

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(78) 367 final

Brussels, 28 July 1978

MEMORANDUM

on

the financial aid awarded by the Member States to
the coal industry in 1978

(submitted to the Council by the Commission)

COM(78) 367 final

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CHAPTER I

INTRODUCTION

1. This memorandum examines the financial aid awarded to the coal industry by the Member States in 1978 from the point of view of its compatibility with the provisions of Commission Decision No 528/76 ECSC¹ and with the proper functioning of the common market.

2. The 1978 memorandum follows the same pattern as that of the previous year. Its division into a main section and an annex proved highly suitable for assessing the situation in the coal industry, as was confirmed by the comments of the government representatives. The main section is devoted to the economic and financial problems of undertakings and to the competitive situation on the coal market. The compatibility of aids to current production with the proper working of the common market pursuant to Article 3(1) of Decision No 528/76 is examined on the basis of these data. The Annex describes individual measures and their compatibility with the other provisions of Decision No 528/76.

3. Under Article 2 of Decision No 528/76, the Commission received information regarding aid measures for 1978 from the Governments of the following Member States :
 - the German Government,
 - in letters dated 2 November 1977
 - 9 November 1977
 - 24 January 1978
 - 16 May 1978

 - the French Government,
 - in a letter dated 14 February 1978

 - the British Government,
 - in letters dated 15 November 1977
 - 29 December 1977

 - the Netherlands Government,
 - in a letter dated 4 January 1978

¹Official Journal of the European Communities No L 63 of 11 March 1976, p.1

- the Luxembourg Government,
in a letter dated 13 January 1978
- the Danish Government,
in a letter dated 11 January 1978
- the Belgian Government,
in a letter dated 23 January 1978

4. Where the Commission obtained knowledge from the reports of Member State Governments of economic facts which are covered by the obligation of professional secrecy as set out in Article 47 of the ECSC Treaty, these were not included in this memorandum.

5. In calculating the amount of aid per tonne for 1978, the following output was used as a basis (millions of tonnes, tonne-for-tonne):

| | |
|---------|-------|
| Germany | 88.0 |
| France | 20.0 |
| Britain | 121.0 |
| Belgium | 7.0 |
| | <hr/> |
| Total | 236.0 |
| | ===== |

6. For converting the aid amounts expressed in national currencies into European units of account, the following exchange rates were used:
(Average 4th quarter 1977)

| | | |
|-------|---|------------|
| 1 EUA | = | DM 2.60 |
| | = | FF 5.63 |
| | = | £ 0.65 |
| | = | Bfrs 41.00 |

7. The Commission's conclusions are set out in Chapter III.
8. The memorandum was based on information provided by the Member States as on 20 May 1978.

CHAPTER II

The situation on the common market for coal in 1978 and the trends in financial aid to the coal industry

1. The situation on the common market in coal

This memorandum deals only with the most significant details of coal market developments, specifically those which are of importance for the granting of aids and the competitive situation. The figures given refer to the current year and are therefore estimates.

The total 1978 demand for coal is expected to be only slightly higher than the 1977 demand - roughly 1%. Some changes are to be expected in the structure of this demand, since the call for power station coal is likely to increase slightly, while that for coking and domestic coal is likely to decline somewhat. Consumption of industrial coal will presumably increase somewhat. Changes in demand are running parallel in all Community countries and are related to the difficulties experienced in the steel industry (coking coal) and the rising overall consumption of electricity, to meet which there is likely to be increased generation of electricity using steam coal.

In analysing the problems of the Community coal industry in 1978 it is important to know the sources from which the slightly rising demand for coal is supplied.

The estimates of the Governments of the Member States show that coal imports from non-Community countries in 1978 vis-à-vis 1977 will remain about the same. A slight increase in the overall demand for coal could mean that sales of Community coal will pick up somewhat. However, the estimates for 1978 indicate that this will not be sufficient to stimulate production, but will at best suffice to avoid a further increase in coal stocks.

The Community coal industry will continue to be under competitive pressure in 1978, particularly from imported coal and producers will be unable to stand up to this pressure on their own; this means that aids will again be necessary to strengthen the capacity of Community coal to compete and to prevent a further decline in sales. This is in the interests of the Community's long-term plans for stabilization of Community production.

Although some Community coal producers raised their prices in 1978 to keep up with the cost trend, there is no mistaking the fact that it is very difficult to obtain acceptance for such increases- with all that this implies for the financial situation of the mining companies (failure to cover costs). For all the general difficulties of obtaining acceptance for increases in the prices of Community coal, two exceptions must be noted;

- The competitiveness of British coal is better than that of other producers.
- Under the provisions of the 3rd electricity-from-coal law, Community coal can be sold to German power stations at cost-covering prices, an arrangement from which the German coal industry profits most. The additional costs borne by the power stations through using coal instead of oil are offset from a fund maintained by a levy on electricity consumption.

However, it is to be noted that prices on the Community steam coal market are increasingly determined by the supply situation on the world market.

Polish and South African steam coal is being offered at prices of \$ 30 to \$32 cif Europe. These prices are far below the corresponding prices for oil or natural gas. The Community coal industry is faced with the problem in 1978 of holding its own in the expanding steam coal market by aligning its own prices.

Prices on the coking coal market are practically stagnant. The Commission has found that an average price of \$ 62.00/t is being paid for deliveries under long-term contracts from the USA and Australia, though some importers have managed to put some short-term contract quantities on the market at a price of \$ 50/t. Although these are not large quantities, they are causing the well-known difficulties which the undertakings find in defending the market against price drops.

Prices for domestic coal are also under some pressure. The supply of Community anthracite is on the decrease, because it is no longer profitable to mine it, while imported anthracite - primarily from the Soviet Union - is offered so cheap, particularly in the Benelux states, that it is able to compete with light fuel oil and natural gas.

There is every indication that the situation on the Community coal market will not fundamentally improve in 1978. As regards oil and non-Community coal, it should be noted that not only prices but also changes in currency parities exert a decisive influence on the competitive situation, since the prices of these imported energy carriers are calculated in US dollars. This means a particularly unfavourable effect on the competitive and sales situation of the German mining industry in 1978 because of the revaluation of the German mark in relation to the dollar.

