

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(93)116 final

Brussels, 29 March 1993

COMMISSION REPORT

on the Application of the Community Rules for State Aid to the
Coal Industry in 1991

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1. Introduction

Article 14 of Commission Decision No 2064/86/ECSC of 30 June 1986¹ requires the Commission to report each year to the Council, the European Parliament and the ECSC Consultative Committee on the application of the Community rules for State aid to the coal industry.

This report examines the financial aid granted by Belgium, France, Germany, Portugal and Spain to their coal industries in 1991 and by the United Kingdom during the financial year running from 1 April 1991 to 31 March 1992.

All Member States intending to grant aid to coal undertakings in 1991 were obliged to present to the Commission by 1 October 1990 (1 January 1991 for the United Kingdom) information on all the measures they intended to take to support the coal industry directly or indirectly in 1991.

Such measures may be considered to be compatible with the proper functioning of the common market only if they help to achieve at least one of the following objectives:

- improved competitiveness in the coal industry, helping to ensure greater security of supply;
- creation of new capacities as long as they are economically viable;
- solution of social and regional problems related to changes in the coal industry.

¹ OJ No L 177, 1.7.1986, page 1 and following.

In accordance with Article 9 of the Decision, the Commission was notified of the measures planned for 1991 by:

- the German Government in letters dated 4 December 1990 and 16 May 1991;
- the Belgian Government in a letter dated 2 October 1990;
- the Spanish Government in letters dated 8 October 1990 and 16 November 1992;
- the French Government in a letter dated 4 January 1991.
- the Portuguese Government in a letter dated 10 September 1991.

The Commission gave a ruling on these measures in Decisions adopted on 17 July 1991² and 25 November 1992³ for Germany, 17 December 1990 for Belgium,⁴ 29 April 1991 for France,⁵ 17 December 1990⁶ and 23 December 1992 for Spain,⁷ and 11 December 1991 for Portugal.⁸

The financial aid referred to in this document is the aid for 1991 authorized by the Commission by 31 December 1992. The final figures for 1991 will be included in the 1992 Report.

2. Coal Industry and Market

2.1. Production

In 1991 coal production in the Community amounted to 193 million tonnes, i.e. a reduction of 1.7% compared with 1990. This drop is due to reductions in Germany (3.8 million tonnes or 5%), Spain (1.2 million tonnes or 6.2%), Belgium (0.4 million tonnes or 38.6%) and France (0.4 million tonnes or 3.4%). However, production increased slightly in the United Kingdom (by 2 million tonnes or 2.3%), despite the closure of several pits, reflecting productivity improvements.

In 1992 falling production levels in almost all countries should lead to a Community production level of around 186.4 million tonnes, i.e. 6.9 million tonnes less than in 1991. The largest reductions are likely to be in the United Kingdom (6.8 million tonnes), France (0.4 million tonnes), Belgium (0.3 million tonnes) and Germany (0.1 million tonnes). Production is expected to increase in Spain (by 0.8 million tonnes), however.

2 OJ No L 278, 5.10.1991.
3 OJ No L 21, 29.1.1993.
4 OJ No L 226, 14.8.1991.
5 OJ No L 193, 17.7.1991.
6 OJ No L 324, 16.11.1991.
7 OJ No L 57, 10.3.1993.
8 OJ No L 92, 31.1.1992.

Table 1

	<u>Coal Production</u>					('000 tonnes)
						(t = t)
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u> ²	<u>Variation between</u> <u>1992/1991 (%)</u>
Germany	79 319	77 451	76 553	72 744	72 600	- 0.2
France	12 142	11 470	10 487	10 127	9 700	- 4.2
Belgium	2 487	1 893	1 036	636	370	- 41.8
UK	101 379	98 286	89 301	91 340	84 500	- 7.5
Ireland	52	43	45	6	6	-
Spain ¹	19 001	19 176	19 440	18 244	19 000	+ 4.1
Portugal	237	258	251	232	270	+ 16.4
Italy	49	74	58	20		-
Community	214 666	208 651	197 201	193 349	186 446	- 3.6

1 Including "black lignite".

2 Estimate.

2.2. Employment

The continuation of the measures to rationalize and reduce activity in the coal industry in most coal-producing countries led to a further drop in employment figures. At the end of 1991, 166 000 underground workers, i.e. 16 200 fewer than in 1990, were employed in the coal industry. The largest drop in absolute terms was in the United Kingdom (8 000), followed by Germany (4 800), Spain (2 000), France (1 200) and Belgium (300).

Table 2

	<u>Underground staff employed at the End of the Year ('000)</u>				<u>Variation</u>
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u> ¹	<u>1991/1990 (%)</u>
Germany	96.8	92.1	85.5	80.7	- 5.6
France	12.9	10.7	8.9	7.8	- 12.3
Belgium	5.3	3.4	1.9	1.6	- 15.8
UK	72.0	56.0	50.0	42.0	- 16.0
Spain	36.1	35.0	35.0	33.0	- 5.7
Portugal	0.8	0.6	0.6	0.6	-
Community	224.2	198.1	182.2	166.0	- 8.9

1 Provisional.

2.3. Coal Demand and Trade

Internal deliveries of coal increased slightly (by 0.8 million tonnes or 0.3%) in 1991 compared with 1990.

Table 3

(million tonnes)
(t = t)

Internal Deliveries of Coal

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991¹</u>	<u>1992²</u>	<u>1992/91 (%)</u>
Belgium	14.0	14.3	14.9	14.9	15.0	0.6
Denmark	11.0	10.6	10.1	13.2	13.5	2.3
Germany	81.1	78.4	80.3	79.6	79.2	- 0.4
Greece	1.4	1.3	1.4	1.5	1.6	6.7
Spain	27.8	30.2	30.2	30.5	30.7	0.6
France	26.7	29.3	30.4	30.4	29.9	- 1.8
Ireland	3.2	3.4	3.2	3.1	2.9	- 4.6
Italy	20.3	20.8	21.1	18.9	21.2	12.1
Luxembourg	0.2	0.2	0.2	0.3	0.3	-
Netherlands	13.1	12.9	14.9	14.0	13.7	- 2.2
Portugal	3.2	3.7	5.0	4.6	4.5	- 2.0
UK	113.3	108.0	107.9	109.5	106.4	- 2.8
Community	315.3	313.2	319.5	320.3	318.8	- 0.5

1 Provisional.

2 Forecast.

Deliveries to public utilities and mine power stations increased by 8.0 million tonnes or 3.9%, while deliveries to coking plants fell by 6.6 million tonnes or 9.8% as a result of the slowdown in steelmaking. The same applies to deliveries to most other main sectors, except those to "other industries" which increased slightly (by 0.2 million tonnes).

