

COMMISSION OF THE EUROPEAN COMMUNITIES

SEC(88) 1590 final

Brussels, 11 November 1988

MEMORANDUM

ON THE FINANCIAL AIDS GRANTED BY SPAIN AND PORTUGAL TO THE COAL INDUSTRY IN
1986

(Communication from the Commission to the Council)

(presented by the Commission)

REASONS FOR THE DOCUMENT

Commission decision n° 528/76/ECSC of 25 February 1976 created the basis for a Community system of measures to be taken by the Member States to assist the coal-mining industry. Pursuant to this decision the Member States must provide the Commission with information on any financial measures they intend to introduce in favour of the coal-mining industry. Under Article 3 of decision N° 528/76/ECSC, the Commission must examine the measures; were appropriate they may be authorized.

The annexed Memorandum describes the financial measures which Spain and Portugal wish to introduce in favour of the coal-mining industry in 1986, and analyse them in respect of their compatibility with Decision N° 528/76/ECSC.

The conclusion reached is that the measures notified for 1986 are compatible with the provisions of Decision N° 528/76/ECSC and that the smooth functioning of the Common Market is not impaired.

The document has been produced for the Commission Council consultation procedure. After consultation with the Council, the Commission may authorize the aid planned for 1986 in accordance with Article 4 to 12 of Decision n° 528/76/ECSC.

SUMMARY

This Memorandum examines the financial aid granted to the coal industry by Spain and Portugal in 1986 from the point of view of its compatibility with the provisions of Commission Decision N° 528/76/ECSC (1) and with the proper functioning of the Common Market.

The Commission comes to the following conclusions :

Energy market trends showed no increase in coal consumption in 1986. Falling world market coal prices combined with the declining dollar have eroded the competitive position of Community coal.

The aids for current production envisaged by Spain and Portugal in 1986 are compatible with Articles 7 to 12 of Decision N° 528/76/ECSC and with the proper functioning of the Common Market, as set out in Article 3 of the Decision.

(1) Official Journal of the European Communities N° L 63 of 11 March 1976, Page 1

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Chapter I

Introduction

1. This memorandum examines the financial aids planned by the Spanish and Portuguese Governments for the coal industry in 1986.
2. This report for Spain and Portugal follows the same pattern as the report for four other Member States.¹ The main section is devoted to the economic and financial problems facing undertakings. The Annex outlines the individual measures and examines their compatibility with Decision No 528/76/ECSC. Tables 1 and 2 in the Annex contain quantitative data on the six Member States of the Community which planned measures to assist their coal industries.
3. Pursuant to Article 2 of Decision No 528/76/ECSC the Commission was notified of the measures planned for 1986:
 - by the Spanish Government, on 8 July and 22 December 1986,
 - by the Portuguese Government, on 9 October 1986 and 10 April 1987.

¹Doc. COM(88)13 final, 22.1.1988.

(Memorandum of the Commission on the financial aids granted by the Federal Republic of Germany, France, Belgium and the United Kingdom to the coal industry in 1986)

4. Economic data disclosed to the Commission in the reports from the two Member States that are covered by the professional secrecy obligation imposed by Article 47 of the ECSC Treaty are not included in this memorandum.

Chapter II

Situation of the Spanish coal industry and financial aid by the Spanish Government

1. Situation of the Spanish coal industry

This memorandum describes only the principal features of the situation in the Spanish coal industry with a significant bearing on the granting of aids in 1986.

In 1986 about 240 undertakings in Spain produced 21.8 million tonnes of coal:

15.9 million t of hard coal
5.9 million t of subbituminous coal²
21.8 million t

Of these undertakings six are state-owned and the others are in the private sector. Only 36 undertakings have an annual production capacity greater than 100 000 t, of which ten more than 500 000 t. About 140 undertakings produce less than 25 000 t per year each. The seven largest undertakings are:

	<u>Output in 1986</u>	'000 t
1. Hunosa (state-owned)	3 600	
2. Endesa (state-owned)	1 800 (subbituminous coal)	
3. Minero Siderúrgica de Ponferrada S.A.	1 700	
4. Encasur (state-owned)	1 700	
5. SAMCA	1 200 (subbituminous coal)	
6. Vasco-Leonesa	1 100	
7. Utrillas	1 000 (subbituminous coal)	

The geological conditions are difficult for mining, with a preponderance of narrow seams (especially for anthracite extraction), faults and impurities. Productivity in the Spanish coal industry in 1986 was 292 kg per man/hour, about 40% below the Community average.

