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Report

drawn up on behalf of the Committee on Energy and Research

on the ~~future~~ guidelines of the Community's coal policy in the framework of the overall concept of a Community energy policy

Rapporteur: Mr G. SPRINGORUM

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English Edition

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By letter of 5 November 1975, the Committee on Energy and Research requested authorization to draw up a report on future guidelines of the Community's coal policy in the framework of the overall concept of a Community energy policy.

By letter of 19 December 1975 the President of the European Parliament authorized the committee to draw up a report on the matter.

On 22 December 1975 the Committee on Energy and Research appointed Mr Springorum rapporteur.

It considered the draft report at its meetings of 26 March, 29 April, 21 May and 31 May 1976 and unanimously adopted the motion for a resolution and explanatory statement at the latter meeting.

Present: Mr Springorum, chairman and rapporteur; Mr Flämig and Mr Normanton, vice-chairmen; Lord Bessborough, Mr Dalyell, Mr Delmotte (deputizing for Mr Van der Hek), Mr Ellis, Mr Giraud, Mr Giraudo, Mr Hansen (deputizing for Mr Mitchell), Mr Liogier, Mr Meintz (deputizing for Mr Pintat), Mr Martens (deputizing for Mr Burgbacher), Mr Knud Nielsen, Mr Osborn, Mr Schwabe and Mrs Walz.

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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 future guidelines for the Community's coal policy in the framework of the overall concept of a Community energy policy

The European Parliament

- having regard to the report from the Commission to the Council on aids to the Community's coal industry (experience and prospects (COM(75) 370 fin.) and the Commission's Decision No. 528/76/ECSC regarding the Community system of measures taken by Member States to assist the coal-mining industry¹,
 - having regard to the report of the Committee on Energy and Research (Doc.133/76),
 - having regard to its earlier resolutions on energy policy in particular
 - on means of securing adequate energy supplies to satisfy the Community's requirements, and guarantee, promote and further improve the Community's competitiveness on the world market as a prerequisite for economic growth, full employment and a forward-looking social policy²,
 - on the proposal from the Commission to the Council for programmes of research and development actions in the field of energy³,
 - on the proposal from the Commission of the European Communities on the 'medium-term guidelines for coal 1975-1985'⁴,
1. Deplores the fact that despite several basic decisions on a common energy policy taken at the Summit Conferences and in the European Council and despite proposals from the Commission in line with these decisions, the Council of Energy Ministers has still not yet found the strength of purpose to put this policy into effect;
 2. Is of the opinion that the Community's energy supplies are no more secure now than during the 1973/74 crisis;

¹ OJ No. L 63, 11.3.1976, p.1

² OJ No. C 112, 27.10.1972, p.32

³ OJ No. C 76, 7.4.1975, p.30

⁴ OJ No. C 179, 6.8.1975, p.15

3. Notes with concern that the Council's determination, repeatedly affirmed and endorsed, to make the Community less dependent on energy imports, is fading increasingly into the background;
4. Reaffirms its view that Community coal constitutes a sound basis for secure energy supplies for the Community, especially as it is becoming increasingly clear that nuclear energy will not produce the quota expected of it by 1985;
5. Again points out that Community hard coal must therefore make a greater contribution than hitherto towards safeguarding energy supplies and that it is capable of doing so subject to certain conditions, the most important of which is a common energy policy;
6. Fears, however, that the Member States are not yet prepared to grant the necessary priority to establishing secure supplies of Community-produced energy;
7. Considers a reasonable minimum safeguard price for Community-produced petroleum and the setting up of machinery to deal with crisis situations as a first step towards a corresponding common energy policy;
8. Considers that immediate measures to stabilize the market for hard coal, such as were recognized as expedient by the Council in February 1975, are urgently required to maintain present output capacity, this only being possible if profitability is guaranteed in the long term;
9. Has noted, therefore, with concern that despite the increased energy consumption in the Community in the first quarter of 1976, Community coal output fell in comparison with 1975, coal again had to be stocked at the pithead and the increased consumption was largely covered by energy imports;
10. Approves, for all those reasons, the Community aid system for coal mining, but this must lead to much longer term measures than in the past.
11. Recommends in the interests of security of supply
 - (a) that the aid system be made obligatory instead of optional,
 - (b) that the effect of aid arrangements be equitable in order to avoid distortions of competition;
12. Calls on the Commission, in order to ensure equivalent training as far as possible in the various mining areas of the Community, to arrange the system of approval of aid for the training and stabilization of personnel in the mining industry on a more practical basis than hitherto, having regard to specific requirements.