In 1992 coal deliveries are expected to fall by 1.5 million tonnes or 0.5% for the Community as a whole. Deliveries to the main sectors will fall slightly, but deliveries to the steel industry are expected to increase by 1.2 million tonnes or 21.5%.

Unlike Community coal production, coal imports from third countries increased (by 13.1 million tonnes) in 1991 compared with 1990 to reach a new record level of 129 million tonnes. This increase is mainly attributable to greater demand from power stations. Imports are expected to increase less spectacularly (by 2.0 million tonnes) in 1992, to reach a level of 131 million tonnes.

Imports of Coal from Third Countries

	(million tonnes) (t = t)				
	<u>1989</u>	<u>1990</u>	<u>1991¹</u>	<u>1992²</u>	<u>1992/91 (%)</u>
Belgium	10.9	13.2	12.6	12.9	2.8
Denmark	10.2	9.3	13.5	13.3	- 1.5
Germany	5.7	8.6	9.5	10.5	10.5
Greece	1.2	1.4	1.5	1.6	6.7
Spain	10.2	9.8	10.6	10.5	- 0.9
France	14.1	17.3	20.2	19.0	- 6.1
Ireland	2.8	2.8	2.7	2.5	- 5.4
Italy	19.4	19.5	18.9	20.9	10.2
Luxembourg	0.1	0.2	0.2	0.2	-
Netherlands	13.2	16.5	15.7	15.4	- 2.2
Portugal	3.4	4.5	4.1	4.2	1.1
UK	11.5	12.7	19.5	20.1	3.1
Community	102.6	115.9	129.0	131.0	1.5

1 Provisional.

2 Forecast.

Intra-Community Trade in Coal

<u>Year</u>	('000 tonnes) (t = t)							
	<u>Germany</u>	<u>Belgium</u>	<u>France</u>	<u>United Kingdom</u>	<u>Spain</u>	<u>Netherlands</u>	<u>Other</u>	<u>Total</u>
1989	5 276	728	566	1 395	7	1 041	50	9 063
1990	4 906	668	460	1 559	2	2 335	37	9 967
1991 ¹	3 600	785	468	1 400	-	2 350	20	8 623
1992 ²	3 400	760	546	600	-	2 350	15	7 671

1 Provisional.

2 Forecast.

Intra-Community trade in coal, including internal movements of coal of third-country origin in free circulation fell by 1.3 million tonnes in 1991; a further reduction of around 1.0 million tonnes is expected in 1992. This trend is attributable to a reduction in production in the main coal-exporting Member States, and the considerable competition from third-country coal and other substitutable energy resources.

2.4. Financial Situation of Community Coal Undertakings

For the Community as a whole, average production costs remained virtually unchanged throughout 1991 at ECU 108/tce.

Nevertheless, reductions were recorded in France (5%) and the United Kingdom (1.9%). In the other countries, on the other hand, production costs increased, especially in Belgium, Portugal and Germany.

In the case of the United Kingdom, if the influence of the variations in the calorific value of the coal produced and exchange-rate fluctuations are disregarded, the reduction in costs may amount to 5.1%. In France virtually the entire reduction in costs was the result of factors specific to the coal industry.

Table 4

Financial Situation of the Coal Industry

	Production Costs ¹				Returns				(ECU/tce)		
	ECU/tce				ECU/tce				Difference		
	1989	1990	1991	91-90 (%)	1989	1990	1991	91-90 (%)	1989	1990	1991
Germany	131	134	137	+ 2.1	119	123	125	+ 2.0	- 12	- 12	- 12
Belgium	175	198	228	+15.6	52	55	47	-14.2	-123	-142	-181
Spain	142	149	150 ³	+ 0.7	111 ²	107 ²	114 ³	+ 6.0	- 31	- 42	- 37
France	97	97	92	- 5.0	60	61	61	- 0.6	- 37	- 36	- 31
Portugal	103	95	109 ³	+14.6	68	65	74 ³	+13.6	- 35	- 30	- 35
UK	84	75	74	- 1.9	71	69 ²	73	+ 6.7	- 13	- 6	- 0
TOTAL	109	108	108	-0.2	92	94	97.2	+ 3.4	- 17	- 14	- 10

¹ Overall costs, including capital and depreciation costs.

² Including aid for coking coal.

³ Estimate.

There was an increase in returns of 3.4% for the Community as a whole in 1991, mainly because of price increases in the United Kingdom (6.7%) and Spain (6%) and to a lesser extent in Germany (2%). In the United Kingdom about 4.8% was due to price increases and about 1.9% to exchange-rate fluctuations. In the case of Spain all but 0.7% of the increase was due to price increases.

Mention should be made of the considerable differences in returns between the different producer countries. To a great extent these are due to indirect consumption-aid mechanisms in certain countries.

There were (often marked) improvements in productivity in all coal-producing Member States, largely due to the restructuring and rationalization of the industry. The least productive pits are the first to be closed, and when the decision to close a pit in the relatively near future is taken, underground preparation work is reduced to a strict minimum, releasing workers for production or reducing the number of underground workers. Productivity increases in both cases. The considerable increases recorded in France and the United Kingdom should once again be stressed.

Table 5

	<u>Underground Output per Manhour</u>				(kg)	
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991¹</u>	<u>1992²</u>	<u>1992/91</u> (%)
Germany	630	645	673	695	710	2.1
France	534	589	634	728	800	9.9
Belgium	320	328	361	355	365	2.8
UK	633	680	704	794	855	7.7
Spain	333	329	341	350	355	1.4
Community	578	603	628	680	715	5.2

1 Provisional.

2 Forecast.

3. Financial Aid scheduled for the Coal Industry in 1991

Any economic and financial assessment of aid to the coal industry must take account of the specific features of the industry.

