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Report

drawn up on behalf of the Committee on Energy and Research

~~on aspects and requirements of coal supplies for the European
Communities~~

Rapporteur: Mr G. RINSCHÉ

On 20 May 1980 Ms CWYD and others tabled a motion for a resolution pursuant to Rule 14 of the Rules of Procedure on the imminent threat of closure of British coal mines (Doc. 1-176/80).

The European Parliament rejected the request for urgent procedure and referred the motion for a resolution to the Committee on Energy and Research as the committee responsible, and to the Committee on Budgets and the Committee on Social Affairs and Employment for their opinions.

On 3 June 1980 the Committee on Energy and Research appointed Mr RINSCHÉ rapporteur and held an initial exchange of views.

The committee considered the draft report at its meeting of 20 May, 25 June and 20 October 1981 and at the latter meeting adopted it unanimously with one abstention.

Present: Mrs Walz, chairman; Mr Gallagher and Mr Normanton, vice-chairmen; Mr Rinoche, rapporteur; Mrs von Alemann (deputizing for Mr Galland), Mr Caborn (deputizing for Mr Percheron), Mr Croux, Mrs Ewing (deputizing for Mr Meo), Mr Fuchs, Mr Griffiths (deputizing for Mr Rogalla), Mr Lalor (deputizing for Mr Cousté), Mr Linkohr, Mr Moreland, Mr Müller-Hermann, Mr Pintat, Mr Rogers (deputizing for Mr Adam), Mr Sassano, Mr Schmid, Mr Seligman and Mr Veronesi.

The opinions of the Committee on Budgets and the Committee on Social Affairs and Employment are attached.

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The Committee on Energy and Research hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on aspects and requirements of coal supplies for the European Communities.

The European Parliament,

- having regard to the motion for a resolution tabled by Ms CLYWD and others on the imminent threat of closure of British coal mines (Doc. 1-176/80),
- having regard to its earlier resolutions in the field of energy policy, in particular in relation to:
 - the proposal from the Commission of the European Communities on the 'medium-term guidelines for coal 1975-1985'¹
 - the future guidelines for the Community's coal policy in the framework of the overall concept of a Community energy policy²
 - the proposal from the Commission of the European Communities to the Council for a Regulation on Community financial measures to promote the use of coal for electricity generation³
 - the proposal from the Commission of the European Communities to the Council for a Regulation concerning Community aid for financing cyclical stocks of hard coal, coke and patent fuel⁴
- the Draft from the Commission of the European Communities for a Decision concerning coal and coke for the iron and steel industry of the Community⁵

¹OJ C 179, 6 August 1975, p. 15

²OJ C 159, 12 July 1976, p. 33

³OJ C 133, 6 June 1977, p. 18

⁴OJ C 241, 10 October 1977, p. 14

⁵OJ C 127, 21 May 1979, p. 39

- the Communication from the Commission of the European Communities to the Council on the energy objectives of the Community for 1990 and the convergence of policies of the Member States¹

- having regard to the reports of the Committee on Energy and Research and the opinions of the Committee on Budgets and the Committee on Social Affairs and Employment (Doc. 1-662/81),

1. Affirms that coal remains the most important domestic source of energy in the Community;
2. Welcomes the growing role of coal in future energy supplies as reaffirmed at the European Councils in Strasbourg (1979) and Luxembourg (in 1980);
3. Considers that there is considerable potential for making greater use of coal as a substitute for oil and that this represents an opportunity to reduce the dependence of the European Community as part of a programme to diversify sources of energy;
4. Considers in view of the massive price increases on the world market that the time is ripe for a fresh attempt to define a European coal policy and welcomes the fact that the Commission shares this view;
5. Calls on the Commission, when elaborating a comprehensive coal policy, to reconcile the interests of the Member States with and without coal reserves;
6. Considers that this can be achieved by integrating elements of energy, regional, transport and social policy to provide aid for development and exploitation for the coal-mining regions thus enabling them to compete with imports from third countries and guaranteeing them minimum sales while also providing assistance to the areas without coal to enable them to make the major infrastructural adjustments necessary to permit the transport and use of coal;
7. Considers it essential to develop a stable relationship between domestic coal production and imported coal in order to provide the domestic producers and consumers concerned with reliable statistics on future developments;
8. Advocates in this context the stabilization and further expansion of domestic mining capacity in order to achieve the goal set by all Community institutions since 1973 of 270 million tonnes per year taking into account economic conditions;