2. The financial situation of the coal industry in the Community

In view of the competitive situation on the Community coal market described above, the mining undertakings will find little scope in 1978 to increase coal prices. However, it may safely be assumed that production costs will continue to rise in 1978. The increase will vary in individual countries depending on individual conditions. However, it may be assumed that the discrepancy between the rise in output per manshift and in wages will mean increased costs. The 1978 increase in output per manshift is unlikely to exceed a rate which may average 3% for the Community. Wage increases - however much they may vary from country to country - will certainly exceed the increase in output per manshift

and, in view of the high labour-cost-intensity of coal mining (60% of the total production costs are labour costs), the increase in labour costs will certainly affect overall output. The British coal industry will presumably be exempt from this general trend in production costs, since it has introduced an incentive scheme should increase productivity but whose effect on costs is not yet exactly predictable.

In 1977 the returns from coal sales only partially covered production costs.

Table A

Production costs¹ and returns of Community coal mines in 1977

EUA/t (t for t)

| | Production costs | Returns | Difference |
|----------------------|------------------|---------|------------|
| Germany | 57.- | 50.- | - 7.- |
| Belgium | 77.- | 44.- | - 33.- |
| France ² | 57.- | 37.- | - 20.- |
| Britain ² | 34.- | 32.- | - 2.- |

¹ full costs, including capital service and depreciations; rounded-off figures
² including opencast mining

What with rising costs and small room for price increases, the financial situation of the mining undertakings is bound to deteriorate in 1978. The only exception is the British mining industry, which will probably be able to stabilize by raising prices. The German coal industry is a special case in 1978 in that its financial situation will be unfavourably influenced not so much by the trend in production costs as by a decline in returns caused by the revaluation of the German mark in relation to the US dollar.

3. The trends in financial aids by the Member States to the coal industry in 1978

Aids granted under Articles 4 and 5 of Decision No 528/76 are compatible with the common market, provided they do not exceed certain limits. Aids under Article 4 are for social security benefits and those under Article 5 to help cover inherited liabilities. The relevant explanations are to be found in the Annex on pages A1 to A7. Such measures are therefore compatible with

the proper functioning of the common market. The figures are in Table 1 of the Annex. They show that, in comparison with 1977, there were some increases.

As regards social measures within the meaning of Article 4, the increases are mainly the result of the constantly deteriorating ratio between total men employed and those receiving unemployment benefits. The rise in the cost of covering inherited liabilities within the meaning of Article 5 is partly the result of further pit closure because of rationalization and partly of increased prices and costs in some categories of inherited liabilities (costs for closures, water supply and disposal of waste water, pensions, concessionary coal, etc.).

Aids to current production are those direct and indirect measures which are defined in Articles 7 to 12 of Decision No 528/76 and which provide the criteria in judging the proper functioning of the common market. Details of these measures and what they cost are available in the Annex (page A7 onward or Table 2).

Table B below provides an overall view of the trends in aids envisaged in 1978 vis-à-vis 1977.

Table B

| | Total sums | | Amounts per tonne | |
|---|-------------|--------------------|-------------------|-------------------|
| | Million EUA | | EUA | |
| | 1977 | 1978 | 1977 | 1978 |
| Germany | 373,6 | 752,4 ¹ | 3,95 | 8,56 ¹ |
| Belgium | 215,3 | 249,1 | 30,75 | 35,59 |
| France | 415,0 | 439,2 | 19,77 | 21,98 |
| Britain | 59,1 | 39,7 | 0,48 | 0,32 |
| Community | 1,063,0 | 1,480,4 | 4,35 | 6,28 |
| of the total sums the following were allocated to : | | | | |
| - direct measures | 58,5 | 32,4 | 0,24 | 0,14 |
| - aids to coking coal | 231,5 | 422,1 ² | 0,95 | 1,79 ² |
| - indirect measures | 772,9 | 1.025,9 | 3,16 | 4,35 |
| breakdown : Art. 7 (Investments) | 94,6 | 326,9 | 0,39 | 1,39 |
| Art. 8 (Personnel) | 46,9 | 48,2 | 0,19 | 0,20 |
| Art. 9 (Stocks) | 16,6 | 13,8 | 0,07 | 0,06 |
| Art. 10 (Strategic reserves) | 44,8 | 48,0 | 0,18 | 0,20 |
| Art. 11 (Power station coal) | 10,8 | 13,1 | 0,04 | 0,06 |
| Art. 12 (Loss coverage) | 559,2 | 575,9 | 2,29 | 2,44 |

¹The coking coal aid included here covers only three quarters of 1978

²The German coking coal aid covers only three quarters.

The figures in the preceding table show that aids per tonne of output in 1978 will change as followd vis-à-vis 1977 :

| | | |
|---------|---|--------|
| Germany | + | 116.7% |
| Belgium | + | 15.7% |
| France | + | 11.2% |
| Britain | - | 33.3% |

Britain, whose coal industry already receives the lowest aids, will be the only Community producer country to be able to reduce its subsidies in 1978; in all other coal-producing Member States the need for subsidies will increase, particularly in Germany, where the increase will more than double. The increase in aids to the German coal industry mainly affects the coking coal aid¹ and the investment aid, and derives mainly from the decline in returns resulting from the revaluation of the mark. In 1978 German undertakings will be unable to bear the losses from coking coal sales, nor will their earnings be sufficient to cover depreciation so as to finance investments from their own resources.

It should be pointed out at this point that while the sum of 8.56 EUA per tonne for Germany in this international comparison following the provisions of Decision No 528/76 is correct statistically and according to the definition, it has only a limited validity for a substantial comparison with the other Community countries. This is due to the third electricity-from-coal law, which lays down that German power stations must buy steam coal from the coal industry at break-even prices. The additional cost incurred by the electricity companies by using coal instead of oil is offset by increasing electricity prices. In 1978 this offset levy will amount to some 1.8 thousand million DM (7.87 EUA per tonne of coal output). This sum is not included in the list of aids, since it is not a state aid.

The information contained in Chapter II of the Annex (see page A7) shows that

¹ No decision has been made as yet on the granting of a coking coal subsidy for the fourth quarter of 1978.

the financial measures planned by the Member States for 1978 are compatible with the criteria set out in Articles 7 to 12 of Decision No 528/76. However, it is necessary that all aids be examined for compatibility with the proper functioning of the common market as set out in Article 3(1) of Decision No 528/76.

