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Report

drawn up on behalf of the Committee on Energy and Research

on the communication from the Commission of the European Communities to the Council (Doc. 9/78) on the introduction of a Community aid system for intra-community trade in power-station coal

Rapporteur: Mr L. IBRUGGER

1.2.1

PE 53.148/fin.

By letter of 16 March 1978 the Council of the European Communities requested the European Parliament for an opinion on the communication from the Commission of the European Communities to the Council on the introduction of a Community aid system for intra-Community trade in power-station coal.

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

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

The committee considered the communication at its meetings of 21 March, 17 May and 22 June 1978.

At this last meeting the committee adopted the motion for a resolution and explanatory statement by 15 votes to one with one abstention.

Present: Mrs Walz, chairman; Mr Flämig and Mr Normanton, vice-chairmen; Mr Ibrügger, rapporteur; Mr Brown, Mr Dalyell, Mr Edwards, Mr Ellis, Mr Fitch (deputizing for Mr Holst), Mr Fuchs, Mr van der Gun (deputizing for Mr Vergeer), Mr Lezzi, Mr Mitchell, Mr Noè, Mr Osborn, Mr Power and Mr Zywietz.

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 communication from the Commission of the European Communities to the Council on the introduction of a Community aid system for intra-Community trade in power-station coal

The European Parliament,

- having regard to the communication from the Commission of the European Communities to the Council (COM(78) 70 final),
 - having been consulted by the Council (Doc. 9/78),
 - recalling its previous resolutions in the energy policy field, viz.
 - on future guidelines for the Community's coal policy in the framework of the overall concept of a Community energy policy¹,
 - on 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 generation²,
 - 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 fuel³,
 - 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 resolution⁴,
 - having regard to the report of the Committee on Energy and Research and the opinion of the Committee on Budgets (Doc. 199/78),
1. Reaffirms that the achievement of the Community's objectives of security of energy supplies and reduced dependence on imported energy call for maximum utilization of the Community's own sources of energy;

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

2. Considers it essential that the production of coal, which is the Community's largest indigenous source of energy, should at least be maintained at its present level;
3. Regrets, therefore, that the Council has not yet adopted the latest proposals submitted to it for measures to support the coal sector;
4. Considers that financial aid to support intra-Community trade in power-station coal may be one of the effective means of maintaining coal production capacity;
5. Requests, however, that in future proposals for an aid system, the competent Community institution should justify the need for and extent of the proposed aid by providing a more detailed assessment of the opportunities for disposing of power-station coal;
6. Asks that equal conditions of trade and competition be ensured on the market when the aid system is introduced;
7. Therefore requests the competent Community institution to consider more closely the distribution of subsidized intra-Community trade;
8. Expresses some doubt as to whether the granting of a standard amount of aid per tonne of coal, as proposed under the aid system, is realistic or will further the desired objective;
9. Points out that, as coal production is being planned further and further ahead, the advisability of a short-term support measure such as that proposed is open to doubt;
10. Asks that the proposed regulation on aid should lay down clearly the rules for controlling the proper utilization of the aid system;
11. Requests that the amount to be granted under the aid system should be entered in the general budget of the Communities to enable the European Parliament to exercise its budgetary powers;
12. Requests 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;
13. Asks the Commission to report to the European Parliament on the results obtained one year after the implementation of the aid system;
14. Supports, therefore, in principle the objectives set out in the outline plan for an aid system for intra-Community trade in power-station coal.

EXPLANATORY STATEMENTI. Background

1. The overriding energy policy objective for 1985, which the Council laid down in its resolution of September 1974 and which, as the European Parliament has constantly stressed, must be pursued by practical measures, is to reduce the Community's dependence on imported energy, particularly oil. A contingent target is to maintain hard-coal production at 250 Mtce.

2. The reasons for setting this target for the coal sector are self-evident. In addition to the factors mentioned above, coal is the Community's most abundant internal source of energy, reserves are considerable and maximum exploitation of coal clearly has positive economic and social consequences, not only in the individual coal-producing countries but also in the Community as a whole.