13. Also calls on the Commission to submit proposals for Community measures to encourage the conversion of heavy fuel oil into lighter derivatives, to reduce the throughput and allow coal to provide its proper share of energy supplies;
14. Considers it important under the common energy policy that structural fluctuations in energy supplies should be smoothed out by using other primary sources in order to ensure greater security of supply, but that coal stocks should only be used to damp down fluctuations caused by the economic situation and as an ultimate standby, and considers the build-up of a coal reserve for this purpose as indispensable;
15. Emphasizes, however, the vital need for Community measures that go beyond the ECSC budget because a few Member States cannot be expected to bear the total cost of measures which benefit the whole Community;
16. Instructs its President to forward this resolution and the report of the committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENT1. General

1. At the Paris Summit Conference in 1972, the Heads of State or Government instructed the institutions of the Community to draw up as soon as possible an energy policy guaranteeing secure and permanent supplies at satisfactory economic conditions. Neither the Copenhagen Summit of 14 and 15 December 1973, which was overshadowed by the oil crisis, nor the Paris Summit of 9 and 10 December 1974 led to the establishment of an overall concept, even though the Commission had submitted proposals that it had revised several times. Only the future will show whether the European Council's decision of 1/2 December 1975 will produce practical results.

2. At its March 1975 part-session the European Parliament, acting on a report drawn up by Mr Pintat Doc. 524/74 approved the Commission's proposal for a new energy strategy for the Community, having previously delivered its opinion on the communication from the Commission on the problems connected with and resources available to the energy policy from 1975 to 1985, in a report by Mr Giraud (Doc. 36/73).

The basis of the committee's deliberations on this problem, however, was the report drawn up by Mr Burgbacher (Doc. 141/72), in which Parliament set out in October 1972 its own guidelines for securing as constant and adequate a supply of energy as possible for the Community in view of the objectives laid down in the Treaties.

The statements made at that time have proved correct. Some of the proposals made have been taken over by the Council and Commission, albeit in amended form. Nevertheless, there is still no overall concept of a common energy policy.

3. Since the Council on Energy Ministers, meeting on 25 March 1976, was unable to agree on either a minimum price for Community petroleum or an effective crisis mechanism, despite the decisions taken at the Conference of the Heads of State or Government, there is reason to doubt whether the Council is at all capable of adopting a common energy policy at the present time.

2. The importance of coal under a common energy policy

4. When the ECSC Treaty entered into force on 1 January 1953, it included a concept for an energy policy for the whole Community. Hard coal met about 80% of energy demand. Since then its role has diminished considerably. The shift to other sources of energy means that coal now meets only 17% of demand. But coal is the one source of energy in the Community that could still be made available in sufficient quantities if production capacities were maintained at the present level. There is no sign of capacities being increased for the time being.

5. The Community's coal producers were convinced that the hard coal industry could achieve a production objective of 250-270m tonnes in 1985, the target which they were set by the Council as the coal industry's contribution towards the Community's energy requirements. This was announced by high-ranking representatives of the Member States' coal industries following a detailed discussion of their present national production plans.

6. The achievement in the Community of an objective of at least 250m tce in 1985, which was set by Council Decision No. 3649/74 of 17 December 1974, together with the question of stabilization, seems to be one of the most important issues. The Commission estimates at present that hard coal production in the Community in 1985 could be about 220m tce¹, about 30m tce below the target.

In its report on the achievement of the Community's energy policy objectives for 1985 (COM(76) 9), the Commission wonders whether the reductions announced in the national forecasts (especially the figure of about 20m tce forecast by Germany) could not be revised and, if so, on what terms and subject to the implementation of what measures. It also wonders whether it might not be possible in addition, or as an alternative, to increase UK coal production, no doubt principally for export to other Member States.

