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Commission mid-term report to the Council on the application of
Decision No 2064/86/ECSC establishing Community rules for
State aid to the coal industry
during the period 1987-90

Resume

The report covers decision 2064/86/ECSC, which is the most recent of a series of Decisions taken by the ECSC, since 1965, to allow state aid by Member States to their coal industries. In fact, although the original ECSC Treaty declared that this type of aid was incompatible with the common market in coal (article 4), the necessity of such aid to restructure the mining industry, in order to adapt the level of production, was recognised by the ECSC in 1965. It was this recognition which led to the adoption of a number of decisions designed to allow the Commission to authorise all aid and subsidies which helped to achieve these objectives. However, these decisions were designed to be of a temporary nature only.

Article 16 of the decision 2064/86/ECSC required the Commission to submit to the Council a report, by the end of 1990, on the experiences and problems encountered in the application of the decision, and to propose, under the conditions laid down in the first paragraph of Article 95 of the ECSC Treaty, any modifications that could be appropriate. That is the objective of this report.

The decision, which expires on the 31st December 1993, stressed the need for further restructuring, modernisation and rationalisation measures for the coal industry, under acceptable regional and social conditions, in order to make the coal sector competitive again. In addition, the decision stipulates that, for an aid to be authorized by the Commission, it must help to achieve one, or more, of the following objectives;

- "improvement of competitiveness of the coal industry, which contributes to assure a better security of supply",
- "creating new capacities provided that they are economically viable",
- "solving the social and regional problems related to developments in the coal industry".

The report first of all establishes the types of aid by Member States in favour of their coal industries. It then analyses, country by country, the quantitative evolution of each type of aid authorized since 1987, under the decision 2064/86/ECSC, and for 1986, under the decision then in force.

II

The main findings are as follows;

- at a Community level, the volume of aid for current production increased in current money terms by 7% between 1986 and 1990, whilst the aid per ton increased by 25% over the same period. These figures, however, hide important differences between Member States.

- an increasing trend to grant indirect, rather than direct, aid to current production.

A closer analysis of the figures reveals that certain Member States use aids, along with other measures, within a programme of modernisation, rationalisation and restructuring of the coal sector, to reform the industry, or even to close it down completely, whilst in other Member States the measures taken have not encouraged a programme of rationalisation or modernization.

This dichotomy is also evident when examining the Community costs of production, where Germany and Spain differ substantially from the other producer countries in the particularly high level of, and in the continued upward trend in, these costs, in contrast to the substantial reductions in the United Kingdom and France.

It is in this context that the Commission invited the German and Spanish Governments to submit plans to reduce aid by 31st December 1993 at the latest, as part of a package for restructuring, modernizing, and streamlining their coal industries.

Whilst the existing aid rules have undeniably provided the conditions for a major restructuring of the coal industry in certain Member States, the current Community costs of production are a clear indication that the restructuring process must become generalised and intensified.

The Commission recognises that the world market price for coal is certainly not a sufficient criteria for judging the competitiveness of Community coal. This price does not include criteria such as the security of supply or the long term evolution of production costs.

The report classifies the problems encountered, in the application of the decision, into three main categories; the first is the very definition of the concept of aid, the second the evaluation of such aid, and the third the delays in notifying the aid (and the incomplete nature of the data so supplied) which leads to a delay in decisions being reached by the Commission.

The Commission proposes that the current Decision should not be amended in spirit or in form, whilst stressing the need to intensify measures to make the aid more transparent, both in terms of presentation and inclusion in national budgets, and to phase it out. The Commission believes that the objectives laid down in the Decision are still valid and play an essential role in the implementation of restructuring, rationalization and modernization plans in the coal sector.

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Introduction

Decision No 2064/86/ECSC is the most recent of a series of Decisions, the main characteristics and objectives of which are outlined in the following section. These Decisions exist because the ECSC Treaty states that aid is incompatible with the common market for coal and must accordingly be abolished and prohibited (Article 4 of the ECSC Treaty). However, the need to grant such aid has been recognized and the granting of aid has been made possible by the adoption of ECSC Decisions giving the Commission the right to authorize aid and subsidies designed to bring the level of production into line with the scope for restructuring the mining industry while avoiding social problems.

It is clear therefore that systems for providing aid to the coal industry must be strictly monitored. Although the need to avoid social problems linked with restructuring has been recognized and has influenced the above-mentioned Decisions, the situation in which it is necessary to grant aid to the coal industry - the restructuring and hence the adaptation of the industry - must cease once the restructuring process is complete.

The transitional nature of the aid systems makes it necessary to return as soon as possible to long-term economic viability in the industry. The speed at which this process is taking place is clearly far from uniform in the various coal-producing Member States. In several Member States major restructuring exercises have resulted either in a slimmed down industry or in the complete abandonment of coal mining, while in others much less progress has been made and the volume of aid granted has continued to grow.