Short-term changes on the international coal market are not necessarily representative of long-term trends. It should be pointed out that the world price of coal in terms of Member States' currencies was influenced very considerably by the volatility of the American dollar and the slump in oil prices in 1991 after the Gulf War ended. It should be noted that the current world market prices are causing financial difficulty in certain coal-exporting third countries. A study carried out in 1991 for the Commission suggests that the price of imported coal in 2010 (based on constant prices) could be between \$57 and \$76 per tce for steam coal and \$68 for coking coal.

The present situation is aggravating the difficulties of the European coal industry where, as a result of the inflexibility of the production system (attributable to technical, geological and geographical factors), it is impossible to respond to short-term market fluctuations in terms of quantities or costs.

The financial flow of aid thus contains an element that is difficult to quantify, covering the difference between the short-term cost of imported coal - often serving as a reference price to determine the purchase price of Community coal - and the long-term marginal cost of new production capacity in coal-exporting third countries offering guarantees of security of supply.

It is against this long-term backcloth that coal producers and large consumers are legitimately concerned with minimizing the risks of a volatile market through long-term contracts, although the terms of these contracts must reflect economic realities and not hamper efforts to deploy the instruments provided for in the Treaties to make balanced and determined progress towards greater integration and optimization of energy markets.

This document is concerned with the measures set out in Article 1 of the abovementioned Decision, namely all aid granted by central, regional or local authorities (which, even if it is not always a direct burden on public budgets, is nevertheless financed by charges rendered compulsory by the fact of State intervention) and any aid elements contained in the financing measures taken by Member States in respect of the coal undertakings which they directly or indirectly control and which cannot be regarded as the provision of risk capital according to standard company practice in a market economy.

This report makes various distinctions. It distinguishes between aid related to current production and aid not related to current production, which, in certain cases such as inherited liabilities, cannot be interrupted even if coalmining were to stop. Research, development and demonstration activities are also regarded as not related to current production provided they are not for the exclusive benefit of the company undertaking the research. Where such measures help to promote innovations in the undertaking itself they are considered to be related to current production.

Where current production is concerned, it is also essential to distinguish between direct aid and indirect aid. Under Decision No 2064/86/ECSC any financial aid granted directly to coal undertakings is regarded as direct aid. Indirect aid is any aid which, although often granted to an economic operator not producing coal, is of indirect benefit to coal undertakings.⁹

3.1. Financial Aid related to Current Production

In 1991 aid to current production authorized by the Commission amounted to ECU 5 401.1 million, compared with ECU 5 322.7 million in 1990.

9 This definition differs from the economic approach, where supply-side aid is regarded as direct aid and demand-side aid is regarded as indirect aid, since the party receiving the aid is not necessarily the same as the party benefiting from the economic effect.

As emerges from Annex 1, this increase is mainly due to a significant rise in the level of aid in Spain as a result of the financial restructuring of the coal industry under the restructuring, rationalization and modernization plan.

The amount of aid in the other Member States fell, particularly in Belgium and France as a result of restructuring plans, in Portugal where restructuring began following the adoption of a strategic plan, while in the United Kingdom no aid to current production was granted for 1991.

Table 6

Financial Aid related to Current Production

	<u>ECU million</u>		<u>ECU/tonne</u>	
	<u>1991</u>	<u>1990</u>	<u>1991</u>	<u>1990</u>
<u>Direct</u>				
Article 3 Deficit grant aid	822.8	848.9	4.26	4.24
Article 4 Sales aid	1 656.7	1 740.9	8.57	8.70
Article 5 Investment aid	11.3	-	0.06	-
Article 6 Aid for underground staff	66.8	74.1	0.35	0.37
Other	217.6	9.7	1.13	0.05
<hr/> Subtotal	<hr/> 2 775.2	<hr/> 2 673.6	<hr/> 14.37	<hr/> 13.36
Indirect	2 625.9	2 649.1	13.58	13.25
<hr/> Total	<hr/> 5 401.1	<hr/> 5 322.7	<hr/> 27.95	<hr/> 26.61

3.1.1. Direct Aid

Direct aid for current production under Decision No 2064/86/ECSC¹⁰ includes deficit grant aid (Article 3), investment aid (Article 5), aid for underground staff (Article 6), and sales aid for coking coal and coke (Article 4). The latter is regarded as direct aid since it is granted to the producer and not to the consumer.

3.1.1.1. Germany

In 1991 direct aid authorized by the Commission amounted to DM 3 964.9 million (ECU 1 933.1 million), i.e. DM 54.46 (ECU 26.55) per tonne.

10 For more details, the reader is referred to the text of the Decision: OJ No L 177, 1.7.1986, pp. 1-9.

	<u>DM million</u>	<u>ECU million</u>
Article 3 Aid to cover operating losses	429.2	209.6
Article 4 Aid for sales of coal and coke to the Community steel industry	3 398	1 656.7
Article 6 Miners' bonuses per underground shift worked ("Bergmannsprämie")	137	66.8
<hr/> Total	<hr/> 3 964.9	<hr/> 1 933.1

The aid to cover operating losses (DM 429.9 million) is granted to undertakings in certain mining areas in order to cover part of a revenue shortfall resulting from certain sales of coal by the undertakings in question to thermal power stations. The aid is granted in the form of financial compensation based on the differences in production costs between mining areas and on the use of coal with a low volatile matter content.

Since the measure is to be gradually phased out and is part of a restructuring and rationalization plan, the aid in question meets the objectives and criteria set out in Article 2 of the Decision.

Pursuant to Article 12 of Decision No 2064/86/ECSC, coal undertakings are authorized, where necessary, to grant rebates on their list prices or production costs for deliveries of coal and coke to Community steel-industry blast furnaces under long-term contracts. These rebates must not cause prices to work out lower than those which would be charged for coal from third countries and coke made from third-country coking coal.

According to the notification from the German Government, this sales aid is to be granted in line with the principles underlying a new system of aid for the delivery of coal and coke to the Community steel industry. The system is designed to place a ceiling on aid in the period 1989-91. The aid to be granted in 1991 (DM 3 398 million) covers the difference between the world market price and the production costs for a maximum production level of 21.5 million tonnes. The aid is therefore compatible with Articles 4 and 12 of the Decision. It serves to reinforce the restructuring of the coal industry and thus helps to improve competitiveness in accordance with the first indent of Article 2(1) of the Decision.

