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Report

drawn up on behalf of the Committee on Energy and Research

on the proposal from the Commission of the European Communities to the Council (Doc. 381/78) for a regulation on Community financial measures for intra-Community trade in power station coal

Rapporteur: Mr H-W. MÜLLER

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By letter of 10 October 1978 the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a regulation on Community financial measures for intra-Community trade in power station coal.

The President of the European Parliament referred this proposal to the Committee on Energy and Research as the committee responsible and to the Committee on Budgets for its opinion.

On 2 November 1978 the Committee on Energy and Research appointed Mr H. W. Müller rapporteur.

It considered this proposal at its meetings of 2 November, 29 November and 21 December 1978 and 26 January 1979.

At its meeting of 26 January 1979 the committee unanimously adopted the motion for a resolution and the explanatory statement.

Present : Mrs Walz, chairman ; Mr Flämig, vice-chairman ; Mr Normanton, vice-chairman ; Mr H. W. Müller, rapporteur ; Mr Bertrand (deputizing for Mr Verhaegen), Lord Bessborough, Mr De Clercq, Mr Fuchs, Mr Ibrügger, Mr Mitchell and Mr Vanvelthoven.

The opinion of the Committee on Budgets is 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

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation on Community financial measures for intra-Community trade in power station coal

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council¹,
- having been consulted by the Council (Doc. 381/78),
- having regard to its previous resolutions concerning the energy policy sector, in particular
 - on future guidelines for the Community's coal policy in the framework of the overall concept of a Community energy policy²,
 - on 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,
 - on 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,
 - on the second report from the Commission of the European Communities to the Council on the achievement of Community energy policy objectives for 1985, together with a draft Council resolution⁵,
 - on the communication from the Commission on the introduction of a Community aid system for intra-Community trade in power station coal,
- having regard to the report of the Committee on Energy and Research and the opinion of the Committee on Budgets (Doc. 199/78),

¹ OJ No. C 243, 13.10.1978, p.3

² OJ No. C 159, 12.7.1976, p. 33

³ OJ No. C 133, 6.6.1977, p. 18

⁴ OJ No. C 241, 10.10.1977, p.14

⁵ OJ No. C 6, 9.1.1978, p.12

- having regard to the Resolution of the ECSC Consultative Committee on coal policy¹,
 - having regard to the report of the Committee on Energy and Research and the opinion of the Committee on Budgets (Doc. 582/78),
1. Reaffirms that the optimum utilization of the Community's indigenous sources of energy is necessary in the interests of the security of its energy supplies;
 2. Calls for the strict observance of the Community energy policy objective laid down on 17 December 1974, whereby hard coal production should be maintained at a level of 250 m tonnes;
 3. Recalls that the 'Medium-term Guidelines for Coal 1975-1985' called for a coal import policy which provided, inter alia, for the conclusion of long-term contracts with the supplier countries, and for the introduction of 'safeguard measures' in the event of substantial harm being caused to Community producers by imports;
 4. Proposes that the Commission, in the interest of long-term energy supplies, should prepare long-term contracts with coal-exporting third countries;
 5. Notes with concern that coal imports from certain third countries have risen sharply in recent years, while intra-Community trade in coal has declined and stocks of Community coal have steadily accumulated;
 6. Takes the view that the enormous investment in the reorganization of the Community's coal-mining industry must not be jeopardized by increased imports, particularly from third countries in which coal is produced in bad social conditions;
 7. Recognizes that, in the long term, the coal-producing Member States cannot alone be expected to bear the burdens associated with the maintenance of this production capacity;
 8. Notes, therefore, once again that Community measures in favour of coal are an appropriate way of developing a common energy policy and calls on the Council to adopt the Commission proposals still outstanding on the use of coal for electricity generation and on cyclical stocks;
 9. Is aware that there is a relationship between increasing intra-Community trade and limiting cheap coal imports from third countries;

