.

