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EUROPEAN PARLIAMENT

Working Documents

1979 - 1980

17 April 1979 **DOCUMENT 69/79**

Report

drawn up on behalf of the Committee on Energy and Research

on the draft from the Commission of the European Communities (Doc. 576/78) for a decision concerning coal and coke for the iron and steel industry of the Community

Rapporteur : Mr L. IBRÜGGER

12.7.

English Edition PE 56.648/fin.

By letter of 8 January 1979 the President of the Commission of the European Communities, Mr Roy Jenkins, requested the European Parliament to deliver an opinion on the draft from the Commission of the European Communities for a decision concerning coal and coke for the iron and steel industry of the Community.

By letter of 5 February 1979, the President of the European Parliament referred this draft to the Committee on Energy and Research as the committee responsible and to the Committee on Budgets for its opinion.

On 20 December 1978 the Committee on Energy and Research appointed Mr Ibrügger rapporteur.

It considered the draft at its meeting of 3 April 1979.

At the same meeting the committee unanimously adopted the motion for a resolution and explanatory statement.

Present: Mrs Walz, chairman; Mr Flämig, vice-chairman; Mr Ibrügger rapporteur; Mr Ansquer, Lord Bessborough, Mr Brown, Mr Fuchs, Mr Hamilton (deputizing for Mr Mitchell), Mr Leonardi, Mr H.-W. Müller and Mr Ripamonti.

The opinion of the Committee on Budgets is attached.

C O N T E N T S

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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 draft from the Commission of the European Communities for a decision concerning coal and coke for the iron and steel industry of the Community

The European Parliament,

- having regard to the draft Commission decision (COM(78) 516 final),
- having been consulted by the Commission (Doc. 576/78),
- having regard to the report of the Committee on Energy and Research and the opinion of the Committee on Budgets (Doc. 69/79),
- referring to its earlier resolutions concerning the energy sector, and, in particular, those on
  - the renewal of the system of aids for coking coal and coke for the Community's iron and steel industry (Doc. 225/72),
  - the modifications to Decision No. 73/287/ECSC concerning coal and coke for the iron and steel industry in the Community (Doc.467/76),
  - future guidelines for the Community's coal policy in the framework of the overall concept of a Community energy policy[1],
  - the proposal from the Commission of the European Communities for a Council regulation on Community financial measures to promote the use of coal for electricity generation[2],
  - 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 fuel[3],
  - the second report from the Commission to the Council on the achievement of Community energy policy objectives for 1985, together with a draft Council resolution[4],
  - the Communication from the Commission on the introduction of a Community aid system for intra-Community trade in power station coal (Doc. 199/78),

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[1] OJ No. C 159, 12.7.1976, p. 33

[2] OJ No. C 133, 6.6.1977, p. 18

[3] OJ No. C 241, 10.10.1977, p. 14

[4] OJ No. C 6, 9.1.1978, p. 12

- the proposal from the Commission for a regulation on Community financial measures for intra-Community trade in power station coal (Doc. 582/78),

- having regard to the resolution of the ECSC Consultative Committee on coal policy[1],

1. Notes once again that better exploitation of energy sources in the Community is necessary for the security of the Community's energy supplies;

2. Welcomes the Commission's proposal that the system of aids for coal and coke for the iron and steel industry in the Community should be renewed[2],

3. Recognizes that account has been taken of the difficult situation of the iron and steel industry;

4. Welcomes the flexibility in the fixing of production and sales aids;

5. Approves in principle the Commission's objective of making long-term contracts for both producers and consumers a precondition for the granting of aids; calls, however, once again for consideration to be given to the possibility, in exceptional cases, of special authorization being given for aids to short and medium-term supplies;

6. Welcomes the extension of the system of aids to include coals and cokes destined for the sintering of minerals;

7. Criticizes the financing of various schemes in the coal sector from different sources, particularly in the case of this draft, under which measures would be financed almost entirely outside the ECSC budget or the general Community budget;

8. Calls emphatically, therefore, for the budgetization of these resources so that they may be brought under the control of the European Parliament;