This is all the more true as aid to the coal industry - and in particular aid for current production - must be compatible not only with the provisions of the ECSC Treaty, but also, on account of its effects on the electricity market, with those of the EEC Treaty. The granting of such aid tends to distort the price of electricity and hence competition between electricity producers. This is all the more important in view of the Commission's endeavours to establish an internal market for energy as part of the large internal market for which the Single European Act was created.

The Commission working document of 2 May 1988 entitled "The Internal Energy Market"¹ refers to the energy objectives for the Community adopted by the Council in September 1986 and currently being updated, and explicitly mentions the need for "greater integration, free from barriers to trade, of the internal energy market with a view to improving security of supply, reducing costs and improving economic competitiveness".

The working document examines aid for coal production in the context of Decision No 2064/86/ECSC, the main objectives of which are to ensure

1 COM(88) 238 final.

that aid is transparent and can be monitored and to facilitate the essential process of conversion in the mining sector. This report therefore serves the objectives not only of Decision No 2064/86/ECSC but also of applying Community law to bring about the integration of national energy markets.

Frequent reference is made to the contribution of Community coal to security of supply, and this contribution is recognized by the Commission in the wording of Decision No 2064/86/ECSC, one of the objectives of which is improved competitiveness in the coal industry, helping to ensure greater security of supply (Article 2(1)). However, it must be stressed that only production which is competitive in the long term is desirable: production as such, irrespective of economic viability, cannot be considered an end in itself.

Moreover, security of supply is not guaranteed simply by producing coal in the Community. The Commission believes that in today's world diversification of sources of supply and substitution of different sources of energy are of great importance. The recent Directives establishing transit rights for Community electricity and gas will help to boost trade in energy within the Community, within the framework of the internal market, and thus to improve security of supply.

Protecting the environment is another challenge of the utmost importance to the energy sector, and it applies equally to imported coal and Community coal. No sooner have measures begun to be taken to deal with atmospheric emissions of SO₂ and NO_x than the greenhouse effect has in turn required action from politicians. Although an international consensus has not yet been reached on the policies to be implemented to limit emissions of greenhouse gases, the measures which will be taken will most likely affect fossil fuels in general and coal in particular.

That is the background against which the Commission has drawn up this specific report on the operation of Decision No 2064/86/ECSC. Article 16(2) of the Decision requires the Commission to submit by the end of 1990 a report to the Council on the experiences and problems encountered in applying the Decision; in accordance with the procedure laid down in the first paragraph of Article 95 of the ECSC Treaty, the report may propose any modification which may be appropriate.

Following a brief summary of earlier aid systems, this report defines the concept of aid and examines the trend over the period 1986-90 before commenting on the difficulties encountered in implementing the Decision and evaluating the degree to which its objectives have been achieved.

Annexes to this report contain an analysis of the development of the coal industry in the Community in recent years and a brief summary of aid for current production authorized by the Commission pursuant to Decision No 2064/86/ECSC.

Background

Starting in 1964 the Community has on a number of occasions laid down guidelines intended to bring the aid which Member States grant to their coal industries into line with the rules on aid and subsidies contained in the ECSC Treaty.

Article 4(c) of the ECSC Treaty states that subsidies or aids granted by States, or special charges imposed by States, in any form whatsoever, are to be abolished and prohibited.

In 1958, just 7 years after the Treaty was signed, the Community coal sector started to encounter difficulties in selling its output. Increasing pressure from oil was compounded by the growing threat of coal imports from third countries. In the early 1960s the resulting closures and redundancies attained such a scale that social peace was threatened and political measures had to be taken.¹

Decision No 3/65/ECSC of 17 February 1965² - the first Decision establishing Community rules for State aid to the coal industry - stressed that where the development potential of a region was as yet insufficient, adaptation to the new conditions on the coal market could give rise to serious disturbances of the region's economic and social conditions and that, to eliminate that risk, it might be necessary to adjust the rate of rationalization measures and to grant aid to cover the resulting costs on the undertakings.

Thus the objectives and measures of Decision No 3/65/ECSC focused on:

- adjusting coal production to the market situation; and
- granting aid for rationalization to cover social security costs and to stagger mine closures, in order to ease the resulting social problems.

The competitive and financial situation of Community coal undertakings had scarcely improved by the time the Decision expired in 1970, and a new Decision was adopted (Decision No 3/71³).

1 Protocol of Agreement on Energy Problems of 21.4.1964, OJ 1964 No 69.

2 OJ No 31, 25.2.1965, p. 480.

3 OJ No L 3, 5.1.1971, p. 7.

Although the objectives of this Decision were substantially the same as those of the 1965 Decision, they were more explicit. Thus Article 1 empowered the Commission to authorize such aid as would facilitate the achievement of the following objectives:

- (1) concentration of production on the pits best able to improve their productivity and best fitted to supply the Community with energy, having regard in particular to their location in relation to markets and to their reserves of the grades of coal in demand;
- (2) the continued adjustment of production to the state of the energy market, in so far as this did not lead to serious disturbances in economic and social conditions in regions where the development potential was as yet insufficient.