7. If the Council really advocates a stabilization of sales, the governments of the Member States must take steps without delay to this end, as advocated by the ECSC Advisory Committee and recognized as advisable by the Council in its Resolution No. R505/75 of 13 February 1975.

This statement by the Council was seen as the most important outcome at a meeting of the Central Committee of the West European Coal Producers' Association. Britain, Germany, France and Belgium, i.e. the largest coal producing countries in the Community, are represented on the committee. The coal producers welcomed proposals from the Commission to the Council concerning measures to maintain hard coal production at times of temporary market weakness and to retain certain production capacities for quantitative and qualitative reasons in the interests of security of supply.

¹ Calculated on the basis of 1 toe = 1.34 tce

8. Unfortunately, hard coal production and sales trends in the first quarter of 1976 indicate that the measures to stabilize sales have not yet met with success. Although energy consumption in the Community rose by more than 3% in the first quarter of 1976, coal production fell by 5% while pithead stocks increased again.

9. Even if the effective measures at present being taken by the Member States to restrict energy consumption continue, oil will retain its dominating role. The regulation approved by the Council on 30 January 1974 on information for the establishment of comprehensive energy balance sheets for the Community might, if this information is properly evaluated, make it possible for balance sheets already drawn up to be constantly up-dated.

10. Nevertheless, the Community's energy policy must continue to have as its goal to push ahead with the development of alternatives to imported oil as sources of energy in order to assure the Community of adequate supplies and to limit increases in the price of oil. As energy requirements in the Community rise, a gap will probably appear which the Community's sources of energy, i.e. hydroelectric power, lignite, North Sea oil, natural gas and nuclear energy, cannot fill. Hard coal will therefore have to be used to meet a major portion of energy demand, and from an energy policy point of view it was consequently right to maintain present levels of production where this has been possible.

3. The Community system of aid to the coal industry

11. Despite the quadrupling of crude oil prices since 1972 and because oil dictates the prices of all other sources of energy, a Community system of aid to the coal industry has proved essential. This almost exclusively concerns Community coal. The world coal market is quantitatively too small to make a noticeable contribution to the Community's energy supplies and there are hardly likely to be free capacities in the future.

12. For the Community's hard coal industry - on which everything depends - to fulfil the resulting economic task of a supplier of energy and thus maintain its capacities, substantial investments will be required. These investments can, however, be effected and justified only if their profitability is assured in the long term. This condition moreover applies to all alternatives to imported petroleum.

13. The Community system of aid to the coal industry was created in 1965, there having been a sales crisis in the coal industry far earlier, in 1958. Since the ECSC Treaty prohibits the granting of subsidies to the coal and steel industries, it was first necessary to find

emergency solutions. The governments and the High Authority conferred at great length before coming up with the system of aid that we have now known for ten years.

14. The last decision, which expired at the end of 1975, bore the number 3/71. It enabled the objective of largely stabilizing the mining industry to be achieved. Although not all the social difficulties in the mining areas could be removed, a situation in which the problems facing the coal industry were pushed from one Member State to the other, was at least avoided. Reference should also be made to the considerable increase in mining productivity in the 60s and the first half of the 70s, which far exceeded that in industry as a whole. This was, of course, partly due to the closing of unprofitable pits and the resulting concentration of production on pits and fields where rational production is still possible to some extent. This did, of course, entail the closing down of production capacity amounting to about 240m tonnes, including mines in Britain. The British mining industry had after all had much the same experience as the continental industry before Britain acceded to the Community.

15. The Commission's new Decision No. 528/76 of 25 February 1976 on the Community system of measures to be taken by the Member States to benefit the hard coal mining industry, which came into force retroactively on 1 January 1976¹ and which the Council, having been consulted pursuant to Article 95(1) of the ECSC Treaty approved unanimously, is on the whole to be welcomed.

The period of validity, ten years - i.e. until the end of 1985 - seems, however, to be too short: it takes ten years from the turning of the first sod until a pit goes into operation. Consideration should therefore be given to allowing a period of twenty-five years, as advocated by the National Coal Board.