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[1] OJ No. C 304, 20.12.1978, p.7

[2] OJ No. L 259, 15.9.1973, p. 36

9. Is aware of the problems of financing through the ECSC operational budget in view of the latter's limited resources and therefore calls once again for the customs revenues collected by the Member States on coal and steel products to be transferred in full to the ECSC budget;

10. Takes the view that this scheme is part of the Community energy policy and that for practical reasons (limited ECSC budget) it should be financed through the EEC budget;

11. Points, in this connection, to the advantage that the scheme would then enjoy through the possibility of an annual revision in the context of the budgetary procedure;

12. Approves the Commission's proposal by way of exception for a period of two years, i.e. until 31 December 1980, on the grounds that delays might well otherwise occur;

13. Calls on the Commission to submit well before the expiry of the new decision and in good time for the 1981 budgetary procedure a revised proposal which provides for uniform financing through the general budget of the European Communities;

14. Calls on the Commission, in accordance with the commitments it has voluntarily assumed vis-à-vis Parliament, to adopt the following amendments:

TEXT PROPOSED BY THE COMMISSION OF THE EUROPEAN COMMUNITIES[1]	AMENDED TEXT

COMMISSION DECISION CONCERNING COAL AND COKE FOR THE IRON AND STEEL INDUSTRY OF THE COMMUNITY

Section I, Articles 1 and 2 unchanged
Section II, Articles 3-5 unchanged
Section III, Article 6 unchanged
Section IV, Articles 7-9 unchanged
Section V, Article 10 unchanged

Article 11	Article 11
1. In an emergency, the Commission may, by decisions taken after consultation with the Consultative Committee and after the unanimous consent of the Council has been given, amend: - the rate of the sales aids, - the ceiling to intra-Community trade, - the rules governing the financing of the special fund, - the scale referred to in Article 8, paragraph 2(c). These amendments shall take account of the long-term trend of supply conditions and the supply pattern within the Community.	1. In an emergency, the Commission may, by decisions taken after consultation with the Consultative Committee <u>and the European Parliament</u> and after the unanimous consent of the Council has been given, amend: - the rate of the sales aids, - the ceiling to intra-Community trade, - the rules governing the financing of the special fund, - the scale referred to in Article 8, paragraph 2(c). These amendments shall take account of the long-term trend of supply conditions and the supply pattern within the Community.

Paragraphs 2 - 4 unchanged

Articles 12 and 13 unchanged

Article 14	Article 14
This Decision cancels and replaces decision 73/287/ECSC of 25 July 1973, most recently modified by decision 1613/77/ECSC of 15 July 1977. It shall enter into force on the day of its publication in the Offical Journal of the European Communities and shall take effect from 1 January 1979. It shall cease to have effect on 31 December 1981. This Decision shall be binding in its entirety and directly applicable in all Member States.	This Decision cancels and replaces decision 73/287/ECSC of 25 July 1973, most recently modified by decision 1613/77/ECSC of 15 July 1977. It shall enter into force on the day of its publication in the Official Journal of the European Communities and shall take effect from 1 January 1979. It shall cease to have effect on <u>31 December 1980</u>. This Decision shall be binding in its entirety and directly applicable in all Member States.

[1] For full text, see Doc. 576/78

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EXPLANATORY STATEMENT

I GENERAL REMARKS

1. The draft Commission decision of 19 October 1978 was forwarded to the Parliament for information by letter of 24 November 1978.

2. The Committee on Energy and Research requested authorization from the Bureau of the European Parliament to draw up an own-initiative report. By letter of 20 December 1978 the Secretary-General notified the committee that the Bureau had given such authorization. At the same time the Committee on Budgets was authorized to deliver an opinion.

3. Having been reminded of the commitment it voluntarily assumed in 1973 to consult Parliament on all important decisions in the coal and steel sector (COM(73) 999) and of an undertaking given by Commissioner Brunner during the European Parliament's December 1978 part-session, the Commission consulted Parliament by letter of 8 January 1979 (Doc. 576/78). The wording of the letter, however, ('The Commission would be glad to have Parliament's views ...') is not that normally used for an official consultation, but the European Parliament interprets it as such.