Trade in coal between Spain and the other Member States is very small. In 1986 Spain sold only 5 000 tonnes of coal to other Member States and imported 26 000 tonnes from the rest of the Community.

²In accordance with the Commission communication of 11 October 1986 (OJ No C 254) subbituminous coal is considered as hard coal within the meaning of the ECSC Treaty.

Coal supply in 1986 amounted to 31 million t, of which about 22 million t of domestic production, 26 000 t purchased in the Community and 8.5 million t imported from outside the Community.

As to consumption, about 21 million t were delivered to power stations and 4 million t to coke ovens, the remainder going to industrial and household consumption.

The financial situation of the undertakings varies widely and they are too numerous for a detailed discussion here.

2. Financial aid granted to the coal industry by the Spanish Government in 1986

As shown in the Annex (page A/5) the Spanish Government granted aid to cover operating losses to four undertakings in 1986. Without that aid the undertakings would have had to close, which would have caused extremely serious social and regional problems. Investment aid to several undertakings was also granted.

Total aid to the Spanish coal industry in 1986 (table 2 in the Annex) amounted to 262.2 million ECU, of which 5.9 million ECU for investment aid, 210.8 million ECU for subsidies to cover operating losses, 43.0 million ECU for aids to coking coal and 2.5 million ECU for grants to cover differences between real and standard social security burdens.

The compatibility of these direct aids for current production with the Decision as a whole is examined in the Annex (pages A/3 et seq). Compatibility with the proper functioning of the common market in accordance with Article 3(1) of the Decision is considered here.

3. Compatibility of the aids granted in 1986 to the Spanish coal industry with the proper functioning of the common market

(a) As mentioned above, there was very little trade in coal in 1986 between Spain and the other Community countries. It can therefore be said that the aids granted by Spain in 1986 did not cause any distortion to competition in the coal sector.

(b) Pit closures in 1986 under the rationalization programme concentrated extraction in the pits with highest productivity.

(c) The list prices for Spanish coal were as follows (in national currency per tonne):

	<u>1.1.1986</u>	<u>1.7.1986</u>	<u>1.1.1987</u>
Oviedo PTA ³	16 061	16 061	16 061
León PTA ⁴	17 000	17 000	17 000
León PTA ⁵	16 000	16 000	16 000

As the table shows, the list prices for Spanish coal did not move in 1986. But the following table shows how world coal prices in USD fell; the effect, when expressed in national currency, was further accentuated by the decline in the dollar.

³High-volatile bituminous coal - nuts 2.
⁴Anthracite - nuts 3.
⁵Low-volatile coal - nuts 3.

Table: Imported coal prices

USD

Quarterly average	Power-station coal ⁶ Tonne coal equivalent = 29 308 KJ/kg (free-at-frontier cif prices per tonne)	Reporting date	Coking coal ^{7, 8}
IV 1985	52.45	2.01.1986	61.90
I 1986	50.20	1.04.1986	61.90
II 1986	49.35	1.07.1986	58.20
III 1986	47.80	1.10.1986	57.10
IV 1986	45.85	2.01.1987	56.85

(d) Final appraisal as regards the proper functioning of the common market

In view of the foregoing considerations, the Commission concludes that the aids granted in 1986 by the Spanish Government did not disturb the proper functioning of the common market.

⁶Decisions Nos 77/707/ECSC and 85/161/ECSC.

⁷Decision No 73/287/ECSC.

⁸Standard quality: 5% water, 6% ash, 24% volatile matter.

Chapter III

Situation of the Portuguese coal industry and
financial aid by the Portuguese Government

1. Situation of the Portuguese coal industry

This memorandum describes only the salient features of the situation of the Portuguese coal industry with a significant bearing on the granting of aid in 1986.