¹ OJ No. C 304, 20.12.1978, p.7 - 6 -

10. Doubts whether the proposed subsidy of 10 EUA per tonne will be sufficient to cover the difference between the price of coal from Community countries, particularly the Federal Republic of Germany and Belgium, and the price of the cheapest third-country coal;
11. Requests the Commission to draw up a report without delay showing what 'safeguard measures' it proposes to take in favour of Community investments in the coal mining industry;
12. Is fully aware that the cooperation of the Community's electricity industry, specifically in the purchase of an additional 10 m tonnes of Community power-station coal, is indispensable if the objective of maintaining the Community's coal production capacity is to be achieved;
13. Endorses the objectives underlying the Commission's proposal, but doubts whether they can be attained solely by means of the proposed subsidy system;
14. Calls on the Commission, therefore, to amplify its proposed subsidy system as soon as possible by the addition of specific proposals for maintaining Community production capacity, and to adopt the following amendment, pursuant to Article 149, second paragraph, of the EEC Treaty.

PROPOSAL FROM THE COMMISSION
FOR A COUNCIL REGULATION FOR
A COMMUNITY AID SYSTEM FOR INTRA-COMMUNITY
TRADE IN POWER-STATION COAL

Preamble unchanged

Recitals unchanged

Section I, Article I unchanged

Section II, Articles 2-7 unchanged

Section III, Article 8 unchanged

Article 9

1. At the end of each calendar year the Council may, unanimously, on a proposal from the Commission and after hearing the opinion of the European Parliament, decide to adjust the amount of aid per tonne by a regulation.

In urgent cases the Council may however, on a proposal from the Commission, make these adjustments at other times.

2. The Commission may withdraw aid which was granted incorrectly or, particularly, on the basis of misleading information supplied by the beneficiary.

Article 9

1. At the end of each calendar year the Council may, unanimously, on a proposal from the Commission and after hearing the opinion of the European Parliament, decide to adjust the amount of aid per tonne by a regulation.

In urgent cases the Council may however, on a proposal from the Commission, make these adjustments at other times. In such cases the European Parliament shall be informed without delay.

2. Unchanged

Articles 10 to 13 unchanged

¹ For complete text see OJ No. C 243, 13.10.1978, p.3

EXPLANATORY STATEMENTI. General

1. In the spring of this year the Commission submitted to Parliament a communication on the introduction of a Community aid system for intra-Community trade in power station coal. It is now submitting to Parliament a proposal for a Council regulation on this subject.

Last July, on the basis of a report by this committee, accompanied by an opinion from the Committee on Budgets (IBRÜGGER report, Doc. 199/78) the European Parliament delivered an opinion on the outline plan proposed by the Commission.

2. In general, reference should be made to that report and to the points set out in it. They are as valid now as they were then, and particular attention is drawn to the conclusions contained in that report. In the light of a number of criticisms made in that report, Parliament endorsed the proposed outline plan only subject to reservations.

3. In the conclusions Parliament approved the proposals for a system of aid, with a view to:

- Maintaining a hard coal production capacity of 250 m tce (Energy policy objectives for 1985)
- Reducing the dependence of the European Communities on imported energy, especially oil.

Furthermore:

- The market for power-station coal is growing.
Although coal is the Community's largest indigenous energy source, it has to look on helplessly as imports from third countries rise sharply, whilst a large part of its own production is stocked at the pithead.

4. The scepticism expressed in Parliament's opinion was motivated not so much by the objective pursued with the aid system - namely to cover 30% of the difference between the world market price and the Community production price with a view to making Community coal competitive - as by the basis of calculation used by the Commission for its outline plan. The information regarded by Parliament as essential was incomplete, inasmuch as answers had not been provided to the following questions:

- (a) What are the current trends concerning the relative contributions of coal-fired power stations and power stations using other fuels to overall electricity production?
- (b) How many coal-fired and other power stations will come into operation during the aid period and how many are planned?

5. Attention is called in particular to paragraphs 5 to 10 of the motion for a resolution contained in the IBRÜGGER report:

- the need for and extent of the proposed aid should be justified by the provision of a more detailed assessment of the opportunities for disposing of power-station coal
- equal conditions of trade and competition should be ensured
- a system should be introduced for the distribution of subsidized intra-Community trade
- doubt as to whether the granting of a standard amount of aid per tonne of coal would further the desired objective
- the advisability of short-term support is open to doubt
- the need for clear rules for controlling the proper utilization of the aid system.