16. The new Decision No. 528/76 naturally drawn on experience gained with Decision No. 3/71, which has now expired. But it also includes the Commission's coal policy guidelines for the years 1975 to 1985 and has been examined by the committee. The new decision was necessary for various reasons:

- Firstly, the present system must be continued in the interests of safeguarding energy supplies;
- Secondly, despite a considerable increase in the price of coal various fields in the Community have not yet become competitive and are unlikely ever to be so in the present circumstances;

¹ OJ No. L 63, 11.3.1976, pp.1-10

- Finally, it must be remembered that even relatively efficient fields are faced with financial difficulties caused by fluctuations in market prices.

All this, however, leads us to say that the new Decision No. 528/76 should have contained more than provisions of a purely negative character. Although it empowers the Member States to grant this or that subsidy, it should be supplemented so as to make these measures obligatory.

4. The role of coal in the trade cycle

17. The development in the supply of the various sources of energy has resulted in oil dictating prices and this has led to oil, with its fluctuating prices, making coal the economic buffer in the trade cycle. As a safe source of energy coal suffers most from the ups and downs of the market. It is the source of energy which for social and economic reasons is most dependent on as uniform a pattern of production and sales as possible.

The object of a common energy policy should be to reduce the share held by mineral oil in common energy supplies in favour of other sources of energy. To achieve this goal, the Council has adopted a directive under which heavy fuel oil may no longer be used as an alternative fuel in power stations.

The target is, therefore, to cut back the supply of heavy fuel oil to such an extent that sales of coal are assured.

18. By applying suitable technical processes, together with the construction of the relevant facilities, it is possible to hydrogenate heavy fuel oil and so considerably increase the amount of light derivatives, for which demand is very high, thus reducing the remaining quantity of heavy fuel oil to a very low level. For these technical possibilities to be realized, however, assistance must be granted, where necessary, for the construction and operation of the required conversion plants. But generally speaking, protective measures that put hydrogenated products on a par with distilled products will suffice. The Commission is requested to submit appropriate proposals. Otherwise, hardly anyone will be prepared to make the substantial investments needed for these plants.

19. This might also remove some of the pressure from coal, which is economically intolerable, with coal then becoming the keystone of energy supplies until nuclear energy is really able to assume this position.

Hitherto, the largest consumers, the steel mills and power stations, have not been using sufficient coal. In fact, the weak point of all Community measures is the problem of ensuring coal sales. The Commission recognizes this and is convinced that something must be done about it.

5. The Commission's new decision as a basis for more comprehensive measures

20. With its Decision No. 528/76 the Commission is attempting to secure the place of coal in the Community's range of energy sources. The governments of the Member States must now take appropriate measures. This does, however, presuppose that they are not merely paying lip service to the principles of the common energy programme.

21. To stabilize production at the planned level in the long term, considerable investments will undoubtedly be required to replace exhausted or permanently unprofitable pits. The coal industry will find it difficult to raise the necessary funds for this. The Commission should therefore review its subsidy arrangements to see if it ought not to submit supplementary proposals or take decisions ensuring a measure of uniformity in these arrangements.

The situation as regards the ownership of mines is not the same everywhere in the Community: in some cases the state owns the mines, in others private individuals. The measures to be taken must therefore ensure that possible distortions of competition in the Community are prevented from the outset and that those which do arise are eliminated, so that the Treaty provisions are observed.

22. A modern European coal industry is no longer conceivable today without extremely well trained permanent employees. The industry can recruit and keep such skilled workers only if job security is guaranteed. If, then, the coal industry intends to adopt even more rational and economical working methods in the future, long-term job security is one of the most important requirements.

23. Although the working methods used in mining have largely been mechanized, work underground must be preceded by particularly thorough training not only because of the dangers involved, but also because of the demands made on the individual and the many different tasks he is expected to perform. This applies not only to skilled workers underground, but also to their superiors, who bear a special responsibility.

The Commission has consequently approved aid for staff training and stabilization. The committee feels in this respect that the Commission should state in more definite terms where this aid must be used. This is all the more essential since the ECSC Treaty requires the same training as far as possible to be provided in all the mining areas of the Community.