The state-owned undertaking Empresa Carbonifera do Douro Sarl (ECD) in the northern coalfield of Durico-Beira is the only large producer, accounting for 95% of Portuguese coal output; 5% is produced by the opencast mine operated by Terriminas at S. Pedro da Cova, in the north of the Durico-Beira coalfield. In 1986 ECD produced 210 500 tonnes of coal to supply the power station at Tapada do Outeiro, only a few kilometres from the pit.

Geological conditions for mining are very poor, with semi-vertical deposits, highly variable ground thrusts, laterally and vertically irregular coal seams, etc., which make extraction highly labour-intensive.

Productivity in 1986 was 2 165 kg of raw coal per man/shift, less than the Community average.

Trade in coal between Portugal and the other Community countries is negligible: Portugal sells no coal to the other Member States and in 1986 bought 255 000 tonnes from them.

Supplies of coal in 1986 stood at 2.0 million tonnes, of which 250 000 tonnes of domestic production, 255 000 tonnes from other Member States and 1.5 million tonnes imported from outside the Community.

Of these supplies, 1.3 million tonnes went to power stations and 343 000 tonnes to coke ovens, the remainder being divided between industry and household use.

ECD's financial situation was considerably affected in 1986 by unfavourable factors such as the decline in the dollar and falling oil prices.

ECD's costs in 1986 amounted to 8 610 ESC/t against revenue of 5 439 ESC/t, making a loss of 3 171 ESC/t. Despite rationalization measures and a 6% productivity increase over the previous year, ECD was unable to generate enough additional revenue to cover its operating losses. The undertaking was unable to compete against imported coal without help and its survival depended on aid to cover its operating losses.

2. Financial aids for coal production granted by the Portuguese Government in 1986

As shown in the Annex (pages A/6 et seq.) ECD was to receive aid to cover operating losses in 1986. Without this aid it would have had to close down and the resulting very serious regional and social problems could not have been avoided.

As Table 2 in the Annex shows, aid for current production in 1986 amounted to 4.5 million ECU.

The compatibility of the direct aid for current production with the criteria of Decision No 528/76/ECSC is examined in the Annex (pages A/6 et seq.). Compatibility with the proper functioning of the common market in accordance with Article 3(1) of the Decision is considered here.

3. Compatibility of the financial aids granted in 1986 to the Portuguese coal industry with the proper functioning of the common market

- (a) As stated above, trade in coal between Portugal and the other Community countries in 1986 was negligible: Portugal sold no coal to the other Member States. Generally speaking, therefore, the aids granted by the Portuguese Government in 1986 did not disturb competition in the coal sector.
- (b) The Portuguese Government did not always notify its list prices for Portuguese coal to the Commission. For 1986 only the average price of marketable coal (4 651 ESC/t) was mentioned.
- (c) Final appraisal as regards the proper functioning of the common market

In view of the foregoing considerations, the Commission concludes that the aids granted by the Portuguese Government did not disturb the proper functioning of the common market in 1986.

CHAPTER IV

Conclusions

1. Having examined the matter, the Commission concludes that the aids granted by Spain and Portugal for current production in 1986 are compatible with Decision No 528/76/ECSC.
2. Falling world market coal prices and the declining dollar have together further eroded the competitiveness of Community coal.
3. Total aid granted by the six coal-producing Member States amounts to 3 291.6 million ECU (Community average: 14.08 ECU/t); if aids under Germany's Third Electricity-from-coal Law are included, the total is 4 700.1 million ECU (Community average: 20.10 ECU/t).¹⁰

⁹ COM(88)13 final of 22 January 1988, pp. 3 et seq.

¹⁰ Idem. p.7 and Table 2 in the Annex.