The question to be answered now is the extent to which the proposal under consideration matches up to the above reservations. It should be emphasized at this point that the Committee on Energy and Research will await the opinion of the Committee on Budgets before commenting on the financial implementing measures.

II. Comments on the content of the Commission proposal

6. The explanatory memorandum accompanying the proposal is understandably largely identical with that submitted with the outline plan. The situation on the coal market has likewise changed little in the meantime, although both production and imports of coal have shown some decline, and the Community's coal production capacity in particular has diminished. At any event there is no indication of an improvement in the situation on the coal market. The Energy forecasts made by the international organizations, the World Energy Conference, the International Energy Agency and a number of the major oil companies agree that the demand for coal will rise in the long term.

7. In the period from January to November 1978 coal production fell by 0.9% in comparison with the corresponding period in 1977. A sharp variation is noted between France (-6.7%) and Belgium (-6.4%), on the one hand, and the Federal Republic of Germany (-1.0%) and the United Kingdom (+0.5%), on the other. It is perhaps significant that the largest decline in production is noted in countries where the costs are highest.

Coal production in the Member States (in thousands of tonnes):

	November	November	First 11 months		%
			1977	1978	change
Germany	7,919	7,746	83,533	82,695	- 1.0%
France	1,799	1,888	19,440	18,143	- 6.7%
Belgium	627	607	6,445	6,031	- 6.4%
United Kingdom	10,745	10,206	108,062	108,581	+ 0.5%
Community	21,090	20,447	217,481	215,450	-13.6%

8. Trends in coal imports from third countries and intra-Community trade
(m tonnes)

	1970 (actual)	1975 (actual)	1976 (actual)	1977 (actual)
USA	15.5	13.8	14.2	10.7
Poland	10.3	14.6	16.0	14.8
USSR	4.3	3.7	4.1	4.2
Australia	0.7	5.8	4.5	6.7
South Africa	0.6	1.6	3.5	7.8
Others	1.4	1.6	0.8	1.8
Total	32.8	41.1	43.7	46.0
Intra-Community trade:	20.8	16.3	14.0	15.2

Although total imports fell by 5.5% during the first six months of 1978, imports of steam coal, with which this report is concerned, rose over the same period¹. It should be noted that there was a drop in total imports from the United States, Poland and the USSR, but a rise in total imports from Australia and South Africa. The latter countries now account for 42% of imports. The decline in imports from the United States is explained by the strikes during this period.

¹ OJ No. C 286, 30.11.1978, p.5 ff.

Recent developments concerning imports of steam coal thus underline the need for action to support the position of Community coal.

9. Coal production capacity, which still stood at approximately 266 m tonnes per annum in 1975, had fallen to 253 m tonnes by 1978. Production/^{capacity} has declined by as much as 17.3 m tonnes since the outbreak of the energy crisis in 1974. The Commission expects to see a further reduction by some 5 m tonnes by 1981 as a result of the investment projects and mine closures of which it has been notified by the industry. Although, taking the Community's coal reserves as the yardstick, production of 270 m tonnes would still be feasible, investors are making their capital input conditional, inter alia, on guarantees for the opening up of new markets.

The original production target of 250 m tonnes recommended by the Council no longer seems attainable in the light of the mine closures that have already begun. Actual developments are thus running counter to the oft proclaimed objective of maintaining production capacities as the basis of a medium- and long-term energy strategy. But the Commission's estimates may still be influenced by decisions aimed at overcoming the growing difficulties the mining industry faces with regard to profitability.

10. The Commission proposal appears to make adequate provision to ensure equal conditions of trade and competition on the market. The Commission has proposed a scheme for the distribution of subsidized intra-Community trade. Detailed provisions are also laid down for supervising the proper application of the system. The Commission has thus responded to the requests set out by Parliament in paragraphs 6, 7 and 10 of the motion for a resolution contained in the Ibrügger report.

11. As far as Parliament's other demands are concerned, the Commission has failed to provide a more detailed assessment of the opportunities for disposing of power-station coal.