The aid of DM 137 million to finance miners' bonuses (DM 10 per underground shift worked) enables the coal industry to keep on a skilled workforce. The aid is a specific measure which has been in existence for several years (miners' income tax allowance) and must be notified separately from the aid referred to in Articles 3-5 of the Decision. The aid is thus compatible with Article 6 of the Decision, and will help to improve the competitiveness of the coal industry, in line with the first indent of Article 2(1).

3.1.1.2. Belgium

In 1991 direct aid authorized by the Commission amounted to BF 2 257.6 million (ECU 53.4 million), i.e. BF 3 566 (ECU 84.36) per tonne.

	<u>BF million</u>	<u>ECU million</u>
Article 3 Aid to cover operating losses	2 257.6	53.4
<hr/> Total	<hr/> 2 257.6	<hr/> 53.4

Aid to cover operating losses amounting to FB 2 257.6 million was granted to the Campine coalfield, in order to make up, for each tonne produced, some of the difference between foreseeable average costs and returns. This mainly involves coal delivered to thermal power stations, the sales price of which is closely linked to the price of imported coal. The aid covers 83% of the foreseeable operating losses and thus meets the conditions of Article 3(1) of the Decision.

The aid to cover operating losses helps to facilitate the last phase of the restructuring of the coal industry, leading to the closure of the last remaining pit by the end of 1992. It thus helps to solve social and regional problems connected with the decline in coal production, in line with the third indent of Article 2(1).

3.1.1.3. France

In 1991 the amount of direct aid authorized by the Commission totalled FF 1 153 million (ECU 165.3 million), i.e. FF 114.2 (ECU 16.36) per tonne.

	<u>FF million</u>	<u>ECU million</u>
Article 3 Aid to cover operating losses	1 153	165.3
<hr/> Total	<hr/> 1 153	<hr/> 165.3

The aid to cover operating losses makes up only 52% of the difference, for each tonne produced and for each region, between foreseeable average costs and returns and thus complies with Article 3(1) of the Decision. As in the case of Belgium, these average returns are closely linked with developments in the price of imported coal.

Since this is a degressive measure and forms part of a restructuring and rationalization plan, the aid fulfils the objectives and criteria defined in Article 2 of the Decision.

3.1.1.4. Spain

Direct aid authorized by the Commission for 1991 amounted to PTA 79 391 million (ECU 618.9 million), i.e. PTA 4 362 (ECU 34) per tonne.

	<u>PTA million</u>	<u>ECU million</u>
Article 3 Aid to cover operating losses	50 034.0	390.0
Article 5 Investment aid	1 440.0	11.3
Other measures Aid to defray part of the specific depreciation costs and other exceptional costs arising from restructuring measures	27 917.0	217.6
<hr/> Total	<hr/> 79 391.0	<hr/> 618.9

The aid to cover operating losses (PTA 50 034 million) is granted to the undertakings Hunosa, Figaredo and Minero Siderurgica Ponferrada (for the operation by the latter of Mina de la Camocha). It is intended to offset part of the difference between average foreseeable costs and average foreseeable revenue for each tonne produced. The aid does not exceed the foreseeable operating losses and therefore meets the conditions of the Article 3(2) of the Decision.

The aid to cover operating losses facilitates the process of restructuring the undertakings receiving the aid, in particular by staggering the closure of certain pits with no prospects of economic liability, in the context of regional industrial redevelopment policy. The aid thus helps to resolve social and regional problems related to developments in the coal industry, in accordance with the third indent of Article 2(1) of Decision No 2064/86/ECSC.

The investment aid (PTA 1 440 million) is intended for investment projects by various undertakings, the aim being to facilitate the implementation of the plan for the restructuring, rationalization and modernization of the Spanish coal industry notified to the Commission pursuant to Decision 90/198/ECSC (see point 3.1.2.2.4). This aid helps to improve the competitiveness of the Community coal industry, in accordance with the first indent of Article 2(1) of the Decision.

In order to facilitate the implementation of the plan for the restructuring, rationalization and modernization of the coal industry, the Spanish Government has established a provision to defray (by means of a financial measure totalling PTA 27 917 million) part of the specific depreciation costs and other exceptional costs arising from the strategic plans of undertakings not covered by contracts. This measure facilitates the process of restructuring the coal industry and also helps improve the competitiveness of the Community coal industry as a result of the closure of

production capacity with no long-term prospect of economic viability, in accordance with the criteria and objectives of Article 2 of Decision 2064/86/ECSC. As a provision is involved, the Spanish Government is to notify the Commission each year of the amounts of aid actually paid, the mines receiving the payments and the capacity reductions involved.

3.1.1.5 Portugal

In 1991 the Commission authorized the granting of aid totalling ESC 803.8 million (ECU 4.5 million) to cover operating losses, i.e. ESC 2 871 (ECU 19.40) per tonne.

		<u>ESC million</u>	<u>ECU million</u>
Article 3	Aid to cover operating losses	803.8	4.5

This aid is to cover the difference between the foreseeable average costs and returns for a total of 0.232 million tonnes. The aid does not exceed foreseeable operating losses and hence meets with the conditions laid down in Article 3(1) of the Decision.

This measure is designed to help implement the strategic plan of the undertaking in question in the period from 1990 to 1994 when its total closure is planned. It is intended to help resolve the social and regional problems related to developments in the coal industry, in accordance with the third indent of Article 2(1) of Decision No 2064/86/ECSC.

3.1.1.6. United Kingdom

According to information received from the United Kingdom Government, no aid to current production will be granted in respect of 1991. This is in line with UK policy which, following the restructuring of the British Coal Corporation, provides for no further aid for current production before the expiry of Decision 2064/86/ECSC.

3.1.2 Indirect Aid

In this report, financial measures which, although generally granted to an economic activity other than coal production, are of benefit to coal undertakings, are regarded as indirect aid. Such measures are included in the definition set out in Annex 2 to Decision No 2064/86/ECSC, namely, "any other measures linked to the production or marketing of, and external trade in, coal even if they do not directly impose a burden on public budgets, which give an economic advantage to coal undertakings".