ANNEX

Survey of financial aids to the coal industry planned by Spain and
Portugal in 1986

Examination of the compatibility of the measures with
Decision No 528/76/ECSC

Annex

Page

Survey of financial aids to the coal industry
by Spain and Portugal in 1986, and examination
of their compatibility with Decision
No 528/76/ECSC

A. Spain

- I. Aids not related to current production A/1
- II. Aids for current production A/3

B. Portugal

- I. Aids not related to current production A/5
- II. Aids for current production A/6

Tables

Introduction

This Annex sets out the aids planned for 1986 by Spain and Portugal and examines their compatibility with the criteria of Decision No 528/76/ECSC.^{11, 12}

A. Spain

1. Aids not related to current production

These are social measures and aids to cover inherited liabilities stemming from pit closures in previous years.

(a) Description and assessment of financial aid measures in respect of social benefits

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.

This section is concerned with the amount of financial aid given in the social benefits sector and, as applicable, with the cases where the limits set in Article 4 of Decision No 528/76/ECSC were exceeded. The amounts in excess of the limits constitute an indirect aid for current production and must therefore be added to the aids granted under Articles 7 to 12 of the Decision.

According to the Spanish Government, central government payments assisting Spanish coal production in connection with social security benefits in 1986 were to total PTA 67 597 million or 494.4 million ECU. The details are shown in the following table.

¹¹ Aids per tonne in 1986 are based on the following production figures ('000 t; t = t):

- Spain: 21 800. This figure includes coal and subbituminous coal. Pursuant to the Commission communication of 11 October 1986 (OJ No C 254), subbituminous coal is considered as hard coal within the meaning of the ECSC Treaty;
- Portugal: 250.

¹² The following exchange rates (1986 average) were applied for converting into ECU the aids expressed in national currency:

- 1 ECU = PTA 137
- 1 ECU = ESC 147.

Source	Amount of subsidy PTA millions	Purpose
Central Government	55 583	Old age benefits
Central Government	2 859	Temporary incapacity for work
Central Government	581	Provisional invalidity and rehabilitation
Central Government	6 914	Health Service
Central Government	822	Miscellaneous: family benefits, social welfare, social assistance one-off payments, prostheses, wheelchairs
Central Government	838	Administrative costs
Total	67 597	

The Commission's examination has revealed that in Spain the limits set by Article 4 of Decision No 528/76 were exceeded, in that the real social security burden borne by the undertakings totalled PTA 348 million or 2.5 million ECU (1.5%) less than the normal burden defined in Article 4. The amount paid over this limit is regarded as an indirect aid for current production, since the undertakings' production costs are artificially reduced by too low a social security burden (PTA 16/tonne = 0.1% of total production costs).

Public subsidies in respect of social security benefits in the coal industry represent a general measure for the purposes of Article 67 of the ECSC Treaty. In the case of the Spanish coal industry, the 0.1% reduction in production costs does not give rise to any substantial competitive advantage against other Community coal producers if account is taken of the relationship between production costs and revenue. For this reason the overrunning by PTA 348 million of the limits laid down by Article 4 of the Decision may be authorized as a general measure within the meaning of Article 67 of the ECSC Treaty. Furthermore, this measure, in accordance with Article 12(1)(1) of the Decision, helps to prevent the major social and economic disturbances which pit closures would cause in a region where the possibilities of reemployment are still inadequate.

(b) Financial aids to cover inherited liabilities

For 1986 the Spanish Government did not notify any aids to cover inherited liabilities under Article 5 of the Decision.

II. Aids for current production

(a) Indirect aids for current production

The Spanish Government has not notified to the Commission any indirect aid for current production in 1986.

(b) Compatibility with Decision No 528/76 (Articles 7 to 12) of direct financial aids for current production in the Spanish coal industry

The Spanish Government planned to grant the following direct aids in 1986:

Legal basis Decision No 528/76/ECSC	Measure	Amount of aid			
		Total		Per tonne produced	
		m PTA	m ECU	PTA	ECU
Article 7(1) and (2)	Investment aid	694.2	5.1	32	0.25
Article 7(3)(3)	Promotion of innovation	115.0	0.8	5	0.04
Article 12	Covering operating losses	28 874.0	210.8	1 324	9.67
Total		29 683.2	216.7	1 361	9.94

The investment aids are fairly low and relate to corporate investment projects in underground workings. The investments are very much larger than the aid granted, which merely serves to improve the competitiveness of the pits and is therefore in accordance with Article 7(2) of the Decision.