¹ OJ C 59, 10 March 1980, p. 41

9. Welcomes the fact that coal production is once again on the increase for the first time since 1979 and currently stands at approximately 250 million tonnes per year;
10. Takes the view that domestic production needs to be augmented by an import strategy which should not only include a further development of existing approaches but also the conclusion of contracts with foreign exporters on as long term a basis as possible and also the acquisition of shareholdings in and ownership of coalfields and production plant in third countries;
11. Is aware that peak demand will have to be met by recourse to the world market ;
12. Insists, however, that domestic production and imports from third countries must be coordinated in particular in such a way as to prevent domestically produced coal from being subject to inordinate pressure from imports in periods of slack economic activity;
13. Assumes, in the light of the major increases in world market prices, that the need for subsidies to domestic coal producers will decrease in the medium term;
14. Regards the creation of a market for domestic coal at prices which cover costs as a vital goal of economic policy, particularly to strengthen the European coal producers' capacity to withstand risks and to invest;
15. Considers it equally legitimate and essential to examine the extent to which disparities in the level of subsidies and clear differences in the attitude of the national governments to aid for coal-mining are economically and politically justifiable;
16. Takes the view in this context that it would have disastrous consequences for energy policy as a whole if pits were to be closed simply on the basis of short-term financial considerations where there were no cogent necessity due to reserves being exhausted, major geological problems or on other overriding grounds;
17. Takes the view in particular that proposals for large-scale pit closures are irreconcilable with the goals of the Community's energy policy;
18. Considers it essential:
 - (a) to provide further incentives and encouragement to increase the use of coal and to encourage a more rapid replacement of oil and gas by coal in electricity generation in particular and in industry in general;
 - (b) to intensify support for research and development and in particular the further development and earliest possible use of new technology in the fields of coal utilization and processing, such as fluidized bed combustion, above and below ground;

(c) to offer Community coal producers guaranteed markets for their planned levels of production, namely by measures to increase the proportion of coal-fired power stations and industrial plant and appropriate Community policies in relation to coal imports and support for prices;

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19. Expects under these circumstances the mining companies
- to undertake systematic exploration;
 - to maintain and expand mining potential, allowing adequate time for trial operations and to deal with any environmental problems;
 - to establish the optimum size of operation;
 - to rationalize their operations and investigate other possibilities of cutting costs;
 - to improve working conditions;
 - to develop new processes in mining technology;
 - to implement a manpower policy geared to the long term which seeks to ensure that the profession of miner remains attractive or becomes so once again by improving training and introducing better working conditions;
20. Points out that the recommendations of the ECSC Treaty provide the Commission with an important instrument for the implementation of its coal policy.
21. Recommends the Commission to develop further the aid programme for coking coal and to incorporate in the new comprehensive coal policy its earlier proposals for financing cyclical stockpiles and promoting the use of coal in power stations with fixed term programmes to solve the medium-term problems:
22. Further recommends the Commission to consider financing feasibility studies for projects relating to energy-intensive sectors of industry;
23. Expects the Commission to expand
- (a) the investment in coal facilities in the Community by means of EIB and NCI loans financed at preferential rates by the Community's budget;
 - (b) the scope of investment and restructuring loans, through preferential interest rates, and possibly grants from the Community budget;
24. Also expects the Commission to adopt the same financial measures as set out in paragraph 23(a) and (b) for the construction of new infrastructures and such conversion projects as are necessary to increase consumption in those countries which do not have their own coal reserves;

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25. Calls on the Commission to submit concrete programmes which all enable coal policy to become a focal area of European energy policy and will receive substantial support through the Community budget;
 26. Instructs its President to forward this motion for a resolution together with the explanatory statement to the Council and the Commission of the European Communities and the parliaments and governments of the Member States.