II OBSERVATIONS ON THE BACKGROUND AND THE CONTENT OF THE COMMISSION'S DRAFT DECISION

Background

4. The concept of subsidizing coal and coke for the Community's iron and steel industry goes back to the Protocols of an agreement on energy problems[1] and an agreement on coking coal and coke destined for the iron and steel industry agreed upon by the governments of the ECSC Member States meeting within the Council on 16 February 1967[2]. These agreements formed the basis for the Commission's first decision on a system of aids for coking coal and coke for the iron and steel industry, which has since been amended several times. The arrangement currently in force is governed by Commission Decision No. 73/287/ECSC of 25 July 1973[3], the validity of which was prolonged until 31 December 1981 by Decision No. 1613/77/ECSC of 15 July 1977[4].

5. The European Parliament delivered a favourable opinion on

[1] OJ No. 69, 30.4.1964, p. 1099

[2] OJ No. 36, 28.2.1967, p.561

[3] OJ No. L 259, 15.9.1973, p. 36

[4] OJ No. L 180, 20.7.1977

Decision No. 73/287/ECSC/ on the basis of an own-initiative report drawn up on behalf of the Committee on Energy and Research (WOLFRAM report, Doc. 225/72). It also endorsed Decision No. 1613/77/ECSC (KRIEG report, Doc. 467/76).

6. The general source of these observations is the WOLFRAM report. The committee had already decided to maintain its favourable attitude by applying the procedure without report under Rule 27A of the Rules of Procedure when it was obliged to draw up a report because the Committee on Budgets was to deliver an opinion.

7. Despite its basic endorsement of the Decision adopted at that time, the WOLFRAM report contained some additional demands. The present draft must on the one hand be assessed to see whether it contains basically appropriate measures to meet the changed circumstances on the energy market and in the iron and steel industry, and on the other, to see whether it meets the additional demands contained in the WOLFRAM report.

8. In particular, the motion for a resolution contained in the WOLFRAM report calls on the Commission to:

- prepare additional measures to achieve stability in coal consumption,
- to propose without delay the scale of Member States' contributions,
- to report not only to the Council but also to Parliament on the application of the decision and trends in supply conditions,
- to consult the European Parliament on all important decisions in the ECSC sector.

9. The content of the present draft decision forms part of the Community's 'coal package':

- proposal from the Commission of the European Communities to the Council (Doc. 535/76) for a regulation on Community financial measures to promote the use of coal for electricity generation;
- proposal for a Council regulation on Community financial measures for intra-Community trade in power station coal (Doc. 381/78);
- proposal to the Council for a regulation concerning Community aid for financing cyclical stocks of hard coal, coke and patent fuel.

It consistently pursues the same policy of promoting domestic coal production. In its form it differs from other parts of the coal package by the fact that the Commission has the power to take a decision under the ECSC Treaty, and the different method of financing.

10. Although initially planned as a short-term measure in 1967, aids for coal and coke for the iron and steel industry have been maintained and even extended. They reflect the general development of the coal sector as part of the Community's energy market. This development is characterized by:

- inability to compete on the world market without running the risk of entailing financial losses and a cutback in production capacity;
- uncertainty of coal supplies from third countries which would also further increase the Community's dependence on imported energy;
- the stabilization of the Community's energy situation as an objective of the energy policy;
- traditional intra-Community trade in coking coal and coke;
- the iron and steel industry's increased need for security of supplies;
- the high quality of coking coal in the Community which is in short supply world-wide under normal market conditions.

11. The objective pursued by the draft decision emerges from this description of the situation: it is to enable the Community's coal producers to align their selling prices to world market levels when their production costs exceed this level.

12. Since the last amendment to the decision in 1967, three factors have changed:

(a) Transport costs for coal from third countries have decreased world-wide;

(b) With the devaluation of the US dollar but the maintenance of the guide price denominated in dollars, the difference between the producers' production costs and net receipts has increased (see Table A).