4. Compatibility of the financial measures planned for 1978 with the proper functioning of the common market

(a) General points of view

(a.1) The aid amounts per tonne for 1978 cited in Table B on page 7 show that the British amount is very small and that there is a large gap between it and those granted by Belgium and France; the German amount lies roughly in the middle. This difference in amount is not to be regarded as indicating a distortion of the competition between coal producers. essentially, the common market in coal consists of geographically separate sub-markets which are not subject to competition from several Community producers. There are only a few "contested" areas in which several producers offer their products at the same time, but the quantities of coal sold in these areas are relatively small, accounting for only about 2% of output. Alignment by Community producers on the prices of other Community producers applies only to 0.4 million tonnes, 0.2% of Community output, in 1977. In view of this, it may be assumed that competition will not be disrupted in 1978 because of the differences in the amount of aid granted.

(a.2) Supplies of coal and coke to the Community in 1978 can be regarded as assured. Pit closures envisaged in 1978 as part of rationalization measures will have no effect on supplies. The large pithead stocks and current production provide absolute security of supply. Though production will be reduced in some cases by introducing short-time

working, this is being done only to slow down the growth of stocks. It may therefore be said that aids will not affect supply in 1978.

- (a.3) According to the forecasts there will be some increase in the intra-Community coal trade in 1978. The total volume in 1978 will amount to some 16.5 million tonnes. Deliveries of German and British steam coal to Denmark and France will show a relatively large increase

Table C

Coal deliveries to other Community countries 1 000 t

| | Germany | Belgium | France | Britain | Total |
|------|---------|---------|--------|---------|---------|
| 1977 | 12, 162 | 260 | 420 | 1, 468 | 14, 310 |
| 1978 | 13, 530 | 195 | 350 | 2, 315 | 16, 440 |

Deliveries of German coking coal in other Community countries are closely related to the situation in the steel industry. Because of the specific use to which this coal is put the real competitive problems are not between Community producers, but in relation to coking coal imported into the Community.

Belgian coal is sold in France and Germany for steam-raising and for domestic heating. The amounts are small and have to compete with coal imported from non-Community countries.

France exports mainly steam coal, predominantly from Lorraine to Southern Germany.

Britain exports steam coal, mainly to Germany, Belgium, France and the Netherlands. In the light of overall British production, these exports are relatively small and, in view of the rising imports of steam coal

from non-Community countries, it might well be asked why this relatively cheap coal has not become more firmly established on the continental market. This is due mainly to the competition from coal imported from non-Community countries: prices for South African, Australian and US steam coal, cif Europe, are 33-34 \$/t. Power stations in other Community countries demand that British prices be brought down to that level, but the British producer is not always prepared to do this. Contracts or sales are therefore relatively rare.

Generally speaking, the conclusion can be drawn that aid measures have little influence on intra-Community trade.

(a.4) Rationalization of output is to be achieved in 1978 by two forms of aid: a number of non-viable pits are to be closed in France's Nord/Pas-de-Calais and Centre-Midi coalfields, the pace of the closures being so arranged that regional and social problems will be avoided; the same applies to closures in Southern Belgium. In Germany investment aids are being granted to enable undertakings to modernize their pits. All these measures serve to rationalize Community coal output, free the Community from the burden of unprofitable pits and maintain in a competitive condition those pits which have been chosen to provide future supplies.

(b) Particular aspects affecting the trends in coal prices

(b.1) Changes in coal prices in a number of selected Community coalfields can be seen from the following table:

Table D

Trend in coal prices

in national currency per tonne

| | Date | Steam coal | | Coking coal | |
|---------------------|------|---------------------|---------------------|-----------------|-----------------|
| | | 1.4.1977 | 1.1.1978 | 1.4.1977 | 1.1.1978 |
| <u>Germany</u> | | | | | |
| RAG | DM | 157,50 ¹ | 172,50 ¹ | 165,50 | 175,50 |
| Saarbergwerke | DM | 173,00 ¹ | 189,00 ¹ | 180,00 | 190,00 |
| Aachen | DM | - | - | 167,50 | 184,00 |
| <u>Belgium</u> | Date | <u>1.4.1977</u> | <u>1.1.1978</u> | <u>1.4.1977</u> | <u>1.1.1978</u> |
| | Bfrs | 2,450,00 | 2,450,00 | 2,500,00 | 2,500,00 |
| <u>France</u> | Date | <u>1.4.1977</u> | <u>1.5.1978</u> | <u>1.4.1977</u> | <u>1.5.1978</u> |
| Nord/ Pas-de-Calais | FF | - | - | 340,00 | 340,00 |
| Lorraine Nuts 2 | FF | 250,00 | 270,00 | 321,00 | 321,00 |
| Nuts 5 | FF | 223,00 | 240,00 | | |
| <u>Britain</u> | Date | <u>1.3.1977</u> | <u>1.4.1978</u> | <u>1.3.1977</u> | <u>1.4.1978</u> |
| North Yorkshire | | | | | |
| Nuts 2 | £ | 25.20 | 27.60 | | |
| Nuts 5 | £ | 23.03 | 25.30 | 29.04 | 32.00 |

¹Long-flame coal nuts 5.

As the table shows, list prices remained stable only in Belgium between the early part of 1977 and 1978; they went up in Germany, France and Britain. This is not to say that increases were completely recovered from the market.

(b.2) As provided for by the third electricity-from-coal law, German steam coal prices are linked to the production costs of the mining industry and are higher than the prices for heavy fuel oil. There are no indirect aids to industrial coal consumers.

The prices for German coking coal given in the table are listed prices. The prices actually charged are lower and are the same as those for imported coking coal, so that there are no indirect aids to industrial consumers.

(b.3) No problems are expected in 1978 with the prices of British steam and

coking coal; they are unlikely to bring about indirect aids to industrial consumers.