3. It is therefore depressing to note that the coal market is under severe pressure, and that it is even doubtful that hard-coal production can be maintained at its present level. Production amounted to 236 million tonnes in 1975 and 247 million tonnes in 1976, but fell to 240 million tonnes in 1977 (representing 220 Mtce). The first few months of 1978 confirmed this downward trend.¹

4. This situation has been brought about by several factors - the state of the economy, trends within the iron and steel sector and lack of competitive power. At the same time the Community has not only been holding large stocks of coal - and still holds them - but has seen increasing quantities of cheaper coal imported from third countries.

II. Situation on the power-station coal market

5. Power stations are today the leading purchasers of coal: in 1977, the coal supplied for electricity production represented approximately 50% of all coal production (approx, 128 million tonnes). In addition, deliveries increased by 6% or 8 million tonnes by comparison with 1976 despite a fall in electricity consumption. These increased requirements are met by coal from the Community and from third countries in almost equal quantities.

6. The following table shows other aspects of this trend:

¹ These and other statistics have been taken from the EUROSTAT publications 'Energy Statistics Yearbook 1970-1975' and 'COAL STATISTICS 1976' and the Eurostat monthly bulletins, in particular 'Coal, 4-1978' of 20 April 1978 and 'Electric Energy Statistics 1976'. Reference has also been made to OJ No. C 118, 22 May 1978 (The Community coal market in 1977 and forecasts for 1978).

Hard-coal supplies to state-operated power stations (in 1,000 t and as %):

	1977	1976
<u>Coal from EEC countries</u>	114.6 (84.1%)	110.8 (86.2%)
of which:		
(1) national production	110.3 (81%)	109.2 (84.9%)
(2) other EEC countries' production (intra-Community trade)	4.2 (3.1%) ¹	1.6 (1.3%)
<u>Coal from third countries</u>	21.6 (15.9%) ¹	17.7 (13.8%)
Total	136.2 (100%)	128.6 (100%)

7. It should be pointed out that intra-Community trade increased by 2.6 million tonnes and therefore more than doubled between 1976 and 1977. The main suppliers were the Federal Republic of Germany and the United Kingdom, and the main purchasers were France and Denmark.

Although this is a welcome trend, it must not be forgotten that imports of cheaper coal from third countries also increased sharply from 17.8 million tonnes in 1976 to 21.6 million tonnes in 1977. This rise of over 21% is even more significant in view of the fact that the increase in imports from 1975 to 1976 was only 2.3%.

8. The communication gives an outline plan for subsidizing trade between the Community's coal-producing countries and users of power-station coal, so that Community-produced coal can compete with imported coal. The following trends are therefore noteworthy (the figures were published in May this year):

Coal supplies to public power stations (in 1000 tonnes)²

		Coal from other ECSC countries	Coal from third countries	Total supplies
Belgium	1975	349	456	2188
	1976	175	497	2606
	1977	335	600	3655
Denmark	1975	-	3454	3454
	1976	5	3366	3371
	1977	800	3590	4390
Germany (FR)	1975	725	3774	23346
	1976	753	3617	29420
	1977	750	4000	29000

¹ NB. Figures subsequently published for 1977 are as follows: intra-Community trade, 3.6 million tonnes; imports from third countries, 22.4 million tonnes.

² OJ No. C 118, 22.5.1978, Table 8C.

France	1975	894	4521	7964
	1976	562	6918	10796
	1977	1500	10000	15000
Italy	1975	-	1007	1007
	1976	-	1179	1179
	1977	-	1800	1800
Netherlands	1975	8	22	30
	1976	49	937	996
	1977	100	1150	1125
United Kingdom	1975	2	4130	78887
	1976	67	1254	79460
	1977	100	1300	80250
Community	1975	1978	17373	116876
	1976	1611	17768	127828
	1977	3585	22440	135345

This table clearly shows that, excluding the United Kingdom, whose imports have fallen in the last two years, Member States' imports of power-station coal have increased. It is also worth noting that Italy does not participate in intra-Community trade and that the Federal Republic, which in 1977 consumed about 29 million tonnes in all, imported only 4 million.

It is thus clear that the market for power-station coal is expanding. From the point of view of energy supplies and as a product, coal from third countries is an important factor in total Community supplies.