TABLE A[1]

Year	Producers' net receipts (DM/t)	Production costs (DM/t)	Difference
1975	145	144	+ 1
1976	153	155	- 2
1977	138	160	-22
1978 (estimated)	119	168	-49

[1] Draft opinion of the Committee on Budgets (PE 57.078)

(c) The difference between the prices for coking coal from third countries and the Community has increased.

13. For these reasons the Commission is proposing that changes should be made in the aid rates.

Content of the Commission's draft

14. The draft provides for a 'production aid' to be paid from the national budgets of the coal-producing Member States and a 'sales aid' financed by a special Community fund.

15. The purpose of the sales aid is to make Community coking coal and coke more competitive vis-à-vis imported coal in intra-Community trade. It is restricted to an annual maximum of 15 million tonnes. The average sales aid is to be increased from 2.11 to 4.67 EUA per tonne, and the special fund increased from 31 to 70 million EUA.

16. The special fund will continue to receive contributions from three sources: the iron and steel industry, the ECSC budget and the Member States. The annual contributions from the iron and steel industry and from the ECSC budget remain at 17 million EUA and 6 million EUA respectively. The Member States' contribution, on the other hand, will be increased from 8 million to 47 million EUA. The draft decision includes a scale of contributions:

Belgium	8%
Denmark	2%
Germany	30%
France	20%
Ireland	1%
Italy	12%
Luxembourg	2%
Netherlands	10%
United Kingdom	15%

17. Sintering fuels can now be included in the system since the traded volume of classic coal and coke is unlikely to reach the finance ceiling.

18. The former decision has proved its worth. However, the market situation of the industries concerned has deteriorated, mainly due to a decline in steel production, the appreciation of European currencies against the dollar and the unequal evolution of maritime freight rates and European transport costs.

19. The fall in steel production and the maintenance of coal production capacity resulted in an increase in coal and coke stocks; the production and storage costs remain a charge on the producers.

20. The devaluation of the dollar has resulted in an increase in production costs in the Community expressed in Community currencies and compared with other international currencies.

21. Maritime freight rates for coal from third countries have fallen while European transport costs have increased.

22. The present draft Commission decision meets some of the demands made by the European Parliament in the Wolfram report: it is based on additional measures designed to achieve stability in coal consumption. It contains a scale for contributions from the Member States (see above). It provides for a report to be submitted not only to the Council but also to the Parliament on the application of the decision and trends in supply conditions.

23. Nonetheless, provision should be made in Article 11 (1) of the decision for consultation with the European Parliament.

24. As regards paragraphs 7-13 of the motion for a resolution, the committee responsible has incorporated the views set out in the opinion of the Committee on Budgets.

III CONCLUSIONS

25. It appears justified than an increased amount of aid should be granted to maintain coking coal capacity as an integral part of the Community's energy policy and to maintain its mining industry at 1973 levels for reasons of security of supply. In particular, it will also help to stabilize conditions in the iron and steel industry. Since Community coking coal is of high quality, it may be assumed that in the foreseeable future it will again be in short supply worldwide.

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman: Lord Bessborough

On 24/25 January 1979 the Committee on Budgets appointed Lord BESSBOROUGH draftsman.

The committee considered the draft opinion at its meeting of 1 March and adopted it unanimously at its meeting of 21 March.

Present: Mr Lange, chairman; Mr Aigner, vice-chairman; Lord Bessborough, draftsman; Lord Bruce of Donington, Mr Dankert, Mr Ripamonti, Mr Schreiber, Mr Scott-Hopkins, Mr Shaw, Mr Spénale and Mr Spinelli.

I. INTRODUCTION

The Commission's document, which dates from 19 October 1978, was forwarded to Parliament for information by letter of 24 November 1978.

On the initiative of the Committee on Energy and Research, the Bureau of the European Parliament was requested to authorize an own-initiative report on the Commission draft. By letter of 20 December 1978, the Secretary-General informed the Committee on Energy and Research that the Bureau had authorized it to draw up a report, with the Committee on Budgets to be asked for its opinion.