(b.4) French steam coal is sold at prices aligned on a composite price formed from the relatively low price for imported non-Community steam coal and the price of fuel oil. There are no indirect aids to industrial coal consumers. The same applies to coking coal prices, which are the same as those for imported coking coal. French coal prices will presumably increase in 1978. In this connection the reader is referred to the remarks on the "contrat de programme" between the Charbonnages de France and the French Government on page A 12 of the Annex.

(b.5) As provided for by Belgium's energy price pool, the prices of Belgian steam coal are based on those of rival fuels. This means there are no indirect aids to industrial coal consumers. Nor do the prices of coking coal constitute indirect aids to the Belgian steel industry.

(c) Conclusions about the proper functioning of the common market

On the basis of the preceding facts the Commission has come to the conclusion that no disruption of the proper functioning of the common market in 1978 by either steam coal or coking coal prices is to be expected.

CHAPTER III

Conclusions

1. Predictions regarding the situation on the Community coal market in 1978 indicate a deterioration in the financial returns of the Community mining industry, except in Britain. Rising production costs, the effect of changes in exchange rates and other factors will mean higher operating costs than in the previous year. The result is that the amount of aid to be granted for current production in the Community has risen from 1,063.0 million EUA in 1977 to 1,480.4 million EUA in 1978; the Community average of

aid per tonne of production rose from 4.35 EUA to 6.28 EUA. The differences between the aid sums granted by the coal-producing Member States have increased.

2. The Commission examined the compatibility of the measures envisaged for 1978 with the provisions of Decision No 528/76 in each Member State and came to the conclusion that the aids for current production envisaged by the Member States in 1978 are compatible both with Articles 7 to 12 of Decision No 528/76 and with the proper functioning of the common market, as set out in Article 3 of that Decision.
3. Finally, the Commission emphasises that the aids of the Member States serve not only to solve natural problems of energy supply and avoidance of redundancy but also guarantee the stabilization of coal production with the intention of furthering the security of the Community's energy supplies.

A N N E X

Survey of financial aid awarded by the Member States
to the coal industry in 1978

Examination of the compatibility of the measures envisaged
with the provisions of Decision No 528/76

Tables

I. Aids not related to current production

These aids are related to social measures and the covering of inherited liabilities deriving from earlier pit closures.

A. Description and assessment of financial measures in the social security field

Article 4 of Decision No 528/76/ECSC states that contributions by Member States to the financing of social security benefits shall be considered compatible with the common market, provided that, for undertakings in the coal-mining industry, they bring the ratio between the burden per miner in employment and the benefits per person in receipt of benefit into line with the corresponding ratio in other sectors.

The following section is concerned solely with the amount of financial aid given in the social sector and, where appropriate, with cases where the limits set out in Article 4 of Decision No 528/76/ECSC have been exceeded.

A₁) GERMANY, FRANCE, BELGIUM

In Germany DM 7,745 million are envisaged in 1978 to cover the deficit in the surviving dependents pension scheme of the mining industry as a whole, some 80% - DM 6,196 million - of which goes to the coal industry.

Information provided by the French Government shows that state aid to the French coal industry in the social sector in 1978 will amount to FF 6,079.7 million. The following table gives details

| Source | Expenditure (in million FF) | Purpose |
|----------------|--------------------------------|---|
| State | 3,215.0 | <u>Disability and old-age pensions insurance</u> Regular contribution amounting to 22% of wages subject to contribution, and additional State adjustment |
| General system | 293.0 | <u>Disability and old age pensions insurance</u> Regular contribution to cover part of "exceptional expenditure" (amount fixed by law) |
| General | 930.0 | <u>Insurance against industrial accidents and occupational diseases</u> Regular repayment of inherited liabilities |
| General system | 609.0 | <u>Sickness insurance</u> Treatment benefits |
| State | 579.7 | <u>Disability and old-age pensions insurance</u> "Exceptional expenditure" in coal-mining industry within the meaning of Article 4 of Decision No528/76 |
| General system | 453.0 | <u>Supplementary scheme: worker's retirement pensions</u> |
| Total | 6,079.7 | |

State contribution to the financing of social security benefits for the Belgian mining industry may be estimated at Bfrs 24,632.5 million for 1978. The following table gives details.

| Source | Amount of State subsidies | Purpose |
|--------|---------------------------|---|
| State | 10,539.0 ¹ | <u>Old-age pension and insurance of surviving dependants</u> Regular statutory contribution |
| State | 1,881.3 | <u>Old-age pension and insurance of surviving dependants</u> Contribution to cover the deficit |
| State | 4,843.6 | <u>Disability pensions insurance</u> Disability pensions |
| State | 7,368.6 | <u>Occupational diseases</u> 50% of the expenditure arising from miner's pneumoconiosis |
| Total | 24,632.5 | |

¹Commission estimate

Calculations by the Commission reveal that Germany, France and Belgium have not exceeded the limits set in Article 4 of Decision No 528/76:

- In Germany the undertakings' actual welfare expenditure is DM 288 million (7.7%) higher than the normal expenditure defined in Article 4.
- In France the State subsidy to Charbonnages de France (FF 579.7 million) means that actual social expenditure and normal expenditure coincide.
- In Belgium the undertakings' actual social expenditure is Bfrs 285.3 million higher than the normal expenditure defined in Article 4.

(A₂) BRITAIN

Apart from the general social security - into which the coal industry is integrated - almost all branches of industry in Britain have insurance systems of their own from which pensions are paid to retired workers. The British coal industry also has such a supplementary system in the form of a pensions fund, into which the British Government will pay £ 36.8 million in the 1978/79 coal marketing year. However, this sum is only to balance out the ratio between working and retired miners, so that the limits set in Article 4 of Decision No 528/76 are not exceeded.

(A₃) Summary of financial measures in the social security sector

As Table 1 in the Annex reveals, State intervention in the social security sector of the coal industry in 1978 will be 12.2% higher than in 1977 and will total 4,120.4 million EUA.

B. Description and assessment of the financial measures to cover inherited liabilities

Pursuant to Article 5 of Decision No 528/76 measures taken by Member States to assist the undertakings to cover the costs arising from pit closures which are not related to current production and the sale of coal shall be compatible with the common market provided that the amounts involved in such measures do not exceed the amount of such costs, i.e. the inherited liabilities. Sums in excess thereof represent direct aid to current production and are to be regarded as aids pursuant to Articles 7 to 12 of Decision No 528/76.