EXPLANATORY STATEMENTI. DEVELOPMENTS SINCE THE SECOND WORLD WAR

1. Coal was the only source of primary energy available in any quantity after the Second World War. It therefore rapidly became a focal point of economic interests. The importance of coal was reflected in the creation of the European Coal and Steel Community (ECSC) on 18 April 1951. The aim of this first European Community was to create a liberal market structure for the steel and coal sectors with a limited measure of intervention (Article 5). Article 4 of the ECSC Treaty provides the clearest illustration of this concept, namely:

'The following are recognized as incompatible with the common market for coal and steel and shall accordingly be abolished and prohibited within the Community, as provided for in this Treaty:

.....

.....

(c) subsidies or aids granted by States or special charges imposed by States, in any form whatsoever;

.....

2. Articles 54 to 56 of the Treaty modify this implicit economic concept to a certain extent by providing for certain investment, research and social measures on the part of the Commission. Article 59 of the ECSC Treaty introduces a further provision which is important in this context, namely the possibility of allocating the coal resources of the Community if a serious shortage has been established. This article has, however, never been invoked in practice. In 1958/59, the High Authority proposed that Article 58 of the ECSC Treaty, which makes similar provisions for the event of a decline in demand, should be applied but this was rejected by the Council of Ministers.

3. In the 50s, coal provided the basis for economic reconstruction in Europe. But from 1958 on, the situation changed dramatically. Oil began to exert tremendous competitive pressure, which led to the relatively expensive coal being rapidly replaced by oil. The ECSC Treaty, which had been designed to deal with scarcities, had no adequate instruments at its disposal to cope with such a development. Apart from a few specialist uses and the coking coal sector, passive acceptance of market domination by cheap oil would have quickly led to a total end to the coal industry in the European Community. Confronted by the need to respond to the social problems which

were developing and to retain a strategic minimum reserve capacity of domestic coal, the individual national governments began to develop various systems of subsidies. As subsidies were however basically illegal under Article 4 of the ECSC Treaty¹, while at the same time the treaty did not make adequate provision for the economic situation which had emerged, legal bases were finally created in the Community to permit national subsidies to the coal sector (applicable since 1965; currently valid: Commission Decision of 25.07.1973 concerning coal and coke for the iron and steel industry in the Community, No. 287/73 ECSC, OJ L 259/36 of 15.9.1973, amended and extended most recently by Decision No. 3058/79/ECSC, OJ L 344/1, 31.12.1979, summarized in OJ C 36/2, 13.2.1980 and Commission Decision No. 528/76/ECSC, 25.2.1976 regarding the Community system of measures taken by the Member States to assist the coal-mining industry, OJ L 63/1, 11.3.1976). Both decisions are based among other things on the first and second paragraphs of Article 95 of the ECSC Treaty.

4. Despite these measures a large number of pits had to be closed. Coal production within the Community declined considerably:

Total coal production

1,000 t (t=t)

Year	The Nine	Germany	France	Belgium	United Kingdom
1960	436,878	148,000	55,961	22,465	196,703
1973	270,229	103,654	25,682	8,842	130,144
1978	238,100	90,103	19,690	6,590	121,685

Source: Eurostat

5. The risks associated with a strategic dependence on oil but also on other sources of energy such as gas, were quite evident. It was however politically impossible to implement further measures to attain greater coalmining capacity in view of the market imbalance between coal and oil which still exists. It is to the credit of the Commission of the European Communities that since 1973 it has constantly advocated the retention of coalmining capacity within the Community of 270 mill.tonnes

¹See ECR. Case 30/59 - miner's bonus, 1961 Reports, p. 3 et seq

per year¹. Nonetheless, production fell below this figure, namely from 270 mill. t (t=t) in 1973 to 238 mill. t in 1978. The Commission of the European Communities attempted to encourage the retention of capacity by presenting what was known as a coal package. This consisted of

- a proposal on Community financial measures to promote the use of coal for electricity generation (OJ C 22, 29.1.1977, p.4)
- a proposal to finance cyclical stocks of hard coal, coke and patent fuel (OJ C 87, 7.4.1977, p.6) and
- a proposal for a Community aid system for intra-Community trade in power station coal (OJ C 243, 13.10.1978, p.3).