24. It is obvious that either the Member States or the Community should look more closely at the question of assistance when coal stocks form. At the moment stocks are again growing at an alarming rate, particularly in the Federal Republic and Britain. While stocks are increasing at the pithead in Germany, it is the stocks at the state power stations that are growing in Britain.

Stocks should be formed only to offset short-term economic fluctuations if they help to increase the flexibility of supply in line with the Commission's proposal. Structural fluctuations should be ironed out with other, and if possible, imported sources of energy. The formation of stocks to ensure supplies of energy must be regarded as something quite different, an 'iron reserve' to be established not by the producers, but by the consumers.

25. The power stations form the safest outlet for coal. It would therefore seem logical and right for them to be maintained as a market for coal, since coal has hitherto been and will continue to be the Community's safest source of energy at all times of crisis. This market should consequently be partly reserved for coal even when - possibly - cheap competing energy is available.

To clear the way for coal in this respect, the Council has adopted a decision very largely restricting the use of heavy fuel oil and natural gas in power stations. The question is, however, whether the Member States will act accordingly.

26. One reason why this Council decision was to be welcomed is that supplies of these two sources of energy are limited in the world. Reserves of the fossile sources of energy that have been mentioned can be broken down as follows:

Coal: 90%; petroleum: 6%; natural gas: 4%.

Reference has already been made to other possible uses of heavy fuel oil in paragraphs 17 and 18.

27. Although natural gas is a cheap source of energy for power stations, if the rational use of energy is the objective, it is a waste of the product. Natural gas can be used most rationally where it can be converted directly into heat, for example in private households, rather than this happening by the roundabout route via electricity generation.

In addition, it should be pointed out that for environmental reasons the change from fuel oil to natural gas in congested areas is welcomed and should be intensified.

28. Due to the enormous rise in the price of crude oil European coal has in fact become fully competitive. The present economic crisis is the result of heavy fuel oil being offered at well below cost price. 70% of the price of natural gas is linked to heavy fuel oil. We are not therefore dealing with a genuine cost price here. The call in the Council's Resolution No. R3649/74 of 17 December 1974 for hard coal production to be maintained at its present level under satisfactory economic conditions is valid only if short-term distortions of competition are excluded.

6. Summary

29. In view of the present role played by coal as still the safest primary source of energy produced in the Community - and without prejudice to the role which nuclear energy should eventually play, but will not if progress continues at its present slow rate - a coal policy is to be regarded as an important cornerstone of the Community's energy policy. Coal represents a positive alternative to imported oil.

30. Prices throughout the energy sector will continue to be dictated by petroleum. Nor will there be any fundamental change in this situation if coal ceases to play its present role of economic buffer. The resulting demands made on coal will necessitate considerable investments, which will not, however, be made unless there is a guarantee of long-term profitability. This also applies to all alternatives to imported petroleum, a further argument in favour of coal policy being a component of the overall concept of an energy policy.

The Commission's Decision No. 528/76 on the system of aid to the coal industry in the Community should therefore be extended from 10 to at least 25 years. Furthermore, the voluntary measures should be made compulsory.

31. National coal reserves are not enough in themselves: adequate Community coal reserves must be created. The burden of holding stocks of coal cannot be left to individual Member States since all the Member States benefit by them. The considerable funds required cannot be obtained from the ECSC budget, which is too small for this purpose. Appropriate special measures must be taken.

32. Requiring electricity and steel producers to use certain quantities of coal is, however, hardly likely to be successful unless there is an appropriate reduction in the supply of heavy fuel oil. This might be achieved by converting larger quantities of heavy fuel oil into lighter products.

33. It would be folly to place all one's hopes in nuclear energy. Despite all the advantages nuclear energy has to offer, there has for various reasons been so much delay in the construction of nuclear power capacities that the already revised objective for 1985 will undoubtedly have to be put back again.

34. For all these reasons, the Community needs a positive coal policy. It can only be successful, however, if a purposeful Community energy concept, of which coal policy is an important component becomes reality.