Aids to cover operating losses concern four undertakings whose output in 1986 was as follows:

	<u>'000 tonnes</u>
Hunosa	3 654
Figaredo	230
La Camocha (M.B. de Ponderada)	316
Hullasa	<u>41</u>
Total	4 241

The direct aids to current production planned for these undertakings are shown in the following table.

Legal basis Decision No 528/76/ECBC	Measure	Amount of aid			
		Total		Per tonne produced	
		m PTA	m ECU	PTA	ECU
Article 7(2)	Investment aid	23.4	0.2	6	0.05
Article 7(3)(3)	Promotion of innovation	115.0	0.8	27	0.19
Article 12	Covering operating losses	28 874.0	210.8	6 808	49.71
Total		29 012.4	211.8	6 841	49.95
Of which:					
Hunosa		26 248.4	191.6	7 183	52.44
Figaredo		1 563.0	11.4	6 796	49.57
La Camocha		991.0	7.2	3 136	23.00
Hullasa		210.0	1.5	5 122	36.59

In 1986, besides these aids, the Spanish Government was to grant to the first three undertakings listed above an aid to coking coal of PTA 5800.0 million (43.0 million ECU) as aid to production under Decision No 73/287/ECBC.

The investment aid of PTA 694.2 million is for investment projects in the underground workings of several undertakings. The aid to the investments is less than the sum of the investment costs. Under Community policy for the coal industry this aid is regarded as beneficial in that it will improve the competitiveness of production by these undertakings. It complies with Article 7(2) of the Decision.

The whole subsidy of PTA 115.0 million to promote innovation was granted for the underground pits of Hunosa B.A. Its purpose is to ensure that research results are applied in practice in the production process as soon as possible. The aid is less than the costs borne by Hunosa (PTA 536 million) and was granted to a range of projects which will generate tangible economic advantages for the coal industry in the medium term.

Given its purpose and the amount involved, the subsidy complies with Article 7(3)(3) of the Decision.

The aid to cover operating losses (PTA 28 874.0 million) covers only part (70 to 95%) of the pit losses of the undertakings concerned and therefore complies with Article 12(2)(2) of the Decision. The aid granted was apportioned as follows:

Hunosa	PTA 26 133.4 million	7 152 PTA/t
Figaredo	PTA 1 539.6 million	6 694 PTA/t
La Camocha	PTA 991.0 million	3 136 PTA/t
Hullasa	PTA 210.0 million	5 122 PTA/t

The aid to cover operating losses was granted to these four undertakings in order to prevent the major social and economic disturbances which pit closures would cause in coalfields where the possibilities of reemployment are still inadequate. It is accordingly compatible with Article 12(1)(1) of the Decision.

(c) Compatibility of the aids to current production in the Spanish coal industry with the proper functioning of the common market

Aid for the Spanish coal industry in 1986 totalled 259.7 million ECU (= 11.91 ECU/t, see Table 2 attached). If the amounts in excess of the limits laid down in Article 4 of the Decision are added in, the aid totals 262.2 million ECU, or 12.02 ECU/t. The extent to which government aid to current production in Spain is compatible with the proper functioning of the common market is examined in the main part of this document (pages 4 et seq.).

B. Portugal

1. Aids not relating to current production

(a) Financial aids in respect of social security benefits

According to the Portuguese Government, there is no specific social benefit scheme for the coal mining industry, which is covered by the general social security system. Portugal did not report any public subsidy in this sector for 1986.

(b) Description and assessment of financial aids to cover inherited liabilities

The Portuguese Government has not notified the Commission of any aid under Article 5 to cover inherited liabilities in 1986.

II. Aids for current production

(a) Indirect aids for current production

The Portuguese Government has not notified to the Commission any indirect aid for current production in 1986.

