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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

Introduction of a Community aid system
for intra-Community trade in power-station
coal

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In this Communication, the Commission seeks to explain in greater detail the principles and problems underlying a Community aid system in favour of intra-Community trade in steam coal. The document gives an outline plan on the basis of which, the Commission could prepare a proposal for a Regulation which would later be submitted to the Council. This question has been recently discussed in the Energy Committee.

Last year the Commission submitted to the Council two proposals which have not yet been adopted. One of the proposals concerned grants for the building of coal-fired power stations and the other a Community aid system for the financing of cyclical stocks of coal and coke. The Commission is standing by its proposals, but thinks that a Community aid system aimed directly at an increase in disposals is also necessary.

The Commission proposes that the Council accept the attached scheme.

Outline of a Community aid system for intra-Community
trade in power-station coal

I. General justification for the aid system

1. The Community's coal industry is at present in difficulties because of the economic situation and also, to some extent, because of problems to do with lower competitive force in relation to import coal and monetary changes (devaluation of the US dollar). If no aid measures are introduced it will be difficult to maintain production capacities. Community production of hard coal during the year 1977, amounted to only 220 Mtce.

However, the Community's security of supply for energy, demands that the coal industry's production capacity be maintained at 250 Mtce. Bearing in mind the current high level of stocks and the weakness of demand, it is feared that the present decline in production will continue. In the difficult period now being experienced aid measures would also appear to be an appropriate instrument of employment policy. With 10 million tonnes of hard-coal production some 25,000 jobs are at stake in the coal industry itself and in the upstream and downstream sectors.

2. In the terms of the energy policy, the Community has expressed itself in favour of a free market and an increase of imports from third countries in the long-term, without that is, jeopardizing the maintenance of production capacity in the Community. Bearing in mind the uncompetitive position of Community coal, protectionist measures such as import duties or import restrictions, would prove not adequate and ineffective. This has also been confirmed during discussions with the Council. Consequently, a subsidy to make Community coal more competitive, this being an adequate way to increase disposals and consumption without increasing prices.
3. Measures to promote disposals of Community coal cannot be directed at coal consumption as a whole. For the biggest possible effect with a small outlay, ad hoc measures are needed according to the conditions prevailing on the different markets for coal.

Community aid measures for the markets for house coal and industrial coal would be inappropriate, as these markets are comparatively small and consist of a large number of sub-markets subject to different local conditions (no transparency). In addition, action to promote consumption on these markets would have little prospect of success as it is unlikely that heating units and other equipment burning light fuel oil, gas or electricity would be converted to coal even if coal was very cheap.

The market for coking coal is stagnating in the Community because of the steel crisis. No increases in consumption are likely in the short term. Moreover, there is already a Community aid system for this market.

The market for power-station coal, on the contrary, is expanding in the Community, and, provided that the prices are competitive, constitutes an outlet for additional disposals of Community coal. The import of steam-coal from third countries rose from 8 Mt (1973) to about 22 Mt (1977).

4. New centres of consumption have emerged on the steam-coal market in the Community in recent years, particularly in countries with no indigenous coal production. Oil-fired power stations have been converted to coal and new coal-fired power stations have been commissioned, many of them near the coast and mainly burning coal imported at such low prices that Community producers cannot compete even with great financial sacrifices. With aid measures to offset these sacrifices, Community producers could deliver steam coal to the new centres of consumption, by way of intra-Community trade.

A Community aid system for steam-coal aimed at attaining this objective would therefore, be useful.

5. There are many different national aid measures for promoting and, as far as possible, guaranteeing disposals of Community steam coal, but in recent years production has had to be cut back in line with the market conditions, and large stocks have built up. To restore market equilibrium, consumption of steam coal would have to be increased by 8 - 9 million tonnes annually. Over a three-year period, this would entail additional disposals of about 25 million tonnes.

II. Outline of, and problems underlying, the Community aid system

6. Basically, the aid system should be simple and efficient, contain financial and quantitative restrictions, and interfere as little as possible with the free play of market forces and the room for manoeuvre of those concerned.
7. In 1977, 3 - 3.5 million tonnes of steam coal - mainly for power stations - had been delivered to other Community countries, by way of intra-Community trade. The biggest suppliers being the United Kingdom and the Federal Republic of Germany and the biggest customers France and Denmark.

Under a Community aid system, - in order to avoid discrimination - the quantities already being supplied, should not receive a different treatment from the additional quantities delivered as a result of the aid. Consequently, the quantities already being supplied before the introduction of the aid system would qualify for aid and would be included in the total quantity to be subsidized. Hence, for an annual increase in disposals of 8 to 9 million tonnes the total quantities to be subsidized would be 12 million tonnes, allowing for the inclusion of the quantities already being delivered.