B₁) GERMANY

For 1978 the Federal Government has planned the following measures to cover inherited liabilities :

| | <u>million DM</u> |
|---|-------------------|
| - Aktionsgemeinschaft scheme : | |
| - Closure premium | 79.1 |
| - Dispensation from obligations arising under the Equalization of Burdens Law | <u>22.5</u> |
| Sub-total | 101.6 |
| - Aid for water-control costs | 82.1 |
| - Aid to cover expenditure resulting from contraction | 119,1 |
| - Aid to cover inherited liabilities | 178.1 |
| - Aid to cover Ruhrkohle AG's closure write-offs | <u>48.0</u> |
| Total | 528.9 ===== |

(= 203.4 million EUA)

All the above liabilities represent liabilities inherited by the undertakings, i.e. those resulting from the closure of pits in previous years, and therefore do not relate to current production.

These measures are aids already granted in previous years.

Through the Aktionsgemeinschaft Deutscher Steinkohlenbergbau (Action

Association of German Coal-Mining Undertakings), the Federal Government pays the undertakings concerned a premium of DM 20/t of annual capacity for all closures undertaken in 1978. These closures are made to rationalize production. The aid covers only a small fraction of the actual costs that have to be borne by the undertakings in connection with the closures.

The public authorities will pay DM 22.5 million to the equalization of burdens fund as aid to cover the equalization of burdens payments, and thereby release closed pits from their obligation. The level of the aid is equivalent to the costs charged.

The sum of DM 82.1 million for water control costs will be paid to the Ruhr mining industry specifically to cover the financial burden arising from closures since 31 December 1966. As a result of pit closures, the Ruhr coal-mining industry bore a heavy burden in the form of constantly rising contributions to water control associations and the Pumpgemeinschaft Ruhr (Ruhr pumping association). The aid does not exceed the actual additional costs to be borne by the undertakings.

The sum of DM 119.1 million to cover expenditure resulting from contraction is additional to the closure premiums which (as mentioned above) do not cover actual costs of closures. This measure concerns liabilities arising out of pit closures since 31 December 1972. The aid is spread over a period of five years in the form of a flat-rate payment of DM 30 for every tonne by which annual capacity is reduced, but not exceeding actual costs borne by the undertakings as a result of the closures.

The sum of DM 178.1 million as aid for covering inherited liabilities concerns those inherited liabilities arising from pit closures before 1 January 1973. The relevant German laws ensure that the aid does not exceed actual liabilities borne by undertakings.

The sum of DM 48.0 million as aid towards closure write-off only concerns Ruhrkohle AG. In previous years the Ruhrkohle AG has had to include depreciation for assets lost as a result of pit closures which could not, however, be included in the profit and loss account since this would have bankrupted the undertaking. A special item was therefore introduced on the assets side of the balance and on 31 December 1976 this amounted to DM 670 million.

Because of the unfavourable economic situation, the undertaking is not in a position to write off this special item in annual instalments and the public authorities have therefore agreed to take over DM 480 million of the total sum - payable in 10 equal annual instalments of DM 48 million.

All the above measures show that the requirements of Article 5(1) of Decision No 528/76 are met. The total sum involved in these measures in 1978 is 203.4 million EUA and is included in Table 1 of the Annex.

(B₂) FRANCE, UNITED KINGDOM, BELGIUM

For 1978, the French Government has allocated a sum of FF 397.6 million (70.6 million EUA) as aid towards covering inherited liabilities borne by Charbonnages de France. This sum in aid is intended to cover the following inherited liabilities :

| | <u>Million FF</u> |
|--|-----------------------------|
| Contribution to early retirement pensions | 20.1 |
| Premiums, lump sums for retrained personnel, cost of housing for those retiring early | 62.4 |
| Financial liabilities in respect of those retiring early | 304.5 |
| Concessionary allowances for those retiring early | 10.6 |
| Total | <u>397.6</u> |
| | <u>(= 70.6 million EUA)</u> |
| Broken down between coalfields as follows : | |
| Nord/Pas-de-Calais | 252.3 |
| Lorraine | 39.3 |
| Centre-Midi | 106.0 |

The Commission estimates that the actual liabilities borne by the Charbonnages de France are the same as the sum granted in aid.

In 1978 the British Government plans to introduce the following measures under Article 5 of Decision No 528/76 :

| | <u>Million £</u> |
|---|---------------------------|
| Redundancy payments to miners affected by pit closures | 6.18 |
| Early retirement payments | 1.16 |
| Aid in respect of concessionary coal for pensioners | 4.78 |
| Total | <u>12.12</u> |
| | <u>(18.6 million EUA)</u> |

The United Kingdom measures cover inherited liabilities arising out of pit closures; these liabilities are the same as the sum granted in aid.

For 1978, the Belgian Government has set aside a sum of Bfrs 18 million (0.4 million EUA), as aid towards covering inherited liabilities in its Southern coalfield. Of this sum Bfrs 8 million is to be used to cover damage from subsidence and Bfrs 10 million to cover water control charges. The Commission estimates that the costs arising out of subsidence and water control following pit closures for which undertakings in the Southern coalfield are responsible, are the same as the sum granted in aid.

To summarize, it can be said that the Belgian, French and United Kingdom measures listed above meet the criteria of Article 5(1) of Decision No 528/76.

(B₃) Summary of the measures to cover inherited liabilities

As can be seen from Table 1 of the Annexe, the planned state aids to cover inherited liabilities in 1978 will total 293 million EUA for the Community as a whole an increase of 6,5 % over 1977.

II. Financial aid relating to current production

All aids that are not social measures within the meaning of Article 4. of Decision No 528/76, or aids to cover inherited liabilities within the meaning of Article 5. are aids to current production.

Aid to current production may be granted directly or indirectly to undertakings.

A. Indirect financial aid to current production in the coal mining industry

Indirect financial aid covers all measures which Member Governments announce in accordance with the first paragraph of Article 2(1) of Decision No 528/76 but which do not come into the category of the direct measures defined in Articles 7 to 12 of the Decision. Indirect measures are reported to the Commission under Decision No 528/76 and assessed according to the provisions of the ECSC Treaty.