In the meantime, Parliament received a formal Commission request for an opinion.

II. BASES OF THE DECISION AND GROUNDS FOR AMENDING IT

Bases

A scheme of production and sales aids and connected intracommunity trade in coking coal and coke has been in effect since 1967[1]. That decision, the validity of which was of limited duration, was extended and amended several times, on the last occasion by Decision No. 1613/77/ECSC of 15.7.1977[2], which extended the scheme until 31 December 1981.

However, the document underlying this new decision is Commission Decision No. 73/287/ECSC of 25 July 1973[3], on which Parliament was not consulted and on which the Committee on Energy submitted an own-initiative report[4].

According to the Commission, the draft decision is to be seen in relation to two further measures in the field of coal production, namely the Commission's proposal to the Council (Doc. 535/76) for a regulation on Community financial measures to promote the use of coal for electricity generation and the proposal for a Council regulation on Community financial

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1 See Decision No. 1/67(COM) of 21.2.1967 - OJ No. 36 of 28.2.1967

2 OJ No. L 180 of 20.7.1977

3 OJ No. L 259 of 15.9.1973

4 WOLFRAM report (Doc. 225/72)

measures for intracommunity trade in power station coal (Doc. 381/78). As the Commission itself points out, a series of Commission decisions since 1967 have established the coking coal scheme within the ECSC. Justifications for the scheme are provided by the following:

- the financial losses connected with coal production,
- the uncertain situation of supplies,
- maintenance of coking coal production capacity as an essential component of the Community's general energy policy objectives,
- traditional intracommunity trade in coking coal and coke.

The scheme is intended to enable Community coal producers to align their selling prices with world market levels when their production costs exceed this level.

Grounds for amendment

In recent years, not only has the trend in comparative production costs favoured coal imported from third countries but, as a result of the stability of the US dollar guide price being undermined by the downward trend in the dollar, the difference between producers' production costs and their net sales revenue has also grown increasingly larger (Table A).

Table A

Year	Producers' net sales revenue in DM/t	Production costs in DM/t	Difference
1975	145	144	+ 1
1976	153	155	- 2
1977	138	160	-22
1978 (est.)	119	168	-49

The difference between the prices of coking coal from third countries and coking coal from Community sources has also grown larger. It is in view of this development that the Commission has proposed that the rates of aid be revised.

Contents of the Commission's draft

The Commission's draft decision, which is intended to replace the decision of 25 July 1973, is concerned with the financing of production aids on the one hand (from the national budgets of the coal-producing Member States) and of marketing aids on the other (from a special Community fund).

Up to now, the total amount of aid granted from the special fund is 31 m EUA and this figure is now to rise to 70 m EUA. Of the 31 m EUA, 17 m EUA were contributed by the operators of blast furnaces, 6 m EUA were provided by the ECSC budget under Article 95 of the Treaty, and 8 m EUA were paid in by the Member States in accordance with a special scale. If the overall finance is to be raised to 70 m EUA without increasing the other contributions, the amount provided in the form of Member States' contributions will have to be raised by 39 m EUA. These new resources should clear the way for an upward adjustment of sales aids for deliveries to locations remote from the place of production or for deliveries made in the context of intracommunity trade. In certain cases the rate may reach 7 EUA per tonne of coking coal as against 3.165 previously. In all other cases, the sales aid will be raised from 1.688 to 4 EUA. As a result, the average rate of sales aid for the three-year period concerned (1979 to 1981) will rise from 2.11 to 4.67 EUA per tonne of coal.

According to the new proposal, the finance provided in the form of Member States' contributions will amount to 47 million EUA in accordance with the following scale:

Belgium	8%
Denmark	2%
France	20%
Germany	30%
Ireland	1%
Italy	12%
Luxembourg	2%
Netherlands	10%
United Kingdom	15%

Apart from raising sales aids, the decision will extend the field of application of the scheme to coal and coke intended for the sintering of iron ore.