The security of the Community's energy supplies was seriously affected by events on the world oil market in 1973/74: acting with the unanimous consent of the Council, the Commission therefore adopted Decision No 528/76/ECSC¹ on 25 February 1976 with retroactive effect from 1 January 1976, thus enabling aid to continue to be granted to the coal industry.

The principles underlying this third Decision differed substantially from those underlying the earlier Decisions. The objectives were no longer confined to alleviating the social problems arising as a result of the reduction in mining activity, but included stabilizing coal production under satisfactory economic conditions. Investment was needed to try to make coal production economic. Since investment decisions are long-term measures, the Decision was valid for 10 years rather than 5 years as before.

While coal production remained stable from 1975 to 1982, it then fell under the combined effect of market forces (second oil price shock) and the Member States' desire to apply the brakes to the continually increasing amounts of aid needed to ensure the survival of a very large section of the European coal industry. In 1986, when Decision No 528/76/ECSC expired, a new decision establishing rules for aid was clearly needed; social unrest in the United Kingdom demonstrated the need. However, the objectives needed to be redirected, returning to the path followed by the first two Decisions, i.e. adapting the level of production in the context of restructuring the mining sector in a socially acceptable fashion.

We must nevertheless recognize that an aid system intended to be transitional tends to continue without really achieving the prescribed goals, i.e. production under satisfactory economic conditions and progressive rationalization where the development potential of the regions concerned is as yet insufficient. Between 1976 and 1986, total aid for current production increased fourfold while production fell by 6%.

1 OJ No L 63, 11.3.1976, p. 1.

It is against this background that the Council approved Decision No 2064/86/ECSC in June 1986.

This Decision stresses the need for further restructuring, modernization and rationalization of the coal industry under acceptable regional and social conditions in order to make the coal sector competitive again. However, it recognizes that, as a result of the often unfavourable geological conditions, the substantial investment and the closure of 120 pits between 1976 and 1986 achieved an annual improvement in productivity of no more than 1.5%. It is therefore "unlikely that the Community's coal industry will become fully competitive again in the years ahead".⁵

Thus, to be authorized by the Commission, aid must in future help to achieve at least one of the following objectives:

- improvement of the competitiveness of the coal industry, thus helping to ensure greater security of supply,
- creating new capacities provided that they are economically viable,
- solving the social and regional problems related to developments in the coal industry.

These objectives constitute a significant strengthening of Community policy, since henceforth the objective of stabilizing production is no longer considered a sufficient justification for the granting of aid, and the creation of new capacities can be encouraged only if they are economically viable.

Thus successive aid systems over more than twenty-five years have led to the Commission authorizing more than ECU 70 billion in aid for current production in order to enable the Community coal industry to implement the restructuring made essential by market developments. Sustained by arguments based on security of supply, State aid has continued to grow year by year.

Paradoxically, under the effect of increasingly abundant and diversified supplies, the world coal market has meanwhile proved to be remarkably stable; for example, it stood up remarkably well to the recent Gulf crisis.

⁵ OJ No L 177, 1.7.1986, p. 2.

CHAPTER I: AID TO THE COAL INDUSTRY

SECTION 1: DEFINITION AND TYPES OF AID

Aid is generally defined as all forms of public assistance which immediately or in the long term affect either the allocation of resources, i.e. the quantities produced or sold on the market for the product in question, or the distribution of the income which the various producers and consumers earn from their market activities.

From a legal point of view, aid is distinguished from general measures in that it applies to certain undertakings, or certain sectors, rather than to the economy as a whole.

This broad definition of aid covers State aid, agreements between producers and consumers in which States intervene directly or indirectly and which are concluded at prices which do not necessarily reflect market realities, and import restrictions or barriers.

It is therefore important to classify such aid according to precise criteria. In general, State aid is classified as direct or indirect and according to its purpose and means of payment.

In the case of coal, for which the Member States have developed a broad range of measures over a quarter of a century, a distinction is drawn between:

- direct aid granted directly to coal undertakings and indirect aid which, although granted to another economic entity, indirectly benefits coal producers;
- aid covering operating losses and aid to finance charges, the nature or scale of which place the coal industry in an abnormally unfavourable situation compared with other industrial sectors; this criterion distinguishes aid for current production from aid not linked to current production;
- aid directly chargeable to public budgets and aid the cost of which is passed on by regulatory means to other economic entities, whether or not the cost can be directly quantified. This second category includes aid from the Ofico in Spain and the Kohlepfennig in Germany, and also quantitative restrictions, the economic impact of which is difficult to quantify.

The concern to include all forms of aid is explicitly mentioned in Decision No 2064/86/ECSC of 30 June 1986, which defines aid as:

- all aid granted by central, regional or local authorities;

- aid relating to coal production and marketing and to external trade in coal which, even if it is not directly chargeable to public budgets, nevertheless confers an economic advantage on the coal industry;
- 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.