9. Paragraph 6 shows that imported coal accounts for 16% of coal consumed by Community power stations. Of these imports, amounting to about 22 million tonnes, deliveries from Poland represent 41%, 6% less than in 1976. Imports from the USA have dropped by nearly 50%. On the other hand, imports from South Africa have risen sharply from 2.5 Mt in 1976 to 6.2 Mt in 1977, and now account for 30% of all coal imported into the Community (as against 14% in 1976). Finally, imports from Australia have also increased slightly.

10. It is also interesting to see the breakdown of coal imports by country of delivery and country of origin. It should be noted that steam coal accounts for over 50% of the amounts shown in the table and that the coal imported from Poland and South Africa is mainly power-station coal.

Imports of coal from third countries - 1977 (estimates, in million tonnes, in round figures)¹

	USA	Poland	USSR	Austr- alia	South Africa	Others	Total
Belgium	1.22	0.55	0.2	0.25	0.46	0.15	2.8
Denmark	0.1	2.6	0.6	0.1	0.3	0.5	4.2
Germany (FR)	1.0	2.1	0.2	0.8	0.8	0.5	5.4
France	1.8	5.07	1.17	2.0	5.4	0.15	15.6
Ireland	-	0.5	-	-	-	-	0.5
Italy	4.75	2.55	1.2	1.1	-	-	9.6
Luxembourg	-	-	0.1	-	0.06	-	0.16
Netherlands	2.2	0.8	0.25	0.6	0.07	0.1	4.05
United Kingdom	0.4	0.16	0.07	1.69	-	0.01	2.34
Community	11.5	14.4	3.8	6.54	7.1	1.4	44.7

The general impression is that each country imports coal from countries where transport costs will form as small a component as possible of the final sales price and/or where imported coal can compete with Community-produced coal despite transport costs.

11. The net result is that only 84% of the power stations' hard-coal requirements is met from the Community's own production, as against 86% in both 1975 and 1976.

Finally, it should be pointed out that coal deliveries to the other consumption sectors, i.e. to industry (particularly the iron and steel industry) and domestic consumers, are at a standstill or even falling, and there is no indication that coal consumption in these sectors will increase in the near future.

12. The situation described above shows clearly that measures to make Community coal more competitive, and thus to increase sales and consumption, ought to be primarily geared towards the power-station coal market. This is an expanding sector, which utilizes considerable and increasing quantities of imported coal, to the detriment of internal Community production.

¹ OJ No. C 118, 22.5.1978, Table 27.

13. In 1977 the Commission submitted two proposals to the Council for financial aid for coal production. Whereas one proposal concerned aid for financing cyclical stocks of coal and coke, the other was directly concerned with power-station coal, the subject being financial aid for the construction of coal-fired power stations. In its opinions, the European Parliament expressed its unqualified support for these proposals. The Council has not yet been able to adopt them, thus providing further striking proof of its inactivity, despite repeated affirmations of the desire to ensure that coal should occupy its due place on the energy market.

14. The Commission has now submitted an outline plan for the introduction of a Community aid system for intra-Community trade in power-station coal.

The Commission has informed the Committee on Energy and Research that this aid system should be viewed in the context of the proposals which have already been submitted but have not yet been adopted.

III. Contents of the outline plan for an aid system

15. The aim of the Commission's outline plan is to increase sales of power-station coal, given that this is an expanding market, as indicated by the sharp increase in imports from third countries.

This expansion, in terms of internal Community trade, is due in part to the opening of new power stations in the non-coal-producing EEC countries. In paragraph 10 of its document, the Commission states that coal-fired power station capacity in the EEC as a whole will increase by about 10,000 MW by 1985, but it has informed the committee that, according to the latest forecasts, the figure will actually be in the region of 15,000 MW. A figure of about 30,000 MW was, however, set as the objective for 1985.

16. Power stations in countries which do not produce their own coal largely depend on imports. The primary aim of the aid system is to enable Community production to compete with these imports. It is expected that the aid proposed by the Commission, totalling 120 m EUA over the period 1979-1981, will ensure the disposal of a further 25 million tonnes of power-station coal over three years. (It should be added that Community stocks of hard coal totalled approximately 26 million tonnes at the end of 1976.)