(b) Compatibility of direct financial aid to current production in the Portuguese coal industry with Articles 7 to 12 of Decision No 528/76/ECSC

The Portuguese Government planned to grant the following direct aid for 1986:

Legal basis	Measure	Amount of aid			
		Total		Per tonne produced	
Decision No 528/76/ECSC		m EBC	m ECU	EBC	ECU
Article 12	Covering operating losses	667.2	4.5	3 170	21.38

This aid was solely for Empresa Carbonifera do Douro Barl (ECD), whose 1986 output amounted to 210 500 tonnes.

The aid to cover operating losses in 1986, EBC 667.2 million, was less than the losses recorded by ECD and therefore satisfied the criteria laid down in Article 12(2)(2) of the Decision.

The aid to ECD to cover operating losses was granted in order to prevent major social and economic disturbances in the Durico-Beira coalfield and the region of Castelo de Palva, where the possibilities of reemployment for mineworkers made redundant by pit closures are still inadequate. It is therefore compatible with Article 12(1)(1) of the Decision.

(c) Compatibility of the financial aid for current production in the Portuguese coal industry with the proper functioning of the common market

The aid for Portuguese coal production in 1986 amounted to 4.5 million ECU, or 18.00 ECU/tonne (Table 2 attached). For an assessment of the compatibility of the Portuguese aids for current production with the proper functioning of the common market, see the main part of this memorandum (p. 8).

Table 1

Aid not relating to current production

million ECU

	Social Security measures pursuant to Art. 4 of Decision No 528/76			Aids to cover inherited liabilities pursuant to Art. 5 of Decision No 528/76		
	Total		Excess aid	Total		Excess aid
	1985	1986	1986	1985	1986	1986
Federal Republic of Germany	3 058.3	3 257.3	223.1	70.2	63.4	-
Belgium	958.9	1 003.9	-	-	-	-
France	1 467.5	1 478.9	-	394.9	474.4	-
United Kingdom ¹	110.8	94.0	-	1 117.6	922.4	-
Spain	-	493.4	2.5	-	-	-
Portugal	-	-	-	-	-	-
Total for the Community	5 595.5	1 582.7	1 460.2	-

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

	Unit	Fed. Rep. of Germany	France	Belgium	United Kingdom	Portugal	Spain	Community
A. Aid under Decision 528/76								
1. Excess aid:								
- Article 4	m ECU	(223.1)	-	-	-	-	2.5	225.6
- Article 5	m ECU	-	-	-	-	-	-	-
Total excess aid per tonne of production	m ECU ECU	(223.1) (2.56)	- -	- -	- -	- -	2.5 (0.11)	225.6 0.96
2. Indirect aid								
per tonne of production	m ECU ECU	15.0 0.17	16.7 1.16	12.0 2.14	- -	- -	- -	43.7 0.19
3. Direct Aid								
- Article 7	m ECU	70.4	-	14.4	-	-	5.9	90.7
- Article 8	m ECU	86.4	-	0.3	26.9	-	-	113.6
- Article 10	m ECU	63.4	-	-	-	-	-	63.4
- Article 12	m ECU	-	506.4	133.6	433.1	4.5	210.8	1,288.4
Total per tonne of production	m ECU ECU	220.2 2.53	506.4 35.16	148.3 26.49	460.0 4.40	4.5 18.00	216.7 9.94	1 556.1 6.66
B. Coking coal aid (Dec 73/287)								
per tonne of production	m ECU ECU	1 274.2 14.16	- -	149.0 26.61	- -	- -	43.0 1.97	1 466.2 6.27
Total (A + B)								
Totals per tonne of production	m ECU ECU	1 509.4 17.31 ²	523.1 36.32	309.3 55.23	460.0 4.40	4.5 18.00	259.7 11.91 ²	3 066.0 13.12
Totals per tonne of production	m ECU ECU	(1 723.5) ² (19.87)	- -	- -	- -	- -	(262.2) ² (12.02)	3 291.6 ² (14.08)

¹ Estimates

² Including aid in excess of the limits laid down by Article 4 of Decision No 528/76/ECSC. Aid totalling DM 3 000 million (1 408.5 million ECU) was granted under the Third Electricity-from-coal Law. If this were added, German aid for current production would total 3 141.0 million ECU or 36.02 ECU/t and the Community total would be 4 700.1 million ECU or 20.10 ECU/t.