8. Steam-coal grades extracted in the Community vary in quality. If, nevertheless, a standard amount of aid per tonne were to be granted, this would cause discrimination since coal with a low calorific value would receive comparatively more aid than best-quality coal. The different grades will therefore have to be rendered comparable by conversion to standard grades - a conversion operation which should not present any major difficulties as regards the practical application of the Community aid system since the calorific value is determined by those concerned anyway.
9. It is difficult to say precisely what additional deliveries will result from the aid, i.e. to predict which undertakings will be delivering to other Community countries and which will be the recipients.

One possibility which could be considered however, would be to introduce for the supplying countries, a quantitative arrangement containing certain safeguards to guarantee an appropriate distribution among them of the increased quantities in intra-Community trade.

10. To preclude an undesirable development, criteria must be laid down for the deliveries eligible for aid, but market-regulating measures should be excluded. It can not be excluded that if the additional deliveries were left completely free to expand, the consequences might run counter to the objective of the aid system and upset the market for steam coal, e.g. if coal subsidized by the Community was to compete on a domestic market. Deliveries by way of intra-Community trade which would largely be spared the above-mentioned consequences, and would therefore be suitable recipients of Community aid, would be the following:

- (i) deliveries already being made in 1978,
- (ii) deliveries to power stations which used imported coal in 1978,
- (iii) deliveries to coal-fired power stations commissioned in the period 1979-1981 in Ireland, Denmark, the Netherlands, Luxembourg and Italy (see point 16 below; duration of the aid system).

These deliveries would help to provide a substitute for some of the imported coal and also help Community coal to enter new markets, with the result that the objective of increasing intra-Community trade by 8 - 9 million tonnes annually could be attained. Corresponding to information it is estimated that the power-plant capacity based on coal will grow up to 1985 by 10.000 MW.

11. To simplify the practical administration of the aid system, the aid should be paid to the producers of Community coal rather than the power-station operators.
12. To prevent discrimination between customers for subsidized Community steam coal, deliveries to public power stations and those to private industrial power stations must be eligible for aid in like manner. Contracts or transit documents could be taken as the basis for aid in the case of deliveries to public power stations, and power station consumption in the case of other private industrial power stations. Coal used by private undertakings in the general industrial sector for production purposes unconnected with power-station requirements would not qualify for aid.

13. The additional quantities of Community steam coal will be marketable only if they are offered at prices approaching those of non-Community steam coal, which are not uniform. Producers have to provide evidence of correct alignment of prices, under the rules of the ECSC Treaty. It might be appropriate that the Commission sets limits in order to avoid alignment on very low prices which do not reflect the general price level for imported steam coal.
14. According to a rough calculation, the disposal by way of intra-Community trade, of 12 million tonnes of Community steam coal at world market prices could generate overall losses of about 350 million EJA annually for Community undertakings. Granting Community aid of 120 million EJA annually would cover about 30% of this. The rest would have to be borne by the undertakings or offset by aids from the Member States.

Because of the differences in production costs per tonne in the different coal fields in the Community and the difference in freight charges, the losses made by the undertakings on steam coal deliveries will vary in size. However, the obvious solution of an appropriate differentiation in Community aid per tonne is impracticable. For one thing, there would be considerable business-economics difficulties in working out for the undertakings the differences between products and costs (comparability of costings). Even if criteria were laid down for determining the differences, a very big administrative outlay would be entailed in determining these differences on each contract or each delivery. Also, the differences would have to be estimated in advance, so that the undertakings know how much aid they would receive per tonne in the current year. On commercial grounds, knowledge of this amount is of great importance to them in their price negotiations with customers.

Bearing this in mind, the granting of a standard amount of aid of 10 EJA per tonne would appear to be a practicable solution. It would make for transparency among those concerned.

Only in individual cases or cases of doubt would it be necessary for the Commission to have the right to carry out inspections to ensure that the standard amount of aid is not higher than the losses actually incurred by the undertakings.

15. The Community budget will probably be the appropriate source for financing the Community aid. The other possibilities of levying special charges or constituting special funds would present considerable difficulties in the laying down of criteria and entail a disproportionate administrative outlay.
16. In view of the uncertain short and medium-term outlook for disposals of Community coal, the aid system should be introduced for three years, commencing on 1 January 1979.
17. The Commission would keep Council and Parliament informed of developments and practical experience with this aid system.