Given the diversity of forms in which Member States grant aid for current production, even where the ultimate objective is the same, i.e. to cover operating losses resulting from the difference between either the prices charged on the international market or a reference price, calculated on a basis which is not always entirely clear, and production costs, it was necessary to establish various categories based more on national arrangements than on harmonized principles. Thus the Decision distinguishes between:

- deficit grant aid;
- aid for supplying coal and coke to the Community's iron and steel industry;
- investment aid;
- aid for underground staff;
- other direct or indirect aid for current production, which covers measures which, while they are often not financed directly by the public authorities, nevertheless confer an economic advantage on the coal industry.

To these forms of aid, which affect the current production trading account, must be added aid designed to place the coal industry on an equal footing with other sectors of the economy, i.e. the financing of certain welfare benefits and inherited liabilities.

Aid to finance welfare benefits is designed to bring the ratio between the burden per mineworker in employment and the benefits per person in receipt of benefit into line with the corresponding ratio in other industries.

Aid to cover inherited liabilities is authorized to cover the costs incurred only by undertakings which are carrying out or have carried out restructuring.

This mid-term analysis of the application of Decision No 2064/86/ECSC is based on aid notified to the Commission pursuant to Article 9 of the said Decision on which the Commission took a decision between 1987 and 1990. The aid is classified according to whether or not it is linked to current production, and whether it is direct or indirect.

SECTION 2: AID FOR CURRENT PRODUCTION

1. Overall analysis

The summary table shows that for the Community as a whole the volume of aid for current production increased by 7% over the period 1986-90. However, the increase in aid per tonne produced is even greater: 25% over the same period. Another striking aspect of the overall trend is the growing tendency to grant indirect aid (up 53%) rather than direct aid (down 19%).

A comparison of the data for each coal-producing Member State reveals substantial variations.

In brief, France and Belgium have succeeded in scaling down their aid, Portugal has maintained its aid at a constant level overall, Germany and Spain have continued to increase aid, and the United Kingdom, after several years of growth, now appears to have resolved to place strict limits on its support for the coal industry.

In France, the substantial reduction in aid (a logical consequence of the restructuring programme) has been accompanied by a marked increase in the debts of "Charbonnages de France".

In Belgium, the way in which aid is granted makes it possible to identify - and to some extent to quantify - the efforts being made to achieve the objectives of the Decision and to assess their effectiveness. The progressive reduction in coal production resulting from the implementation of a coordinated programme of pit closures naturally resulted in a substantial reduction in aid. However, as the fixed costs are spread over falling output, aid per tonne does not always immediately reflect the scale of the restructuring policy.

In Portugal, the granting of public aid has resulted in efforts to rationalize the industry. The rationalization and restructuring programme which has been implemented has resulted in a degree of improvement in productivity, without having positive effects on production costs or the amount of aid granted. The low level of competitiveness of the Portuguese coal industry is mainly the result of particularly unfavourable geological conditions.

The lack of prospects for any improvement in this situation led the Commission, when ruling on aid for 1989, to call on the Portuguese authorities to present a strategic plan for restructuring the main coalmining undertaking. This plan has now been submitted to the Commission, and provides for the closure of that undertaking's production capacity in 1994.

In Germany:

- production costs are very high; this is notably due to investments out of all proportion to the resulting improvements in productivity;
- the way in which aid is allocated does not always encourage the implementation of programmes for the rationalization or restructuring of the production system.

This is the case in particular of the compensatory payments provided for in the third Electricity-from-coal Law, the aim of which is to make up part of the difference between the price of Community coal and the price of fuel oil and imported coal.

For this reason, in its decision authorizing the payment of the said compensatory payments in respect of 1988, the Commission invited the German Government to submit a plan for phasing out the aid by the date of expiry of the Decision (31 December 1993) as part of a plan for restructuring, rationalizing and modernizing the German coal industry.

In the same spirit and legal context, the Commission ruled on a similar measure in force in Spain aimed at facilitating the marketing of coal for firing power stations. The Commission called on the Spanish authorities to present a plan for phasing out the said measure by the date of expiry of Decision No 2064/86/ECSC. Noting the succession of major increases in the operating losses of the undertakings covered by a programme contract and the absence of significant restructuring measures, the Commission imposed the same requirements.

In the United Kingdom, the nature of, and method of, granting aid links it directly to the restructuring of the sector. The very high level of aid granted in the 1989/90 financial year was in large part due to the alignment of the accounts of the British Coal Corporation to market prospects, which had been revised downwards. For this reason, in view of the exceptional nature of this measure, and in order to avoid distorting the trend, an amount of ECU 5 089.5 million, corresponding to this exceptional aid, does not appear in the summary table under the heading "Other aid".

Following this major restructuring exercise, the UK Government has informed the Commission that it will not grant any further aid to the British Coal Corporation before the expiry of Decision No 2064/86/ECSC other than aid to cover the costs of redundancies and other social costs linked to the restructuring, rationalization and modernization of the coal industry.