In this context, the Commission takes the view that several financial mechanisms and types of aid must be regarded as indirect aid for current production.

This is the case with the aid to finance systems of social welfare contributions specific to the coal industry in force in some Member States where the aid makes the effective social security burden of the coal undertakings lower than the costs that the undertakings would normally have to bear in comparison with other industries.

Research, development and demonstration activities are also regarded as indirect aid where they help to promote innovations in the undertaking receiving the aid.

In most coal-producing Member States, coal producers and electricity producers have concluded coal-supply agreements or contracts. Some agreements or contracts in force in 1991 include pricing methods which do not necessarily reflect market realities. The Commission has undertaken as complete a study as possible of these agreements and contracts, to highlight any financial-aid element detected. The agreements and contracts proper are currently being examined in detail by the Commission departments, to assess their compatibility with the rules of the Treaties.

Where it has a direct influence on the level of domestic prices, a quantitative import restriction can also be regarded as indirect aid. In the absence of accurate information on the impact of such measures, however, they are not listed here.

3.1.2.1. Indirect Aid to Production

3.1.2.1.1. Germany

The notification submitted to the Commission indicates that the State aid for social security systems in the mining industry as a whole makes the effective social security burden of coal undertakings lower than the normal burden that undertakings would have to bear under Article 7 of the Decision, as indicated at 3.2.1.1 below. The difference for the mining industry as a whole amounts to DM 338 million, of which about 80% (i.e. DM 270.4 million) is for the coal industry.

As a result, the limits laid down in Article 7 of the Decision are exceeded by that amount, which must therefore be regarded as indirect aid to current production. In effect, the production costs of undertakings are reduced by DM 3.70 per tonne, i.e. 1.4% of total production costs.

State aid for social security systems in the mining industry as a whole applies to all forms of mine (coal, ore, salt, etc.). The 1.4% reduction in production costs does not constitute a significant competitive advantage for the German coal industry compared with other Community coal producers, since the returns do not cover the production costs.

Since this measure helps to alleviate the social problems mentioned in the third indent of Article 2(1) of the Decision, it was authorized by the Commission.

3.1.2.1.2. Belgium

The Commission authorized aid amounting to BF 37.7 million to cover expenditure on the additional leave scheme for underground miners. The effect of this measure is to reduce slightly the cost price per tonne (by less than 1%); in view of the accelerated decline in the level of production, this does not confer a competitive advantage. In view of the low level and temporary nature of this aid and the fact that it forms part of a restructuring plan, it fulfils the objectives and conditions set out in Article 2 of the Decision.

The notification sent to the Commission regarding the financing of social benefits in the coal industry, detailed at 3.2.1.3 below, shows that the aid which the Belgian Government planned to grant in this connection made the ratio between the charges per active miner and the benefits per recipient lower than the corresponding ratio in other industries. The difference amounts to BF 292.7 million.

The limits laid down in Article 7 of the Decision are accordingly exceeded by this amount, which must be considered as indirect aid for current production. The resulting reduction in production costs (some 6%) does not constitute a significant competitive advantage for the coal industry compared with other Community coal producers, given the abnormally high level of charges in the Belgian coal industry as a result of the major cutback in production. The link between this measure and the restructuring programme contributes to the solution of social and regional problems related to changes in the coal industry in accordance with the third indent of Article 2(1) of the Decision.

3.1.2.2. Indirect Aid to Consumption

This section describes the pricing methods in contracts and agreements between coal producers and electricity producers. Where appropriate, the extent of the financial aid is also highlighted where it can be quantified.

3.1.2.2.1. Germany

In Germany, the financial compensation and price mechanism for sales of both German and Community coal to the electricity industry, including sales provided for in the "Jahrhundertvertrag", are governed by the third Electricity-from-coal Law.¹¹

The German Government has provided the Commission with information suggesting that by 1997 production of coal for thermal power stations will be reduced by 5.9 million tonnes of coal equivalent; the reduction in production will be achieved by closing down the production units making the biggest losses.

After examining this information, on 25 November 1992 the Commission authorized compensatory payments totalling DM 5 000 million to cover current expenditure in respect of the compensation fund under the third German Electricity-from-coal Law for 1991 and 1992 and additional compensatory payments under that Law for 1989 and 1990.

In authorizing the payments, the Commission made it clear that the authorizations would cease to have legal effect beyond the date on which Decision No 2064/86/ECSC expires.

3.1.2.2.2. France

In France, EDF's purchases of coal and electricity from Charbonnages de France are governed by a protocol dating back to the end of 1987 and covering the period 1989-1993.

The quantities of national coal and electricity covered by the protocol are on a declining scale, as follows:

<u>Coal</u>	<u>Electricity</u>
1989 = 2.30 million tonnes	7.92 TWh
1990 = 2.19 million tonnes	7.24 TWh
1991 = 2.09 million tonnes	6.68 TWh
1992 = 1.81 million tonnes	6.13 TWh
1993 = 1.81 million tonnes	5.97 TWh

The minimum ex mine price is set some 10% higher than the cost of imported coal.

¹¹ COM(88) 541, 20.10.1988, point 4.1.2.2.1.

The quantities of electricity covered by the contract equate to 3 500 hours of utilization of CdF coal-fired power stations a year. The electricity supplied on these terms is subject to the same tariffs as EDF applies to private generation. The price charged for any additional quantities purchased corresponds to the accounting cost of nuclear power stations in operation.

The guaranteed supply provided for by the contract and the fact that collieries stock coal in order to be able to satisfy EdF demand at very short notice are quid pro quos for the 10% surcharge. It does not appear, therefore, from the information at the Commission's disposal, that this mechanism contains direct or indirect financial aid to the coal industry.

3.1.2.2.3. United Kingdom

Since the 1990/91 financial year, deliveries of national coal are covered by a new three-year agreement signed at the end of 1989. The contracting parties are the British Coal Corporation, National Power and PowerGen.