6. None of the measures proposed was approved by the Council. Only the abovementioned system of subsidies for coking coal and coke for the iron and steel industries in the Community provided a small Community subsidy to the coking coal sector, and this still exists.

7. The rejection of the coal package by the Council despite repeated efforts on the part of the Commission and the support which it received from the European Parliament, illustrates the fundamental dilemma of European coal policy and possibly of energy policy as a whole:

Apart from minor reserves, e.g., in Ireland, only four members of the Community are coalmining countries: United Kingdom, Belgium, France and West Germany. Although, apart from France, these sought to supplement their national subsidy programme by Community measures to support coal, they were constantly blocked by a veto from the Member States without coal reserves. This latter group had no economic interest in encouraging domestic coal production via the budget of the European Communities as long as the price of oil was continually becoming more and more competitive.

8. The price ratio to oil, however, began to change. Although the first oil price crisis in 1973/1974 was not sufficient to make domestically mined coal competitive, it should have sounded a warning. But the warning was only heard in the Commission and the European Parliament. It was still impossible to gain acceptance for abovementioned coal package, essentially because of a further economic argument:

Domestically mined coal faced another competitor, namely world market coal, which seemed set to occupy the position of oil should this become too expensive.

¹The Council too advocated the retention of coal production at the then current level under satisfactory economic conditions in its resolution of 17 December 1974 on the goals of Community energy policy 1985; OJ C 153, 9.7.1975, p.2.

9. Since the second oil price crisis of 1978/1979 and the constant increase in oil prices since then, the price situation has changed fundamentally. Domestic coal can now compete with oil. But it cannot compete with the coal on offer on the world market. Only some 20% of total coal production in the Community is currently fully competitive, in fact to such an extent that it is capable of making up the deficit vis-à-vis the world market prices of a further approximately 20%.

II. EUROPEAN COAL IN 1980

10. The situation in 1980 shows the results of the above trend and serves at the same time as the basis for all forecasts of future developments. It therefore merits relatively comprehensive statistics:

Coal production

1,000 t (t=t)

Year	The Nine	Germany	France	Belgium	United Kingdom
1980	247,225	94,492	18,136	6,324	128,208
Change 1979 - 1980	+ 3.5%	+ 1.2%	- 2.6%	+ 3.3%	+ 6.2%

Source: Eurostat and Commission

The rise in coal production is very largely a result of the increase achieved in the United Kingdom (see 4 above).

12. In 1980 coke production fell to 66.6 mill. t, which represents a fall of 0.9% on the previous year. This development is due to a drastic reduction in British production, mainly owing to the strike by steel workers and the low coke production in Belgium (less coking under contract for the USA) and finally, the steadily worsening situation in the steel sector in the last few months of 1980.

13. Pithead stocks increased by approximately 10.7 mill. t to 37.2 mill. t within the space of a year as a result of the general economic recession and simultaneous increase in imports. Particularly in Britain, most of the additional production was stockpiled.

Stocks at the end of 1980

Million t (t=t)

The Nine	Germany ¹	France	Belgium	United Kingdom
37.20	13.30	5.79	0.16	17.90

¹Including national coal reserves (7.26 mill. t (t=t))

Source: Eurostat 3-1981

Coke stocks at coke ovens and blast furnaces rose to 10.7 mill. t with the United Kingdom alone accounting for a rise of approximately 0.8 mill. t.

14. Consumption of coal and coke in the Community remained at virtually the same level in 1980 as in the previous year, namely 314 mill. t. Deliveries of domestically mined coal remained at around their 1979 level, while imports from third countries rose by 14.5 m to approximately 74.5 mill. t. (which is the equivalent of almost 25% of Community coal production). Total sales of Community coal production fell by 19 mill. t. because exports to third countries declined sharply.

15. The increase in coal consumption was produced by the electricity generating industry where demand rose by approximately 8 mill. t to some 184 mill. t.

Demand for power station coal in 1980 compared to 1979

Figures in mill. t

The Ten	Germany	France	Belgium	United Kingdom	Italy	Denmark	Netherlands
+ 7.8	+ 2.0	- 0.6	+ 0.5	+ 0.7	+ 1.3	+ 2.5	+ 1.3

The increased demand for coal from Community power stations was largely covered by coal from third countries.