Only Germany, France and Belgium have announced indirect measures to aid current production in the coal industry for 1978. The following measures were taken in previous years in France and Belgium, while one new measure has been reported for Germany.

(A₁) Description of the German, Belgian and French measures

For 1978 the Federal Government has provided for special depreciation facilities in respect of expansion and rationalization measures in the underground sector of the coal industry. The sum of these special depreciations amounts to 23.6 million DM (= 9.1 million EUA). The measure is based on § 51 of the Income Tax Law and on § 81 of the Income Tax Regulation and will give the German coal industry no competitive advantages vis-à-vis other Community coal producers, since the balance sheets of German coal-mining undertakings in any case show losses which are partially reduced by direct aids.

The indirect financial measures planned by the Belgian Government in 1978 involve the following sectors :

| | <u>in million Bfrs</u> |
|---|------------------------|
| - Expenditure on season tickets or cheap holiday tickets for miners, pneumoconiosis sufferers | 15.0 |
| - Subsidies to the Miners' National Pensions Fund to compensate for new expenditure on welfare arising from the increase in the miners' annual holiday allowance, the introduction of new sickness benefits and longer annual holiday (Articles 32.12, 32.14 and 0104 in the budget of the Economic Affairs Ministry) | 699.9 |
| Total | 714.9 |
| | (= 17.4 millions EUA) |

The French Government plans a State subsidy of FF 33.0 million (= 5.9 million EUA) for the research programme of the "Centre d'Etudes et de Recherches des Charbonnages de France (CERCHAR)" in 1978.

(A₂) Assessment of indirect financial aid to the coal industry

The Commission has examined the above-mentioned measures, which have already been in force for several years and does not consider that they violate the ban on subsidies set out in Article 4 of the ECSC Treaty. This conclusion applies also to the new German measures, which is not likely to provide competitive advantages for the German coal industry.

(A₃) Summary of indirect measures

Table 2 of the statistical annex gives the relevant figures under A2. In 1978 direct aid to the coal industry fell to 32.4 million EUA as compared with 58.5 million EUA in 1977. This reduction is due to the fact that the advantages granted in the Federal Republic in 1977 on the basis of the first coal-into-electricity law were discontinued as from 1978.

(B) Direct financial aid to current production in the coal-mining industry

In accordance with the provisions of Decision No 528/76, direct aid to current production includes all measures based on Articles 7 - 12.

(B₁) Federal Republic of Germany

(a) The extent to which direct financial aid to current production in the German coal-mining industry is compatible with the provisions of Articles 7-12 of Decision No 528/76

The Federal Government proposes to continue in 1978 the direct aids already granted in 1977.

| Legal basis under Dec. No 528/76 | Measures | Amount of aid | | | |
|--|-------------------------|----------------|----------------|--------------------|-------------|
| | | Total | | Per tonne de prod. | |
| | | Million DM | Million EUA | DM | EUA |
| Art. 7(1) | Investment aid | 732.0 | 281.5 | 8.31 | 3.20 |
| Art. 7(3) sub. s. 3 | Promotion of innovation | 99.8 | 38.4 | 1.13 | 0.44 |
| Art. 8 | Mineworkers' bonuses | 112.0 | 43.1 | 1.27 | 0.49 |
| Art. 10 | Aid to security stocks | 124.8 | 48.0 | 1.42 | 0.55 |
| | Total | 1,068.6 | 411.0 | 12.13 | 4.68 |

In addition to the aids mentioned above the Federal Government is to grant a coking coal aid to the value of DM 864 million DM for the first three quarters of 1978, an aid to production pursuant to Decision No 287/73. A decision on the granting of aid for the fourth quarter was still outstanding when this memorandum was written.

The investment aid of 281.5 million EUA is intended for investment projects in pits, coking plants, briquetting plants and pithead power stations. In 1978, total investment in the German coal industry will come to some 300 million EUA. Investment aid will represent more than 90 % of total investments.

In relation to the Community's new policy for coal, this 1978 investment aid, which increased sharply vis-à-vis 1977, is to be regarded as beneficial since it will promote the long-term stabilization of production in the German coalfields. The aid complies with the provisions of Article 7(1), of Decision No 528/76.

The sum of 38.4 million EUA to promote innovation is intended to ensure that research results are applied to production as quickly as possible. The aid is lower than the costs borne by the undertakings and is granted in respect of individual projects which, when completed, are likely to prove their economic worth to coal-mining in the medium term. The purpose and amount of this aid show that it is compatible with Article 7 of Decision No 528/76.

Mineworkers' bonuses, amounting to 43.1 million EUA, have applied since 1956. A bonus of DM 5 is paid for every shift worked underground, thus ensuring that the qualified mineworkers required for the German coal industry to increase its output stay in coal-mining. The measure therefore meets the provisions of Article 8 of Decision No 528/76.

The sum of 48.0 million EUA as aid towards building up long-term security stocks is a measure introduced by the Federal Government in order to increase the long-term security of energy supplies. For this purpose, the Notgemeinschaft Deutscher Steinkohlenbergbau (Emergency Association of German Coal-Mining Undertakings) bought up 10 million tonnes of coal and coke. The Federal Government covers only part of the actual current cost of maintaining these stocks in 1978, by granting an aid of DM 124.8 million. The aim and sum involved show that the measure meets the requirements of Article 10 of Decision No 528/76.

The foregoing remarks show that the financial measures planned by the Federal Government for 1978 in favour of the German coal-mining industry comply with the provisions of Articles 7, 8 and 10 of Decision No 528/76.

(b) The extent to which direct measures in favour of current production in the German coal-mining industry are compatible with the proper functioning of the common market

An assessment of the extent to which German aids are compatible with the proper functioning of the common market requires consideration of all direct and indirect aids for current production in 1978 (Article 3(2) of Decision No 528/76).

The relevant figures are given in a summary table (see Statistical Annex, Table 2).

By this method of calculation, the total proposed aid under the German measures amounts to 752.4 million EUA, i.e. 8.56 EUA/t. In comparison with 1977 aids per tonne have thus risen by 116.7 %.

The portion of this sum devoted to coking coal aid covers only three quarters of 1978.