Deliveries of coal to the electricity-generating industry covered by the contract amounted to 70 million tonnes in 1990/91 and 1991/92 and 65 million tonnes in 1992/93. The price is staggered as follows:

- UKL 45.40/tonne ex-mine for the first 40 million tonnes in each of the three years;
- UKL 36.80/tonne ex-mine for the next 30 million tonnes in the first two years and the next 25 million tonnes in the third year.

A similar agreement has been concluded between Scottish Power and the British Coal Corporation, the deliveries being made from the Scottish coalfield. This agreement covers the period from 1990 to March 1995. Deliveries of coal to the Longannet power complex amounted to 2.5 million tonnes for the 1990/91, 1991/92 and 1992/93 financial years, and may vary between a minimum of 2 million tonnes and a maximum of 2.5 million tonnes in 1993/94 and 1994/95. These deliveries thus correspond to about 60% of the needs of the power stations in question. For the 1991/92 financial year, the average price paid by electricity generators was UKL 43.36/tonne, compared with UKL 43.77/tonne for 1990/91.

3.1.2.2.4. Spain

A system of awarding contracts for the supply of coal to thermal power stations (NSCCT) was concluded in 1986 between CARBUNION, the association of coal producers, and UNESA, the electricity producers' association. This agreement stipulates that all producers or groups of producers with underground production in excess of 50 000 tonnes a year may conclude long-term contracts with the electricity producers at a reference price.

Mining companies with production costs in excess of the reference price may charge the electricity producers a supplement covering the difference between their production costs (excluding depreciation) and the reference price. The surcharge paid by the electricity producers is reimbursed through the OFICO compensation fund set up by the electricity producers. This price supplement only covers coal produced in underground mines.

As requested by the Commission in Decision 90/198/ECSC,¹² in 1991 the Spanish Government submitted a plan to reduce the compensatory payments made under the OFICO scheme and an outline plan for the restructuring, rationalization and modernization of undertakings in the part of the Spanish coal industry covered by the OFICO scheme.

The outline plan provides for a reduction in production capacity of around 1.9 million tonnes by 1993.

After examining the plans, the Commission authorized a compensatory payment to electricity producers through the OFICO compensation fund totalling PTA 6 208 million for 1991. Authorization does not prejudice the compatibility of the new system of awarding contracts for the supply of coal to thermal power stations with the provisions of the EEC and the ECSC Treaties; the system is at present being examined in detail by the Commission departments in the light of the completion of the internal energy market.

3.2. Financial Aid not related to Current Production

Under Decision No 2064/86/ECSC, aid granted on the basis of Articles 7 and 8 is regarded as aid not related to current production. Research, development and demonstration activities are also included in this category, provided they do not affect the production costs of the industry in the country in question. In 1991 aid amounted to ECU 9 123.0 million, compared with ECU 8 894.8 million in 1990.

Table 7

Financial Aid not related to Current Production

		<u>million ECU</u>	
		<u>1991</u>	<u>1990</u>
Article 7	Social benefits	7 810.4	7 797.3
Article 8	Inherited liabilities	1 312.6	1 097.5
<hr/>		<hr/>	
Total		9 123.0	8 894.8
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¹² OJ L 105, 25.4.1990.

3.2.1. Financial Aid for Social Benefits

Under Article 7 of the Decision, State aid to finance social benefit schemes specific to the coal industry may be considered compatible with the common market provided that, for coal undertakings, it brings the ratio between the burden per mineworker in employment and benefits per person in receipt of benefit into line with the corresponding ratio in other industries. The excess levels noted in Germany and Belgium were considered to be indirect aid for current production in sections 3.1.2.1.1 and 3.1.2.1.2.

3.2.1.1. Germany

In 1991 DM 10 800 million was allocated to cover the deficit of the disability and old-age pension scheme in the mining industry as a whole. Some 80% of this amount, i.e. DM 8 640 million, went to the coal industry. The Commission's examination showed, as mentioned in section 3.1.2.1.1., that the limits laid down in Article 7 of the Decision were exceeded, since the financing of sickness insurance for those entitled to a pension under the miners' insurance schemes was changed by the Finance Laws of 1983 and 1984. Contributions to the miners' sickness insurance fund are now covered in part by the sickness insurance scheme by way of equalization of burdens.

3.2.1.2. France

According to the French Government's notification, social benefit payments amounted to FF 13 574.7 million in 1991. Details of this aid are given below.

<u>Origin</u>	<u>Amount of Aid</u> <u>(in FF million)</u>	<u>Purpose</u>
State	3 621.0	Disability and old-age pension insurance Regular contribution amounting to 22% of the total wage-bill plus additional State adjustment
General system	3 933.0	Disability and old-age pension insurance Regular statutory contribution to cover part of the "exceptional expenditure"
General system	1 751.0	Insurance against industrial accidents and occupational diseases Coverage of inherited liabilities

General system	2 081.0	Sickness insurance Treatment benefits
General system	2 188.7	Disability and old-age pension insurance "Exceptional expenditure" in the coal industry within the meaning of Article 7 of Decision No 2064/86/ECSC
Total	13 574.7	

The abovementioned aid complies with the provisions of Article 7(1) of the Decision.

3.2.1.3. Belgium

As can be seen from the table below, the financial aid granted to the Belgian coal industry for social benefits amounts to BF 29 503.3 million.

<u>Origin</u>	<u>Amount of Aid</u> (in BF million)	<u>Purpose</u>
State	24 803.8	Old-age pension and survivor's pension insurance Regular statutory contribution
State	4 699.5	Disability insurance Disability pension
Total	29 503.3	

As mentioned in section 3.1.2.1.2., examination by the Commission showed that the limits laid down in Article 7 of the Decision had been exceeded by BF 292.7 million. This is explained by the constant fall in the ratio between active workers and benefit recipients as a result of the measures to cut the workforce connected with implementation of the restructuring plan.

3.2.1.4. United Kingdom

In the United Kingdom nearly all branches of industry have their own insurance system (in addition to the general social insurance scheme, which also applies to the coal industry) from which pensions are paid to retired workers. A supplementary system of this kind also exists for the coal industry in the form of a retirement fund. The British Government notified the Commission that the system whereby the State made a contribution covering the deficit of the miners' retirement fund had been discontinued from the 1990/91 financial year.