A more detailed description of aid for current production authorized by the Commission under Decision No 2064/86/ECSC is to be found in Annex 2.

SECTION 3: AID NOT LINKED TO CURRENT PRODUCTION

Decision No 2064/86/ECSC treats aid to finance specific social welfare benefit schemes (Article 7) and aid to cover inherited liabilities (Article 8) as aid not linked to current production.

State aid for the financing of welfare benefits in the coal industry is considered to be compatible with the common market provided that, for coal undertakings, it brings the ratio between the burden per mineworker in employment and the benefits per person in receipt of benefit into line with the corresponding ratio in other industries.

During the period in question, the Commission found the excess aid had been granted in Germany for each year and in Spain in respect of 1987. The excess aid, treated as indirect aid for current production, was considered in the previous chapter.

Although the checks carried out by the Commission regarding aid for welfare benefits showed no irregularities relating to the conditions and criteria laid down in Decision No 2064/86/ECSC, the growing tendency of Member States to provide such aid must be stressed.

Aid for welfare benefits under Article 7 of Decision No 2064/86/ECSC

	<u>TOTAL</u>				<u>INDIRECT AID</u>			
	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Belgium	791.9	883.7	905.4	968.3	-	-	-	7.7
Germany	3,268.4	3,334.9	3,814.5	4,084.0	132.6	162.7	104.4	150.7
Spain	527.1	574.1	660.2	758.2	3.7	-	-	-
France	1,415.6	1,500.6	1,781.0	1,986.8	-	-	-	-
Portugal	-	-	-	-	-	-	-	-
UK	<u>59.3</u>	<u>60.1</u>	<u>61.9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	6,062.3	6,353.4	7,223.0	7,797.3	136.3	162.7	104.4	158.4

The growing volume of State aid for financing welfare benefits is explained by the continual fall in the ratio between workers in employment and benefit recipients (as a result of the measures to cut the workforce).

Aid to cover inherited liabilities has also increased substantially, in direct correlation with the measures to restructure Community undertakings.

Aid to cover inherited liabilities
under Article 8 of Decision No 2064/86/ECSC

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Belgium	-	-	-	-
Germany	110.9	106.3	185.8	200.6
Spain	-	-	-	-
France	547.2	719.5	774.2	792.2
Portugal	0.7	-	-	-
United Kingdom	<u>386.6</u>	<u>221.9</u>	<u>2,940.9</u>	<u>103.5</u>
Total	1,044.7	1,047.7	3,900.8	1,096.3

CHAPTER II: EVALUATION OF THE IMPLEMENTATION OF DECISION NO 2064/86/ECSC

SECTION 1: PRACTICAL DIFFICULTIES OF APPLYING THE DECISION

While these aid rules have undeniably provided the conditions for a major restructuring of the coal industry in certain Member States, the efforts made have been uneven from one coal-producing country to another, and implementation of the Decision has come up against practical difficulties.

These difficulties have three major causes. The first concerns the interpretation of the very definition of the concept of aid, the second concerns the evaluation of aid, and the third concerns the delays in notifying aid and the incomplete nature of the data supplied, resulting in delays in authorizing the payment of aid.

Steps should be taken to make the aid system more transparent, in particular by not aggregating figures for entire coalfields or undertakings, which in some cases cover almost all the mining activity of the country concerned. Average values are often misleading, since they can mask very large disparities. Transferring "charges" from one period to another is also highly misleading, and can temporarily mask certain deficits.

A. Problems relating to the classification of aid

Decision No 2064/86/ECSC refers explicitly only to financial aid. Non-financial aid, in particular vertical agreements, are examined under Article 65 of the ECSC Treaty and Article 85 of the EEC Treaty. In addition to examination under the above Articles, where such agreements incorporate elements which clearly equate to financial aid, these must be notified, and are subject, to authorization pursuant to Decision No 2064/86/ECSC.

Restrictions on direct imports are not the responsibility of the Community: Article 71 of the ECSC Treaty reserves powers in matters of commercial policy for ECSC products for the Member States.

However, third-country coal entered for free circulation in a Community country can circulate freely throughout the Community and only temporary authorizations have in the past been granted to Spain and Germany to exclude such coal from Community treatment.

Although the classification of aid pursuant to Decision No 2064/86/ECSC helps to identify the beneficiaries of Member State aid and the purposes for which aid is granted, it is not free from ambiguities. The various categories of aid are not always mutually exclusive and the boundaries between them are often vague. Even if the classification of aid is not wholly arbitrary, it often depends on the legal and socio-economic environment of the recipient undertaking. This makes it difficult to compare the aid to different undertakings, particularly where they come under different national jurisdictions.

Moreover, the precise definition of certain categories of aid to the exclusion of others covered by the residual category of "Other aid" has led certain Member States to dispute the Commission's authority to rule on certain national provisions, in contradiction to Article 4 of the ECSC Treaty.