As regards the compatibility of German aids with the proper functioning of the common market, reference is made to the comments in the main body of this document (see page 9 onwards).

(B₂) France

- (a) The extent to which direct financial aid to current production in the French coal-mining industry is compatible with the provisions of Articles 7-12 of Decision No 528/76

The French Government did not provide for any new measures in 1978, but continued with aids instituted in previous years; this involves only loss-covering aid;

| Legal basis under Dec. No 528/76 | Measures | Total | | Per tonne of prod. | |
|----------------------------------|--|------------|-------------|--------------------|-------|
| | | million FF | million EUA | FF | EUA |
| Article 12 | (a) Cover for the losses by the central administration of the Charbonnages de France | 200.0 | 35.5 | 10.00 | 1.78 |
| | (b) Cover for the coalfields' operating losses | 2,229.9 | 396.1 | 111.50 | 19.81 |
| | Total | 2,429.9 | 431.6 | 121.50 | 21.59 |

In addition in the abovementioned aids, an aid for coking-coal of FF 9.8 million is to be granted in 1978.

It should be pointed out at this point that, although the French Government did not introduce any new measures in 1978, a new procedure for granting aid was introduced on the basis of an agreement concluded with the Charbonnages de France. This agreement gives the Charbonnages de France, as from 1978, far-reaching independence and responsibility both as regards operational arrangements and the solution of financial problems. For this purpose the French Government incorporated into this agreement a financial framework for granting of aid. The matters covered by this framework include

the following :

- the inherited liabilities of the Charbonnages de France are covered by aids,
- for current production a flat-rate aid of 14 FF/kilothermie (= approximately 100.- FF/TCE) is granted, which is linked to the price index of the gross national product (1978 = 100),
- the Charbonnages de France is responsible for distributing the flat-rate amount among the coalfields.

This arrangement, and other measures which are not described here for reasons of space, are intended to help make the granting of aid to the Charbonnages de France more transparent and easier to handle.

As regards the general assessment of the aid granted in 1978 on the basis of the new procedure within the limits of Decision No 528/76, the aid sum of FF 2,429.9 million is expected to be less than the total losses of the Charbonnages de France. The amount of the aid is therefore in line with the provisions of Article 12 of the Decision.

The following points are relevant in connection with aid to the individual coalfields :

- In 1978, aid to the Nord/Pas-de-Calais and Centre-Midi coalfields will be calculated in such a way that, as a result of the closure of further pits, there will be a reduction in production, which will mean that some 2,800 ^{fewer} persons will be employed in the coal industry. The aids will prevent severe economic and social disruption in areas where there are not yet adequate opportunities for re-employment. The aids to these coalfields therefore comply with the provisions of Article 12(1) subsection 1 and Article 12(2) of the Decision.
- The output planning of the Charbonnages de France in the Lorraine coalfield aims at long-term stabilization, since the coking coal produced in this coalfield is important for supplying the steel industry. The aid granted for this purpose complies with Article 12(1), subsection 2 and Article 12(3) of the Decision.

- (b) Total direct and indirect aid to current production in the French coal industry amounts to 439.3 million EUA for 1978 (= 21.98 EUA/t; see Annex, Table 2). In comparison with 1977 this means that the aid is higher by 11.2% per tonne.

As regards the compatibility of French aids with the proper functioning of the common market (Article 3(1) of Decision No 528/76, reference is made to the comments in the main body of this document (see p.9 onwards).

(B₃) Belgium

- (a) The extent to which direct financial aid to current production in the Belgian coal mining industry is compatible with the provisions of Articles 7-12 of Decision No 528/76.

In 1978, the Belgian Government intends to provide investment aid and aid to cover operating losses.

| Legal basis under Dec. No 528/76 | Measures | Amount of aid | | | |
|--|---------------------|-----------------|----------------|---------------------|-------|
| | | Total | | per tonne of output | |
| | | million Bfrs | million EUA | Bfrs | EUA |
| Art. 7(1) | Investment aid | 288.8 | 7.0 | 41 | 1.0 |
| Art. 12 | Aid to cover losses | | | | |
| | Coal : Campine | 4,119.2 | 100.5 | 644 | 15.70 |
| | Southern | 1,797.4 | 43.8 | 2,996 | 73.00 |
| | Sub-total | 5,916.6 | 144.3 | 845 | 20.61 |
| | Total | 6,205.4 | 151.3 | 886 | 21.61 |

In addition to the above aids, the Belgian Government intends to grant a coking coal aid (Decision No 73/287) of Bfrs 3,297.5 million (= 80.4 million EUA). Total direct Belgian aid amounts to Bfrs 9,502.9 million; it is divided between the two coalfields as follows :

| | |
|----------|---|
| Campine | : Bfrs 7,697.7 million = 1,203.- Bfrs/t |
| Southern | : Bfrs 1,805.2 million = 3,009.- Bfrs/t |
| Total | : Bfrs 9,502.9 million = 1,358.- Bfrs/t |

Of the investment aid sum of Bfrs 288.8 million, 281.0 million will go to the Campine coalfield and 7.8 million to the Southern coalfield. This aid covers the depreciations in the Campine coalfield, so that it can maintain production of coking coal, which is important for the Belgian steel industry. The investment aid for the Southern coalfield enables it to carry out the most essential repairs so as not to jeopardize the technical safety of the collieries.

Belgian investment aid is therefore compatible with the provisions of Article 7(1) of Decisions No 528/76.

Aid totalling Bfrs 5 916.6 million to cover operating losses is paid to the two Belgian coalfields for different reasons. The aid paid to the Campine coalfield will almost make up the difference between costs and returns. This almost complete covering of the difference between costs and returns is necessary, because the coalfield is meant to supply the Belgian steel industry with coking coal and must therefore maintain its output. The purpose and amount of aid granted to cover losses in respect fo the Campine coalfield therefore comply with the provisions of Article 12(1), subsection 2, and Article 12(3) of Decision No 528/76.

The Southern coalfield, however, receives aid covering only about 80% of the difference between costs and returns. Here the intention is to ensure that only essentials are maintained and the pits remain viable in the short term only.

so that the coalfield can be closed down as planned within a period (by about 1980) which will ensure that serious economic and social disturbances over the re-employment of redundant miners are avoided. One pit in the Southern coalfield is due for closure in 1978, affecting approximately 341 miners. From all this it can be seen that the aid to cover losses in the Southern coalfield is compatible with Article 12(1), subsection 1, and Article 12(2).