3.2.1.5. Spain

Notified public financial aid to the Spanish coal industry for social benefit payments amounted to PTA 105 366 million in 1991.

<u>Origin</u>	<u>Amount of Aid (in PTA million)</u>	<u>Purpose</u>
State	87 553	Old-age pension
State	3 486	Temporary disability
State	1 056	Temporary invalidity and rehabilitation insurance
State	11 621	Health service
State	242	Miscellaneous (family benefits, social services, social welfare, one-off payments, prostheses, wheelchairs)
State	1 408	Administrative costs
<hr/>		
Total	105 366	
<hr/>		

The above financial aid complies with Article 7(1) of the Decision.

3.2.2. Financial Aid to cover Inherited Liabilities

In accordance with Article 8 of the Decision, State aid to undertakings to cover the costs arising from restructuring which are not related to current production may be considered compatible with the common market provided that it does not exceed such costs. The categories of costs regarded as inherited liabilities are set out in Annex 1 to Decision No 2064/86/ECSC.

3.2.2.1. Germany

For 1991 Germany notified the following measures:

- Aid to cover water control DM 232.6 million
- Aid in the form of allocations covering the costs of early retirement and exceptional intrinsic depreciation resulting from restructuring DM 275.1 million

Total DM 507.7 million (=ECU 247.5 million)

All the above costs constitute inherited liabilities since they are the result of production capacity closures in previous years and are thus not related to current production.

The aid for water control costs, amounting to DM 232.6 million, is paid to coal undertakings to enable them to cover the inherited liabilities arising from closures since 31 December 1966. As a result of pit closures, the undertakings were forced to pay constantly increasing amounts to the water-management associations. The aid does not exceed the real extra costs borne by the undertakings.

The above measures therefore comply with Article 8(1) of the Decision.

3.2.2.2. Belgium

The Belgian Government notified the Commission of aid totalling BF 51.5 million (ECU 1.2 million) to cover mining damage arising from the closure of the workings of the Kempense Steenkolenmijnen (Campine coalfield). The aid does not exceed actual costs and therefore meets the criteria of Article 8(1) of the Decision.

3.2.2.3. France

In 1991 the French Government granted aid totalling FF 5 415 million (ECU 783.2 million) to cover the inherited liabilities of Charbonnages de France. This sum is intended to allow the following costs to be covered:

- excess cost of early retirement	FF 2 350.0 million
- conversion costs	FF 725.0 million
- early retirement, interim pensions and housing allowances	FF 1 015.0 million
- costs of pit closures or dismantling of installations	FF 225.0 million
- residual charges/depreciation and servicing of loans transferred to the Central Office	FF 1 085.0 million
- general research	FF 15.0 million
<hr/>	
Total	FF 5 415.0 million
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This aid breaks down between the coalfields and Central Office as follows:

- Nord-Pas de Calais	FF 1 008.0 million
- Lorraine	FF 358.0 million
- Centre Midi	FF 327.0 million
- Central Office	FF 842.0 million
- ANGR (responsible for administration of retired miners on behalf of the employer)	FF 2 880.0 million

The actual costs to Charbonnages de France tally with the amount of aid and are thus consistent with Article 8(1) of Decision No 2064/86/ECSC.

3.2.2.4. Spain

Spain notified the Commission of the following measure for 1991: establishment of a provision totalling PTA 34 258 million to cover exceptional social expenditure in the form of payments to workers made redundant before 31 December 1993 following measures to restructure, rationalize and modernize the industry.

The Commission concluded that the provision should be regarded as an inherited liability, in accordance with Article 8 of Decision No 2064/86/ECSC. As the establishment of a provision is concerned, the Spanish Government is to inform the Commission each year of the allowances actually paid, the volume of aid involved and the number of recipients, in order to ensure that the conditions of Article 8 are met.

3.2.2.3. United Kingdom

The United Kingdom notified the following measure for 1991:

- aid for miners losing their jobs following restructuring	UKL	9.6 million
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This is a social measure arising out of pit closures. The aid does not exceed the actual costs and therefore meets the criteria of Article 8(1) of the Decision.

4. Conclusions

The panorama of the Community coal industry portrayed in this document follows on from the conclusions reached in the 1990 Report. The 1991 Report stresses once again the differences in the economic performance of the various Community undertakings, the variety of mechanisms established by the Member States to support the coal industry, and the differences of approach to restructuring in the various coal-producing Member States.

Similarly, although the statistics available do not make it possible, for the abovementioned reasons, to make a detailed comparative analysis, the broad trends observed in recent years would seem to be borne out, namely a reduction in the aid granted in certain Member States, compared with a slight levelling-off in aid in other Member States.

However, we should not underestimate the significant progress made with the implementation of Community policy concerning State aid to the coal industry. In this respect, satisfaction can be drawn from the decisive course that the restructuring process seems to be taking in Spain.

Discussions are also under way between the Commission and the German Government to phase out aid more quickly.

The restructuring of the coal industry is therefore proceeding, to varying extents, in all Member States, but it nevertheless seems certain that the process will not be completed by the time Decision 2064/86/ECSC expires, and that new Community rules for State aid will have to be introduced. The experience acquired with the implementation of Decision 2064/86/ECSC indicates that it would be desirable, not only because of the differences between and the lack of transparency of certain aid systems in force, but also in view of the disturbing trend in the amount of aid granted in certain Member States, that the new rules should tighten up the Community arrangements.

In its Mid-term Report on the Application of Decision 2064/86/ECSC,¹³ the Commission therefore proposed certain priority objectives for the new aid rules, namely greater transparency for the systems in force, in particular by charging the aid to public budgets, gradually reducing the amounts of aid granted in order to make the industry more competitive, and placing a ceiling on subsidizable costs by establishing a reference price or cost for Community coal. This would make it possible to reduce the excessively large gap between the production costs of the various Community undertakings and thus create the necessary conditions for healthy intra-Community competition.

This change, which is in line with the basic objectives of the ECSC Treaty, is now also essential as part of the completion of the internal energy market, since opening up the electricity market cannot produce all the beneficial effects anticipated if power stations cannot be supplied in acceptable conditions of competition.