Finally, some undertakings enjoy advantages compared with their other European counterparts as a result of their legal status, national mining law or the social security system in force in the Member State concerned.

Thus nationalized companies can in certain cases enjoy easier access to capital markets as a result of the implicit or explicit State guarantee covering them. In the United Kingdom, the funding of welfare benefits from taxation reduces production costs by a corresponding amount by comparison with undertakings in other Member States. However, provided such practices do not derogate from the rules applied to all industrial sectors, they cannot be classified as aid.

B. Problems linked to the evaluation of aid

If the classification of aid is often a source of ambiguities, the same applies to evaluation. It is important to distinguish aid granted to the coal industry, which must be notified, from aid actually benefiting the coal industry. These two concepts may not coincide, depending on the criteria used for calculating aid.

Two parameters are used to calculate aid: production costs and the value of production. However, these two parameters are controversial, since they are not calculated on a uniform basis from one country to another.

A study of production costs is currently being carried out with the assistance of the Western European Coal Producers' Association and undertakings in order to make the data from the various producer countries more comparable. It is important to distinguish between the accounting cost and the economic cost, only the latter being meaningful.

However, although it is clearly necessary to harmonize the calculation of production costs for all Community coal undertakings to facilitate their comparison, this does not mean that the undertakings must be considered without any reference to the national socio-economic context, which affects industrial competitiveness at international level.

As regards the value of production, a method for determining the price is needed. The selling price is not necessarily a sound criterion, since in most cases governments have intervened directly or indirectly in the negotiation of long-term contracts and the price incorporates an element of aid which could be quite significant.

Given the substitutability of sources of energy, the question arises as to whether the reference price, used to quantify the aid element, should be that of international coal, that of alternative fuels (oil, gas, etc.) or a weighted average of these prices. The latter criterion is most often used.

Thus certain long-term contracts take account both of the price on the world coal market and the price of oil or the cost of nuclear energy. There is thus an urgent need to define a reference basis for Community coal free from major uncertainties and ambiguity, together with the limits for a reasonable security premium for its production.

The spot price of coal on the world market is certainly not a satisfactory criterion. The world price does not incorporate criteria such as security of supply or the long-term cost trend, may be subject to strong cyclical variations, is influenced by changes in dollar parity, and is sometimes suspected by certain Community producers of being affected by the price of certain dumped supplies.

In a future aid system a reference price, expressed in ECU, could constitute an acceptable ceiling for Community production costs and would integrate, at the same time, the regulatory effect on the world market of Community production, and, implicitly, the security premium linked to the provision of supplies which are as stable as possible in geopolitical terms.

Since security of supply also involves diversification of the sources of energy used, this criterion would not introduce any distortion as regards the relative share of the various sources of energy available for consumption. This would not be the case if the reference selling price of Community coal was linked to the price of a source of energy other than coal. This criterion also has the advantage of being objective and homogeneous throughout the Member States.

Such an approach should enable the Community industry to overcome short-term uncertainties and adopt a long-term strategy. This is all the more essential in view of the very rigid production system as a result of technical, geological and geographic factors, which makes it impossible to adjust quality and costs to short-term market fluctuations.

The financial flow of acceptable aid would correspond to the difference between the short-term price of imported coal and a (reference) price to be established for a long-term market which is as efficient as possible and thus corrected to take account of uncertainties.

Coexisting alongside such aid compensating for market imperfections there would be transitional aid covering the difference between the cost of production and the reference price, a form of support which should be phased out in accordance with a precise timetable as part of a regional redevelopment plan.

C. Delays in granting authorization

Article 9 of Decision No 2064/86/ECSC provides that the Member States must notify the Commission three months in advance of their intention to grant aid. The intention behind this Article is that authorizations issued by the Commission should be a prior condition for the granting of aid and not approval after the event. In practice, however, where information is provided on time, the time available is generally insufficient, as additional information is often requested, resulting in a fairly long delay before the Commission can grant authorization.

The granting of aid is also often subject to authorization by the national parliaments, and the question arises as to which should come first, the Commission authorization or that of the national parliament.

SECTION 2: ACHIEVEMENT OF THE OBJECTIVES OF THE DECISION

Pursuant to Article 2 of Decision No 2064/86/ECSC, aid granted to the coal industry may be considered compatible with the proper functioning of the common market provided that it helps to achieve at least one of the objectives laid down in the Decision.

It is therefore necessary to attempt to identify to what extent the aid granted has enabled at least one of these objectives to be achieved. However, it is by no means easy to quantify precisely the impact of a specific aid measure on one of the three objectives pursued, since it is difficult to assess the relative contribution of a given measure. For this reason we shall simply evaluate the overall effect of total aid.

A. The intentions and objectives of the Member States as regards the coal industry during the period 1987-93

As provided for in Decision No 2064/86/ECSC, the Member States which intended to grant aid to the coal industry have informed the Commission of their medium-term intentions for the coal industry.