16. Demand for coke from the Community steel industry fell by approximately 5 mill. t to some 63 mill. t. Although it had proved possible to reduce the use of fuel oil even further to the benefit of coke, this downward trend resulted firstly from the strike by steelworkers in the United Kingdom and was then increasingly a reflection of the poor economic situation in the steel industry.

17. In 1980 sales of coal to other consumers fell by just under 8 mill. t to approximately 48 mill. t. The main reason for this was the mild weather and the slackening of industrial activity.

18. Coal imports from third countries rose sharply: by approximately 14.5 mill. t to approximately 74.5 mill. t (excluding coke).

Imports from third countries

Million t (t=t)

Year	The Ten	Germany	France	Italy	Netherlands	Belgium
1979	59.9	6.9	19.5	11.2	3.8	5.9
1980	74.5	7.3	22.6	14.3	5.0	7.3
1981	77.0	9.5	22.3	13.6	5.3	8.1
Estimated						

Year	Luxembourg	United Kingdom	Ireland	Denmark	Greece
1979	0.2	4.0	1.1	6.7	(0.6)
1980	0.2	7.2	1.0	9.1	(0.5)
1981	0.2	6.5	1.1	10.1	0.3
Estimated					

Source: Commission or Eurostat

19. Four supplier countries accounted for approximately 94% of coal imports from third countries.

Imports in mill. t.

Year	USA	South Africa	Poland	Australia
1979	14.8	15.9	15.4	8.0
1980	28.3	19.7	13.6	7.8

Source: Eurostat

20. The volume of world coal trade expanded in 1979 by 16% (+ 36 mill. t.) to approximately 266 mill. t. This increase continued in 1980 at a slower rate of growth to 280 mill. t. According to US producers, it was not possible to cover an additional demand of some 10 mill. t.

21. The price for power station coal on the world market in 1980 was very buoyant as a result of the trend in volume. It has drawn ever closer to the price for coking coal which so far has only risen by a relatively small amount.

Coking coal prices (World market)

<u>cif ARA price¹</u>	<u>Coking coal \$/t</u>
January 1978	62.10
January 1979	63.95
January 1980	68.50
October 1980	69.95
January 1981	75.70 ²

¹Excluding spot and one-off consignments; excluding demurrage

²Including demurrage

Prices for power station coal

<u>cif price¹</u>	<u>Power station coal \$/t SKE</u>
1st quarter 1978	38.22
1st quarter 1979	40.47
1st quarter 1980	52.03
3rd quarter 1980	59.78
4th quarter 1980	approx 65.00

¹Including demurrage

Price increases

<u>Coking coal</u>		<u>Power station coal</u>	
Jan. 79/Jan. 78	+ 3%	I. 79/I. 78	+ 6%
Jan. 80/Jan. 78	+ 10%	I. 80/I. 78	+ 36%
Jan. 81/Jan. 78	+ 22%	IV. 80/I. 78	+ 70%

The world market prices for coal have risen particularly dramatically in the first few months of this year, to approximately \$75/t and more for steam coal and to over \$80/t for coking coal.

22. Price of Community coal:

The published list prices for Community coal vary considerably. There is no need to present these in detail here as they are of limited significance: Community coal is largely sold at prices comparable with world market prices.

23. The position of the coal sector in 1980 may be summarized as follows:

- as coal production in 1980 increased in a period in which demand was slack and imports from third countries rising strongly, particularly in the United Kingdom, the stocks which had declined markedly in the previous period rose once again;
- sales of coal to the electricity generating industry continued to rise; the main beneficiary of this was imported coal but also domestically mined coal in the United Kingdom and West Germany;
- demand for coking coal and coke in the iron and steel industry fell; but this reduction in demand because of a decline in crude steel production was partly compensated for by the general replacement in blast furnaces of fuel oil by coke.

III. FORECASTS OF FUTURE DEVELOPMENTS

24. Any forecast of possible future trends in Community coal will depend mainly on two factors: demand patterns (a) and the trend in prices for both world market coal and domestically mined coal (b).