17. In its communication, the Commission states that intra-Community trade in steam coal amounted to 3.5 million tonnes in 1977. An aid system for the benefit of intra-Community trade must naturally cover both the additional production which may result from its application, and the deliveries being made when the system is introduced. In order to ensure an annual increase in sales of 8 to 9 million tonnes, the total quantities of coal to be subsidized amount to 12 million tonnes.

18. The aim is to promote intra-Community trade. At the same time, the Community must ensure that subsidized coal does not compete on the producers' national markets. The Commission has therefore drawn up a list of deliveries which could receive aid:

- deliveries already being made in 1978,
- deliveries to power stations which used imported coal in 1978,
- deliveries to new coal-fired power stations commissioned in the aid period 1979-81 in the countries which do not produce their own coal.

19. The Commission finds it difficult to predict the extent of additional deliveries resulting from this aid or which undertakings will be taking advantage of the system. It is therefore proposed to introduce a quantitative arrangement for the supplying countries to ensure the equitable distribution of the subsidized intra-Community trade.

20. Increased sales depend on the coal being offered at the world market price. Community undertakings claim that the marketing of 12 million tonnes of subsidized power-station coal would lead to overall annual losses of about 350 m EUA. Annual Community aid of 120 m EUA would cover about 30% of this. The remaining amount would have to be covered by the producers and/or Member States.

21. Any future aid system must be simple and easy to administrate. The Commission proposes a standard amount of aid of 10 EUA per tonne, firstly on the grounds that, in its view, differentiated aid per tonne would create administrative difficulties, and secondly on account of the difficulties involved in working out the difference between the profits of undertakings and production costs.

The Commission considers it practicable to grant a standard amount of aid, despite the variations in (1) production costs per tonne (standard calorific value) in the various Community coal districts, (2) transport costs and (3) imported coal prices.

22. Finally, the outline plan proposes that the cost of this aid system be met from the general budget of the Communities.

The aid system would be introduced for a three-year period commencing on 1 January 1979. A short period is recommended, given the uncertain short and medium-term outlook for the coal market.

IV. Observations on the Commission's outline plan

23. Given the situation regarding the production, marketing and consumption of power-station coal, in particular the increase in imports from third countries, the Committee on Energy and Research welcomes this outline plan

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The aid system would be introduced for a three-year period commencing on 1 January 1979. A short period is recommended, given the uncertain short and medium-term outlook for the coal market.

IV. Observations on the Commission's outline plan

23. Given the situation regarding the production, marketing and consumption of power-station coal, in particular the increase in imports from third countries, the Committee on Energy and Research welcomes this outline plan

for an aid system for intra-Community trade. It also strongly supports the oft-repeated targets for Community energy policy and the other measures which have been proposed.

However, this positive position notwithstanding, the committee still wishes to make a few critical remarks, since approval of the Commission's outline plan should be interpreted merely as a desire to help to maintain coal production in the Community. The outline plan and any future proposal for a regulation can be approved provided the aid period is limited and the competent authorities consider introducing other measures to encourage coal production. It is to be expected, however, that developments themselves will make the measures requested superfluous in the not-too-distant future.

24. There is no doubt that an increase in intra-Community trade is a wholly desirable objective, and that financial aid to make Community coal more competitive is a suitable, indeed necessary task for the Community. This is borne out by current trends.

It would therefore appear natural and logical to direct our efforts against the high rate of coal imports. This is clearly the aim of the aid in question (cf. the list of deliveries qualifying for aid), even if deliveries already being made on 1 January 1978 will also qualify.

25. Naturally, every effort should be made to facilitate the marketing of Community coal. However, the question arises of whether this should be at the expense of imported coal. This is tempting if we take a short-term view, but in the longer term, the Community objective is to ensure, at the same time, sufficient supplies of both indigenous and imported coal. Oil today accounts for a significant proportion of fuel consumed by power stations, but we can expect price and/or production factors to bring about a change in this situation in the 1980s.

Nor can we exclude the possibility of delivery and/or production factors quickly changing the present role of each major energy source in the supply pattern. This will also affect relative prices.