Although the information initially supplied lacked precision and was not exhaustive, the States concerned have indicated, or will have to indicate, at the request of the Commission, the main thrust of the restructuring plans which they intended, or still intend, to implement. The main thrust of the policy is clear and, with a few exceptions, is in line with the objectives of the Decision. Most countries are aiming, in varying degrees, to concentrate production in pits with the best economic outlook and progressively to close the least economic pits, within time-scales which, while helping to resolve the regional and social problems resulting from the scaling-down of mining activity (mainly by creating alternative employment by diversifying the industrial fabric), do not involve the indefinite continuation of major aid payments to undertakings which are in any case doomed to closure.

In Belgium, the closure of the last remaining pit is scheduled for the end of 1992, and the Kempense Steenkolenmijnen (KS) has received a one-off payment to complete its restructuring programme. The overall amount provided for by ministerial decree for this restructuring is 100 billion Belgian francs. The programme provides that 50% of any unused amounts are to be returned to the Belgian State, while the other 50% may be used by KS to carry out industrial investment programmes.

In France, the Nord-Pas de Calais coalfield closed down at the end of 1990; production in the Centre-Midi coalfield is to be concentrated on the production of discoveries and lignite in Provence; scaled-down production is to continue in the Lorraine coalfield for the foreseeable future.

In Germany, the Government appointed an independent committee, chaired by Professor Mikat, to study the future prospects of the German coal industry. The committee presented two proposals for the period up to the year 2005: the majority proposal fixed production at 55 million tonnes, including 35 million tonnes for power stations, while the minority proposal reduced production to 35-40 million tonnes, including 25 million tonnes for the electricity sector. The Commission has not yet been informed of the reactions of the German Government to these proposals. Negotiations with the Commission are due to start shortly with the aim of defining long-term prospects compatible with the Treaties.

In the United Kingdom, the policy of opening up the coal sector to competition sets the pace for restructuring, which started in vigorous fashion in 1986 and has continued at the same pace ever since. The recent privatization of the UK electricity sector and the possible future privatization of British Coal itself will progressively lead to British Coal being exposed more directly to competition from imported coal.

In Spain there are three categories of producer:

- nationalized companies which receive State aid of some ECU 90/t.c.e. and sell at a reference price of ECU 106/t.c.e.; in view of their high production costs, these mines will inevitably have to undergo an intensive restructuring programme;
- private companies mining coal underground can sell their production at a price close to cost price (where the latter exceeds the reference price of ECU 106/t.c.e.) with guaranteed uptake under an agreement signed by the electricity producers (UNESA) and the coal producers (CARBUNION). The terms of the agreement provide for a degree of restructuring by decreasing the aid granted to undertakings by 5% a year and requiring the annual financial accounts of the coal companies receiving the aid to be audited by a specialist company;
- companies operating open-cast coal mines; while these companies have relatively competitive production costs, they are sometimes forced to cut or stop production for lack of outlets, as their outlets are saturated with coal mined underground.

In Portugal, in spite of rationalization measures, coal production is to undergo major restructuring in the near future, and production is scheduled to stop at the end of 1995.

B. Contribution of aid to achievement of the objectives

As regards the contribution of aid to achievement of the objectives, it should be noted that given current production costs, aid is and will in the foreseeable future remain essential for the survival of the coal industry in certain Member States. It is appropriate to check that the aid fulfils the role assigned to it by the Decision.

One indicator of the contribution of aid to solving the problems affecting the coal industry is the progressive reduction of the amount of aid granted. Here two quite distinct groups can be discerned: on the one hand Belgium, France and the United Kingdom, with reductions in aid for current production of 73% (Belgium) and 69% (France) between 1986 and 1990, the United Kingdom Government intending to grant no further aid from 1990/91, and on the other Spain, Germany and Portugal, with increases of 90%, 36% and 2% respectively.

The same dichotomy naturally appears when we look at production costs (see Annex 1), where Spain and Germany differ substantially from the other producer countries in the particularly high level and upward trend of production costs, in contrast with the substantial reductions in the United Kingdom and France. The trend of output per man/hour underground also shows an extremely clear difference between the United Kingdom and France on the one hand and Germany on the other, Spain occupying a middle position in this respect.

Thus as a general rule, at the end of the first four years of implementation of the aid rules, particularly efficient restructuring and rationalization exercises have taken place in the United Kingdom, France and Belgium, and aid has resulted in substantial improvements in the competitiveness of the coal industry or the implementation of closure programmes under socially and regionally acceptable conditions.

In contrast, examination of the trend of coal industry indicators in Spain and Germany in parallel with the trend of aid granted during the period 1987-90 suggests that the support mechanisms implemented have made only a slight contribution to achieving the objectives laid down in Decision No 2064/86/ECSC. The (*de facto* or *de jure*) automatic granting of aid for quantities of coal produced has often tended to encourage investment in the maintenance of production capacities with no long-term guarantee of economic viability and with no long-term political guidance.

Moreover, the principles underlying certain forms of aid have often helped to postpone social and regional conversion rather than support their implementation.