12. Despite steady increases in output as a result of technological progress in coal-mining, Community production costs are substantially higher than those in third countries owing to a number of factors that vary according to the different coal-producing countries. These factors are:

- geological conditions (e.g. opencast or underground mining)
- safety requirements
- wage costs

Moreover, these factors also govern production costs in the various Member States. The current high prices in Belgium, the Federal Republic of Germany and France can in this connection be regarded as relatively stable, while the present low prices in the United Kingdom show a strong upward trend.

The proposed system of aid will help to attenuate the Community's present competitive disadvantage in relation to coal imported from third countries.

Since intra-Community trade in power station coal is tied to world market prices, the aid will cover about 30% of the difference. The remainder will have to be covered either by producers or through national aids introduced by the Member States.

13. By way of explanation the Commission gives in its proposal the following figures for the calculation of prices of Community and imported coal:

The world market price is at present between US \$ 30 and 35 cif per tonne. By contrast, the average cost of producing coal in the Community is respectively US \$ 45 in the United Kingdom, US \$ 75 in Germany and France and around US \$ 100 in Belgium. An average of US \$ 10 freight costs has to be paid on top of this. The difference between the cif price of imported coal and the cost price of Community coal is therefore so substantial that, even after a subsidy of US \$ 12.4 (= 10 EUA), a considerable gap remains between the two prices. There must therefore be some doubt as to the effectiveness of the subsidy.

14. It should be noted that, besides making a really important contribution to the security of the Community's energy supplies, maintaining the production of 10 m tonnes of coal in the Community would also lend equally valuable support to the Community's employment policy. In the twelve months to November 1978 the number of registered miners in the Community as a whole fell by 11,500 to 357,500, of whom 185,000 were employed in the United Kingdom, 119,400 in the Federal Republic, 35,100 in France, 17,400 in Belgium, 200 in Italy and 400 in Ireland¹. ~~This decline can only partially be ascribed to continuing rationalization, which by October 1978 had resulted in a production rate per man-hour averaging 419 kg (Federal Republic 528 kg, United Kingdom 379 kg, France 334 kg and Belgium 275 kg)².~~

¹ eurostat 12-1978

² loc cit.

15. The decision should provide for an increase in the specific scale of 10 EUA per standard tonne in the event of the overall quantity of 10 million tonnes not being fully utilized. On the other hand, in the event of the overall quantity of 10 million tonnes being exceeded, the scale of subsidy could be reduced correspondingly, so that the appropriation earmarked in the budget is not overdrawn. The system might be analogous to the one already proposed for coking coal.

16. The committee welcomes the Commission's undertaking to consult Parliament on any changes or adjustments that become necessary. In the urgent cases referred to in Article 9, Parliament should at least be informed.

III. The Commission proposal in the light of the long-term prospects for the coal market

17. The world energy market is subject to considerable risks. The price of oil will in all probability continue to rise, possibly very suddenly, and shortages of the kind experienced in 1973/74 could also recur. It is not yet possible, for example, to assess the consequences of current developments in Iran. As for coal, some 63 million tonnes are at present stocked at the pithead. This corresponds to around three months' consumption and at a time when energy supplies are uncertain, must be regarded as a contingency reserve for emergencies.

The long-term coal policy pursued by the Community finds expression not only in the announcement of an annual production capacity of 250 million tonnes for 1985 but also in the execution of research programmes on the gasification and liquefaction of coal, as simple combustion can, in the long run, only be described as a wasteful method of exploitation.

In the medium term, however, coal burning still needs to be encouraged in order to reduce as far as possible the dependence on oil. To this end, the Commission has submitted a proposal on investment aid for the construction of new coal-fired power stations and the conversion of oil-fired power stations to coal. The proposal in support of coking coal serves the same purpose.

The long-term and medium-term coal policy of the Community will, however, both be jeopardized unless the survival of the Community coal-mining industry is ensured in the short term as well. Pit closures must be seen as irrevocable actions, as it is just as expensive and time-consuming to reopen a pit that has filled with water as it is to open up a completely new mine.

The present Commission proposal represents a short-term aid measure which is necessary also from the long-term point of view.