(a) Demand patterns

25. Consumption of coal amounted to 314 mill.t. in the European Community in 1980; the Commission estimated demand for 1990 at approximately 390 (350 to 420) mill. t., and for the year 2000 forecast a total consumption of approximately 580 (495 to 635) mill. t.¹

26. These increases in demand are based on the following assumptions:

Energy consumption in the Community will continue to grow. Coal's share will rise, particularly in the field of electricity generation. This will involve building new power stations and replacing old power stations and the conversion of oil-fired power stations to coal. In the past two years the enormous price rises in the oil sector have already led to more and more conversion measures of this kind being undertaken. Subsidized national or Community loans might be made available in cases where the necessary investments for conversion appear threatened by high

¹See COM(80) 117 final. The Commission estimates are based on figures from the Member States at the end of 1979.

market interest rates. France for example provides national loans of up to 25% of the investment costs in the industrial sector. The United Kingdom is currently negotiating with representatives of the ECSC on their offer to provide a £50 m. loan for two years. Because of the extraordinarily high interest rates in the United Kingdom this would be at rates 4% lower than the ordinary Eurodollar market rates.

The construction of additional new power stations and replacement of old power stations also has the extremely beneficial side effect of maintaining or even creating new employment¹.

The use of oil in electricity production as a whole in 1990 is currently estimated as follows:

The Nine	The Ten	Germany	France	Greece	United Kingdom
14%	14/15%	4%	4%	8%	13/14%

Belgium	Denmark	Netherland	Italy	Ireland
14%	20%	38/33%	40/45%	50%

Source: COM(81) 65 final.

In the context of overall energy policy it is hard to justify the high proportions in some Member States.

27. The construction of new coal-fired power stations using sophisticated technology also has desirable environmental repercussions. Coal-fired power stations using fluidized bed combustion allow sulphur to be removed and thereby avoid the need for conventional flue gas desulphurization units. Improvements in filter technology have achieved more effective removal of particles. Carbon dioxide emission remains a problem. As the entry into service of new coal-fired power stations, particularly in conjunction with district heating systems (CHP) is likely to lead to the decommissioning of old power stations and a large number of domestic boilers both of which cause considerable pollution, this too must be regarded as a form of environmental progress.

¹See Wolfgang KLAUDER, Zu den Arbeitsmarktauswirkungen unterschiedlicher Energiestrukturen, MittAB 1/80; according to this, the operation of a coal-fired power station using domestically mined coal creates the highest level of employment of all types of power station.

28. A further promising market for coal will result from the conversion from oil to coal by other branches of industry. The main unresolved issue here is how quickly this will take place. Subsidized loans in the form referred to above, could expedite this development. The cement industry, for example, has pushed ahead with conversion throughout the Community.

29. The movement away from fuel oil could lead to a short-term improvement in the market for coking coal in the iron and steel industry. As, however, the long-term prospects for the steel industry are less than rosy, it is impossible to make any clear forecasts as to what may happen in the future.

30. In the domestic fuel sector, demand is likely to continue to decline partly as a result of an expansion in the coal-fired district heating network.

31. Coal gasification and liquefaction may turn out to be a further interesting potential market. Experimental results to date are so encouraging that attempts are now under way all over the world using demonstration plants of different sizes to establish the economic and practical feasibility of this technology. Although it is impossible to deal with all aspects of this in detail, it is worth noting that the production of liquid and gaseous basic materials for the chemical and transport sector is likely to become an ever more pressing need in future given steadily increasing oil and gas prices. Further developments in gasification technology are also needed to improve the efficiency of coal-fired power stations beyond their present level of 40%.

32. Until now generating enough heat to process coal has consumed the major part of the coal used. If it were possible to derive the necessary heat from a high temperature reactor, at least the economic prospects for coal gasification would become considerably more promising. A quantity of coal equivalent to the heat derived from the reactor would thus be saved. This would however, have to be offset against the cost of providing the equipment to supply the heat and the far more complicated gasification technology. The advantage derived would be far greater for coal gasification than for coal liquefaction.

33. It would be unrealistic to expect the HTR technology to be operational or gasification on a large scale to be feasible before 1995. Nevertheless it is important even now to accord priority to developing these technologies in particular in view of the need to find alternatives to oil and gas and to cover the increase in energy consumption.