However, the Commission maintains that Community coal has a role to play as part of Community policy in relation to security of supply, and that it is therefore logical that this contribution should be remunerated. However, it has serious reservations about measures which, in the name of the principle of national security of supply, seek to keep alive artificially production capacities whose costs are more than twice the price of imported coal. The future of the Community coal industry will inevitably entail the closure of such extremely loss making capacity since, ultimately, an improvement in Community production's external competitiveness will be the best guarantee of security of supply.

This necessary change in the coal industry should not, however, be achieved at the expense of other Community objectives, e.g. economic and social cohesion. The Commission will pay attention to this factor, and to this end intends to continue to encourage efforts to achieve industrial diversification and social adjustment in the declining coal regions.

¹³ SEC(91)1983 final, 11.11.1991.

Financial aid linked to current production in the coal industry

Country: Belgium

	ECU million		ECU/tonne	
	1991	1990	1991	1990
<u>Direct</u>				
Article 3 : Deficit grant aid	53.4	70.3 ¹	84.36	68.59
Article 4 : Sales aid	-	-	-	-
Article 5 : Investment aid	-	-	-	-
Article 6 : Aid for underground staff	-	-	-	-
Other	-	-	-	-
Subtotal	53.4	70.3	84.36	68.59
<u>Indirect</u>	7.8	10.3	12.32	10.04
TOTAL	61.2	80.6	96.68	78.63

1 Including the additional aid authorized under Decision 92/115/ECSC of 27 November 1991 (OJ L 43, 19.2.1992).

Financial aid linked to current production in the coal industry

Country: Germany

	ECU million		ECU/tonne	
	1991	1990	1991	1990
<u>Direct</u>				
Article 3 : Deficit grant aid	209.6	221.2	2.88	2.89
Article 4 : Sales aid	1 656.7	1 730.1	22.76	22.59
Article 5 : Investment aid	-	-	-	-
Article 6 : Aid for underground staff	66.8	74.1	0.92	0.97
Other	-	9.7	-	0.13
Subtotal	1 933.1	2 035.1	26.55	26.58
<u>Indirect</u>	2 569.6	2 537.0	35.30	33.12
TOTAL	4 502.7	4 572.1	61.85	59.70

Financial aid linked to current production in the coal industry

Country: Spain

	ECU million		ECU/tonne	
	1991	1990	1991	1990
<u>Direct</u>				
Article 3 : Deficit grant aid	390.0	386.6	21.43	20.42
Article 4 : Sales aid	-	10.8	-	0.57
Article 5 : Investment aid	11.3	-	0.62	-
Article 6 : Aid for underground staff	-	-	-	-
Other	217.6	-	11.95	-
Subtotal	618.9	397.4	34.00	20.99
<u>Indirect</u>	48.5	101.8	2.66	5.38
TOTAL	667.4	499.2	36.66	26.37

Financial aid linked to current production in the coal industry

Country: France

	ECU million		ECU/tonne	
	1991	1990	1991	1990
<u>Direct</u>				
Article 3 : Deficit grant aid	165.3	166.2	16.36	15.39
Article 4 : Sales aid	-	-	-	-
Article 5 : Investment aid	-	-	-	-
Article 6 : Aid for underground staff	-	-	-	-
Other	-	-	-	-
Subtotal	165.3	166.2	16.36	15.39
<u>Indirect</u>	-	-	-	-
TOTAL	165.3	166.2	16.36	15.39

Financial aid linked to current production in the coal industry

Country: United Kingdom

	ECU million		ECU/tonne	
	1991	1990	1991	1990
<u>Direct</u>				
Article 3 : Deficit grant aid	-	-	-	-
Article 4 : Sales aid	-	-	-	-
Article 5 : Investment aid	-	-	-	-
Article 6 : Aid for underground staff	-	-	-	-
Other	-	-	-	-
Subtotal	-	-	-	-
<u>Indirect</u>	-	-	-	-
TOTAL	-	-	-	-

Financial aid linked to current production in the coal industry

Country: Portugal

	ECU million		ECU/tonne	
	1991	1990	1991	1990
<u>Direct</u>				
Article 3 : Deficit grant aid	4.5	4.6	19.40	20.24
Article 4 : Sales aid	-	-	-	-
Article 5 : Investment aid	-	-	-	-
Article 6 : Aid for underground staff	-	-	-	-
Other	-	-	-	-
Subtotal	4.5	4.6	19.40	20.24
<u>Indirect</u>	-	-	-	-
TOTAL	4.5	4.6	19.40	20.24

Financial aid linked to current production in the coal industry

Community

	ECU million		ECU/tonne	
	1991	1990	1991	1990
<u>Direct</u>				
Article 3 : Deficit grant aid	822.8	848.9	4.26	4.24
Article 4 : Sales aid	1 656.7	1 740.9	8.57	8.70
Article 5 : Investment aid	11.3	-	0.06	-
Article 6 : Aid for underground staff	66.8	74.1	0.35	0.37
Other	217.6	9.7	1.13	0.05
Subtotal	2 775.2	2 673.6	14.37	13.36
<u>Indirect</u>	2 625.9	2 649.1	13.58	13.25
TOTAL	5 401.1	5 322.7	27.95	26.61

Financial aid not linked to current production

(ECU million)

	Financing of social benefits in the coal industry				Inherited liabilities			
	Total		Excess aid		Total		Excess aid	
	1991	1990	1991	1990	1991	1990	1991	1990
Belgium	698.7	968.3	6.9	7.7	1.2	1,2	-	-
Germany	4 344.1	4 084.0	131.8	150.7	247.5	200,6	-	-
Spain	821.0	758.2	-	-	267.0	-	-	-
France	1 946.6	1 986.8	-	-	783.2	792.2	-	-
Portugal	-	-	-	-	-	-	-	-
United Kingdom ¹	-	-	-	-	13.7	103.5	-	-
Community	7 810.4	7 797.3	138.7	158.4	1 312.6	1 097.5	-	-

¹ The United Kingdom has an integrated social security system. The figures shown above cover only the special miners' pension fund, which exists alongside the general social security system.

COM(93) 116 final

DOCUMENTS

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Catalogue number : CB-CO-93-143-EN-C

ISBN 92-77-53907-0

Office for Official Publications of the European Communities
L-2985 Luxembourg