26. The Committee on Energy and Research does not dispute the fact that production planning in the coal sector is in a dilemma. On the one hand, production must be maintained but on the other the Community must ensure that large supplies of coal can, if necessary, be imported in the future. There is no doubt that in the future the Community will increase its consumption of coal, not just for electricity generation but also for coal gasification and liquefaction and - after processing - for use in the chemical industry. These are all areas in which gas and oil are used today, but as the latter are in limited supply they ought to be reserved for other sectors where they can be used more rationally and where there are fewer alternatives.

27. Finally, there is some doubt as to the feasibility of forcing the Community's two main suppliers of coal out of the market. Poland and South Africa together account for approximately 70% of EEC imports, but for political and trade reasons it would be difficult to oust these two countries from their present position as suppliers.

Your rapporteur acknowledges that protectionism in any form is, for political reasons, out of the question. But internal export aids for the same purpose, i.e. curbing imports from third countries, are less reprehensible. Import controls and export aid such as that proposed serve the same purpose and have the same effect.

28. Coal producers and Member States may thus seem to be in an impossible situation. Even though the Community cannot unilaterally impose restrictions on imports from third countries in order to protect its internal market, would it not be possible for the Community and its coal and electricity producers to negotiate with third countries and their coal exporters for a voluntary agreement on reduced supplies for a limited period? On the basis of the expected increase in the demand for coal until about 2000, the Community could guarantee third countries a considerable share in its coal imports. Your rapporteur thinks there would be a reasonable chance of solving the problem if the responsible bodies immediately embarked on such negotiations after discussing present and expected trends with the Community's own coal and electricity producers. There should be a basis for agreements covering a period of 10 to 25 years.

The committee also assumes that the Community's coal producers will make every effort to conclude as many supply contracts as possible with electricity producers in both coal-producing and non-coal-producing EEC countries.

29. The outline plan provides only meagre and very general statistical information on the proposed aid, namely annual aid of 120 m EUA and a standard amount of aid of 10 EUA per tonne, covering 30% of the difference between the world market price and the 'EEC price'.

Nor does the Commission communication provide any indication of how these figures were calculated. The Committee on Energy and Research would have liked a comprehensive explanation of the basis of calculation, including a conspectus of cost and price trends for power-station coal in the various EEC countries and in third countries. A proper assessment necessarily calls for a comparison of prices.

The Committee on Energy and Research notes however that, under Article 47 of the ECSC Treaty, the Commission 'must not disclose information of the kind covered by the obligation of professional secrecy, in particular information about undertakings, their business relations or their cost components'.

30. According to the Commission, the aid will cover only 30% of the difference in prices. The communication fails to mention whether the coal producers and/or Member States are prepared to meet the remaining 70% of the expenditure involved in competing with imported coal. The rapporteur's immediate reaction is that this is unrealistic, given the serious economic difficulties facing coal producers.

A substantial amount of state aid is already being granted to the coal industry in the Community; the most recently published statistics are as follows:

State aid for the coal industry (direct and indirect aid) in EUA per tonne

	1976	1977
Belgium	24.67	30.45
Germany (FR)	2.36	3.95
France	13.50	19.77
United Kingdom	0.22	0.48

By far the majority of the aid granted takes the form of direct aid.

From 1976 to 1977 alone there was a sharp increase and further substantial increases are to be expected in the coming years.

31. The Commission's desire to introduce a simple and straightforward aid system, which is easy to administrate, is commendable. It proposes a standard amount of aid of 10 EUA per tonne (standard calorific value).

The rapporteur is sceptical of the feasibility of this proposal. In 1977 intra-Community trade in hard coal amounted to 3.5 million tonnes, with exports from the Federal Republic totalling more than half that amount and those from the United Kingdom more than one third. At the same time, it is clear that the difference between the price of internally produced coal and imported coal is far greater in the former country than in the latter.

The question is therefore whether the Commission should introduce not only the suggested quantitative arrangement, which would ensure an equitable distribution of deliveries among the supplying countries, but also differentiated aid to take account of the various price differences.

32. The committee would also have liked more detailed information on current trends concerning the relative contributions of coal-fired power stations and power stations using other fuels to overall electricity production and to know how many coal-fired and other power stations will come into operation during the aid period and how many are planned.