- (b) The extent to which direct measures in favour of current production in the Belgian coal mining industry are compatible with the proper functioning of the common market

In the Belgian coal mining industry, aids to current production total 249.1 million EUA (= 35.59 EUA/t) for 1978 (see Annex, Table 2). This is an increase of 15.7% per tonne vis-à-vis 1977.

As regards the compatibility of Belgian aids to current production with the proper functioning of the common market, reference is made to the comments in the main body of this document (see p. 9 onwards).

(B₄) United Kingdom

- (a) The extent to which direct financial aid to current production in the British coal mining industry is compatible with the provisions of Articles 7-12 of Decision No 528/76

For the coal marketing year 1978/79, the British Government plans the following direct aids to current production :

| Legal basis under Dec. No 528/76 | Measures | Total | | per tonne of output | |
|----------------------------------|--------------------------------|-----------|-------------|---------------------|------|
| | | million £ | million EUA | £ | EUA |
| Art. 8 | Aid to attract skilled workers | 3.3 | 5.1 | 0.03 | 0.04 |
| Art. 9 | Aid to producers' stocks | 9.0 | 13.8 | 0.07 | 0.11 |
| Art. 11 | Aid to steam coal | 8.5 | 13.1 | 0.07 | 0.11 |
| | Total | 20.8 | 32.0 | 0.17 | 0.26 |

The aid to coking coal is estimated at £ 5.0 million for 1978¹.

The aid for attracting and keeping skilled workers (£ 3.3 million) is intended to offset in part the NCB's costs arising from rationalization and the transfer of production to their best pits. This results in outgoings on removals, transport, etc. The aid is compatible with Article 8 of Decision No 528/76.

When assessing the aid to cover costs for producers' stocks of coal and coke (£ 9.0 million), it must be remembered that total pithead stocks and additional distributed stocks directly or indirectly financed by the producers total about 16 million tonnes. Given a monthly production of some 10.0 million tonnes, the volume of pithead stocks qualifying for aid is 6 million tonnes. This means that the per-tonne grant in aid is £ 1.5. The actual costs of maintaining producers' stocks (including depreciation and interest) are considerably higher than the sum granted. The aid therefore complies with the provisions of Article 9 of Decision No 528/76.

The aid granted to steam coal (£ 8.5 million) is a sum for deliveries of power station coal to Scotland. From the information provided by the British Government the amount and purposes of the aid granted can be regarded as compatible with Article 11 of Decision No 528/76.

- (b) The extent to which direct measures in favour of current production in the British coal mining industry are compatible with the proper functioning of the common market

In the coal marketing year 1978/79, aid to current production in the United Kingdom will total 39.7 million EUA (= 0.32 EUA/t) (see Annex, Table 2). In comparison with 1977, this means that the aid for 1978 will be some 20 million

¹ Pending approval by the British Government

EUA Lower.

As regards the compatibility of British aids to current production with the proper functioning of the common market, reference is made to the comments in the main body of this document (see p. 9 onwards).

Table 1

Aids not relating to current production
(million EUA)

| | Social security measures pursuant to Article 4 of Decision No 528/76 | | Infringements of Art. 4 (1978) | Aids to cover inherited liabilities pursuant to Article 5 of Decision No 528/76 | |
|-----------------------------|--|-------------|--------------------------------|---|-------|
| | Total | | | Total | |
| | 1977 | 1978 | | 1977 | 1978 |
| Federal Republic of Germany | 2,137.3 | 2,383.1 | -- | 203.4 | -- |
| Belgium | 550.2 | 600.8 | -- | 0.4 | -- |
| France | 942.1 (1) | 1,079.9 (1) | -- | 70.6 | -- |
| United Kingdom | 43.4 | 56.6 | -- | 18.6 | -- |
| Total for the Community | 3,673.0 | 4,120.4 | -- | 275.0 | 293.0 |

¹ The United Kingdom has an integrated social security system. The figure shown in this column covers only the special miners' pension fund, which exists side-by-side with the general social security system.

Table 2

Aid for current production in 1978¹

| | Unit | Federal Repu- blic of Germa- ny | France | United Kingdom | Belgium | Community |
|--|----------------------------|---------------------------------------|----------------|-------------------|----------------|-----------------|
| A. Aids under Decision No 528/76 | | | | | | |
| 1. Infringement of Article 4 of Article 5 | million EUA million EUA | - - | - - | - - | - - | - - |
| Total per tonne of production | million EUA EUA | 9.1 0.10 | 5.9 0.30 | - - | 17.4 2.49 | 32.4 0.14 |
| 2. Direct measures | | | | | | |
| per tonne of production | million EUA EUA | | | | | |
| 3. Indirect measures | | | | | | |
| Article 7 | million EUA | 319.9 | - | - | 7.0 | 326.9 |
| Article 8 | million EUA | 43.1 | - | 5.1 | - | 48.2 |
| Article 9 | million EUA | - | - | 13.8 | - | 13.8 |
| Article 10 | million EUA | 48.0 | - | - | - | 48.0 |
| Article 11 | million EUA | - | - | 13.1 | - | 13.1 |
| Article 12 | million EUA | - | 431.6 | - | 144.3 | 575.9 |
| Total per tonne of production | million EUA EUA | 411.0 4.68 | 431.6 21.59 | 32.0 0.26 | 151.3 21.61 | 1,025.9 4.35 |
| B. Coking coal aid (Decision No 73/287) | | | | | | |
| per tonne | million EUA EUA | | | | | |
| | million EUA | 332.3 ⁽²⁾ | 1.7 | 7.7 | 80.4 | 422.1 |
| | EUA | 3.78 | 0.09 | 0.06 | 11.49 | 1.79 |
| C. Total (A + B) | | | | | | |
| Totals per tonne of production | million EUA EUA | 752.4 8.56 | 439.2 21.98 | 39.7 0.32 | 249.1 35.59 | 1,480.4 6.28 |

¹ Planned figures² Aid sum for three quarters of the year.