IV. Conclusions

18. In the interests of strengthening the market position of the Community's indigenous coal, the committee considers the present proposal to be a step in the right direction. The procedure for reviewing the success of the aid system after one year will make it possible to take any corrective measures or make any adjustments that are found to be necessary. The risk of failure arises in particular in connection with the differences in price between imported and Community coal, even after application of the subsidy.

19. Measures to support the Community's mining industry appear to be urgently needed. They are fully justified in view of the medium and long-term prospects on the world market.

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman : Mr Tam DALYELL

On 21 November 1978 the Committee on Budgets appointed Mr Dalyell draftsman.

It considered the draft opinion at its meeting of 29 November 1978 and adopted it unanimously.

The committee agreed unanimously to present no opinion for the attention of the Committee on Energy and Research, but to communicate to it its comments in detail, as the committee had not agreed to provide a negative opinion by 7 votes to 7 with 1 abstention.

Present : Mr Bangemann, vice-chairman and acting chairman ;
Mr Dalyell, draftsman; Mr Croze, Mrs Dahlerup, Mr Dankert, Mr De Keersmaeker (deputizing for Mr Notenboom), Mr Hamilton, Mr Nielsen, Mr Radoux, Mr Ripamonti, Mr Schreiber, Mr Shaw, Mr Spinelli and Mr Würtz.

1. Last year the Commission submitted to the Council two proposals, one concerning grants for the building of coal-fired power-stations and the other a Community aid system for the financing of cyclical stocks of coal and coke. These proposals have not yet been adopted by the Council. As stated in its communication of 22 February 1978¹, the Commission considers that a regulation providing for an aid system aimed directly at an increase in disposals of Community boiler coal is also necessary. On 5 July 1978 Parliament delivered its opinion on this communication and the Commission is now submitting its promised proposal for a regulation.

Position adopted hitherto by Parliament and the Committee on Budgets

2. In its resolution of 5 July 1978 Parliament considered financial aid to support intra-Community trade to be an 'effective means of maintaining coal production capacity'².

3. It requested, however, that in any future Commission proposal for a regulation provision be made for the following:

- justification of the need for an extent of the proposed aid by the provision of a more detailed assessment of the opportunities for disposing of power-station coal,
- equal conditions of trade and competition when the aid system is introduced,
- a precise definition of the quantities qualifying for aid,
- clear rules for controlling the proper application of the aid system,
- entry in the general budget of the Communities of the amount to be granted under the aid system,
- an assurance, when the final proposal is submitted, that producers and/or Member States are prepared to make up the difference resulting from adjusting prices to the world market price which is not covered by the Community aid system.

4. Furthermore, doubt was expressed as to whether the granting of a standard amount of aid per tonne of coal, as proposed under the aid system, is realistic and would further the desired objective. In principle, however, the objectives set out in the outline plan for an aid system for intra-Community trade in power-station coal was endorsed.

5. The Committee on Budgets also agreed in principle to such a measure,³ but said that it would formulate its definitive opinion after examining the draft regulation to be drawn up by the Commission, and when deciding on the proposed budget appropriation during the 1979 budgetary procedure.

¹ Doc. 9/78

² Doc. 199/78, paragraph 4 of the resolution

³ See opinion of the Committee on Budgets - draftsman Lord BESSBOROUGH PE 53.148/fin.

6. The Committee on Budgets asked that the following information be set out in the financial statement:

1. the appropriations required to cover the cost of Community financing,
2. the form in which they are to be entered in the budget,
3. the method of calculation employed,
4. the breakdown over the coming financial years,
5. a detailed description of the working of the system, and
6. the control procedures proposed.

7. The committee also questioned the basic feasibility of the proposal, in the absence of any indication 'that the undertakings or national governments would feel prepared to meet the remaining 70% of the cost of subsidies'.

The Commission proposal - content and criteria

8. The Commission considers it desirable to limit the aid scheme in time, so as to enable the situation to be reviewed if after a certain period the energy market situation and the economic position of the coalmining industry have shown no appreciable change.