III. PROBLEMS ASSOCIATED WITH THE FINANCING ARRANGEMENTS

Parallelism with other measures

According to the Commission, this draft decision is to supplement the two abovementioned Commission proposals (regulation on Community financial measures to promote the use of coal for electricity generation and regulation on Community financial measures for intracommunity trade in power station coal). Commendable though the Commission's endeavour to work out an overall approach to energy policy may be, especially as regards the coal sector, it is nonetheless unfortunate that the measures should be financed in such an incohesive manner, the necessary resources being derived partly from the Community budget, partly from the operational budget of the ECSC, partly from Member States' contributions and partly from contributions by the coal users themselves. The fact that finance for the various measures should come from a variety of sources and the obvious attendant lack of transparency of the financial measures cannot but provoke criticism on the part of the Committee on Budgets.

The proper solution would be for these measures to be financed entirely by the ECSC operational budget. Instead, only 9% of the necessary sum will come from that source. It may well be - and the fact that the Commission was forced by the Council's decisions of 19 December 1978 to cut back the ECSC's 1979 budget would seem to bear this out - that in view of the limited resources available for the ECSC budget, a special financing scheme is needed. Nonetheless, the Committee on Budgets is compelled time and again to underline the untenable nature of this situation and criticize the continued failure of the Council of Ministers to agree on a complete transfer of customs revenue on ECSC products. Even so, these additional resources, amounting to around 60 m EUA, would still be inadequate, which poses the question as to whether the measures should not be financed by the Community budget.

In the case of the other two coal-promotion schemes previously mentioned, provision is in fact made for financing through the Community budget. It is difficult to see why the same approach has not been adopted with respect to this scheme.

According to the Commission's own words, 'it is .....essential for historical reasons that this aid system is charged to the ECSC budget. In future, operations aimed at maintaining coal production and promoting its use are more likely to come under the Community energy policy'.[1]

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[1] Preliminary draft general budget of the Communities for 1979, Vol.7/A, p.83

It would therefore be only logical to open a new item 3211 in the budget, entitled 'Aids to coking coal and metallurgical coke' with the necessary appropriation.

Such a financing policy would be logical and consistent as well as being appropriate from the practical point of view (lack of ECSC budget resources).

In addition to this criticism and these proposed amendments, the Committee on Budgets regrets that the Commission's draft is not accompanied by a financial statement.

IV. CONCLUSIONS

For the reasons set out above, the Committee on Budgets would normally reject the Commission's draft. In view of the urgency of the proposal and the delay that could be expected in the event of its rejection, the committee is however prepared, exceptionally, to approve it for a period of two years.

The Committee on Budgets therefore calls on the Committee on Energy and Research to include the following points in its motion for a resolution:

The European Parliament

- points out that the proposed measures have been in existence since 1967 and were originally devised as a temporary contribution to the solution of the problems in this sector;
- criticizes the financing of various schemes in the coal sector from different sources, particularly in the case of this draft, under which measures would be financed entirely outside the ECSC budget or the general Community budget;
- calls therefore emphatically for the budgetization of these resources so that they may be brought under the democratic control of the European Parliament and so that complete financial transparency may be ensured;
- is aware of the fact that financing through the ECSC operational budget is problematic in view of the latter's limited resources and therefore calls once again for the customs revenues collected by the Member States on coal and steel products to be transferred in full to the ECSC budget;
- takes the view that the scheme could be brought within an energy policy framework and that for practical reasons (restricted ECSC budget) it would be preferable to finance it through the Community budget;

- points, in this connection, to the advantage that the scheme would then enjoy through the possibility of an annual revision in the context of the budgetary procedure;

- approves the Commission's proposal exceptionally, in view of the delay that could otherwise be expected, for a period of two years - i.e. until 31 December 1980;

- calls on the Commission to submit, far enough ahead of the date of expiry of the new decision and in time to comply with the budgetary procedure for the 1981 budget, a revised proposal providing for homogeneous financing from the General Budget of the European Communities;

- requests the Commission to amend its proposal accordingly in respect of the period of validity of the decision laid down in Article 14.