9. In other words, the measure is only a way of riding out the situation on the energy market, which for the present is particularly unfavourable for the coalmining industry. If it succeeds, it could help the Community to achieve its medium-term objective of lower dependence on imported energy.

10. The Commission sets up the following criteria to be met by a Community system of aid:

- In order to avoid discrimination, it must cover not only existing intra-Community trade in power-station coal (just under 4 m tonnes in 1977) but also the additional delivery channels opened up by such aid;
- Establishment of a flexible quota system for producer countries that guarantees proper distribution of the coal supplied in intra-Community trade but allows adaptation in line with actual developments,
- Precise definition of deliveries qualifying for aid;
- Comparability of qualities by conversion to a standard grade, to avoid discrimination in the granting of aid;
- Precise evidence of entitlement to aid and of competitive prices,
- Amount of aid not to exceed the losses actually incurred by Community producers.

11. These criteria are met in Article 3 to 7 of the Commission proposal. The following stipulations appear to the draftsman to be particularly interesting and important as regards the financial implications of the proposed regulation and the control of the application of the aid system: Aid may be granted only in respect of:

1. Deliveries to power-stations which have already obtained coal through intra-Community trade in 1978, and in fact up to the amount of 1978 deliveries,
2. Deliveries to power-stations which in 1978 exclusively or in part consumed coal imported from non-Member countries,
3. Deliveries to power-stations which, during the time of validity of this regulation, started up operating for the first time in Denmark, Ireland, Italy, Luxembourg and the Netherlands.
(see Article 4(2) of the proposed regulation)

12. Aid is to be granted for quantities estimated at not more than 10 million standard tonnes of coal per year. This means that the Commission is cutting back its original plan, which provided for 12 million tonnes and would have meant the promotion of additional intra-Community trade of between 8 and 9 million tonnes. With existing trade at a level of around 4 million tonnes, support can be given only for an additional 6 million tonnes. In other words, some 40% of the proposed total expenditure of 100 million EUA per year will be used on existing intra-Community trade in power-station coal.

Analysis of the requests put forward by the Committee on Budgets

13. Points 1 and 2: The appropriations required to cover the financing costs are to be entered in the budget in Chapter 32, Item 3232. In the preliminary draft budget for 1979 the Commission entered a payment appropriation of 100 m EUA, which the Council converted into a token entry in its draft. This was intended as a constructive approach, the aim being to make it possible to get the system under way immediately the necessary decisions had been taken.

14. In view of the controversy surrounding the proposal and the fact that the project had initially been justified only in very general terms, and also because at that stage no specific Commission proposal for a regulation had been submitted, Parliament did not call for the reinstatement of the appropriations when it considered the draft budget in October. A draft amendment tabled by Mr Spinelli and others calling for the deletion of Item 3232 and the token entry against it until a common energy policy had been worked out did not secure the necessary majority in Parliament. Unless, in the light of the proposal for a regulation now under consideration, a new draft amendment is tabled and approved by Parliament, the project might have to be financed by a supplementary budget.

15. Point 3: As regards the method of calculation the Commission gives no precise indication of how high the actual deliveries, and hence the amount of aid, might be. It does, however, reckon on a maximum estimated quantity of 10 million tonnes, which, at a scale of aid of 10 EUA per tonne, gives a maximum annual total of aid of 100 million EUA.

16. Point 4: Since the measure is restricted to the period 1979-1981 and the maximum annual payments are to be 100 million EUA, this gives a total expenditure of 300 million EUA. The amount actually paid out may of course fall short of the ceiling, depending on the level of intra-Community trade in power-station coal.

17. This is where the weak point of the system becomes apparent: the Commission obviously does not exclude the possibility that, in the extreme situation, there will be no additional trade in coal, and that only the existing trade of 4 million tonnes will be subsidized.

18. Points 5 and 6: The Commission has given a detailed description in its proposal for a regulation of the way in which the system is to work. At the same time the implementing provisions to be adopted under this regulation, in particular the control procedures, require further clarification. In connection with the necessary controls we are merely told in Article 7(4) that aid is to be paid 'only on presentation of all documents and information which the Commission feels to be necessary'. Under Article 12 the Commission will take 'all the measures necessary to ensure control'.