This is the background against which the Commission decided to call on the German and Spanish Governments to submit plans to phase out aid by 31 December 1993 at the latest, as part of plans for restructuring, rationalizing and modernizing their coal industries.

CONCLUSIONS

For a quarter of a century the coal industry has been subsidized by the Member States and the situation on the energy market offers no prospect for the total elimination of support measures, even in the long term. Impressive steps have been taken to reduce the workforce. The number of miners, in excess of 1 500 000 when the ECSC Treaty was signed, has fallen to about 200 000. However, restructuring, rationalization and modernization measures must continue, and in some cases must be stepped up. To permit their continued orderly implementation free from social unrest, the Commission proposes that the present Decision should not be amended in spirit or in form, while stressing the need to step up measures to make aid more transparent and to phase it out. The objectives laid down in the Decision are still valid, and the Decision itself, and earlier Decisions, have played an essential role in the implementation of restructuring, rationalization and modernization plans.

However, the concern about transparency underlying both Decision No 2064/86/ECSC and the integration of the internal market for energy is confronted with, in some cases, major problems regarding the presentation of aid and its inclusion in budgets. Systems of coal aid which depend on a reference price substantially higher than the world market price of coal, like those in Germany and Spain, are incapable of indicating to the consumer the true price of electricity generated from coal subsidized in this way. Electricity producers find themselves obliged to buy their coal at this reference price when they could have the alternative of buying imported coal at a much lower price, if such imports were not prohibited for them. The result is a burden on the consumer, the magnitude of which he is often unable to assess for lack of transparency. A further result, given the possibility of buying sufficient quantities of coal on the world market at much lower prices, is the clearly far from optimal allocation of resources. This is quite at odds with the principles of the internal market for energy.

The Commission recognizes that Community coal, as distinct from imported coal, has a role to play in a Community policy for the security of supplies, and that it is accordingly economically justified, within reasonable limits, for this contribution to be remunerated.

In calling on two Member States to present restructuring plans, accompanied by measures to reduce the volume of aid, the Commission recognizes both this complementary role and the need not to use the security of supply argument to justify production for production's sake. To be more explicit: average Community production costs of ECU 111/t.c.e. compared with a world price of some ECU 50/t.c.e.

Moreover, on the basis of an idea of the Dutch Prime Minister, Mr Lubbers, the Commission has encouraged the drawing up of a European Energy Charter designed to improve the exploitation and marketing of the energy resources of Western and Eastern Europe and hence to strengthen security of supply. The text of the Charter has not yet been finalized, but a priority area for trans-European cooperation will be nuclear energy, which cannot fail to have an effect on the demand for electricity generated from coal.

Against this background, the future of the European coal industry, in an open market, must have a basis which is free from ambiguity and is realistic as regards both the definition of a security premium for the Community production of coal, which should bear some relationship to the long term prospects for the evolution of the world coal market, and the transparency of aid, notably by the inclusion, in principle, of aid in public budgets and scaling-down of such aid.

These objectives take even higher priority as the Community, as the world's foremost trading power, is committed to establishing with its GATT partners an open and fair international trading system, and must accordingly ensure that the aid granted in the Community complies with GATT rules.

Such a policy also implies that in the irreversible trend which will continue to affect the coal industry, the workforce must find job security in spite of the inevitable changes in employment and location; this goal must be pursued by using public aid, whether Community, national or regional, as productively as possible. Aware of the difficult social and regional problems linked to the development of the coal industry, the Commission has implemented the RECHAR programme to contribute to the steps being taken by the national authorities to revitalize declining coal-mining areas.

Restructuring must therefore continue, and the Commission awaits practical measures from the coal-producing Member States which have not yet submitted plans for restructuring the coal industry and phasing out aid. It would be particularly unfair for pits to continue to close in those Member States which have nearly completed the restructuring exercise, while substantially less productive pits in other coal-producing Member States are kept running thanks to a national system of subsidies and other protective measures.

Without at this stage commenting on whether or not a Decision will be needed to replace Decision No 2064/86/ECSC when it expires, the Commission believes that this question should be debated in the light of progress to date, the ground still to be covered and other factors, including those referred to in this report. At that moment, the above-mentioned ideas (i.e. reference price, the inclusion of aid in the public budgets, etc) will need to be debated and formalised.

THE COAL SECTOR IN THE COMMUNITY

SECTION 1: THE PRODUCERS

The structure of the Community coal-mining sector varies from one Member State to another, from one or a few undertakings in some countries to several hundred in another. This structural disparity is in some cases linked to geological conditions, which have prevented pits from becoming progressively concentrated in major production units, or to mining policy.

1. In the United Kingdom, the Coal Industry Nationalisation Act 1946 set up British Coal, known as the National Coal Board until 1985, to which all mining assets previously nationalized under the Coal Act 1938 were transferred.

The British Coal Corporation operates more than 95% of underground mines. The others are operated by small private producers to which it has granted a licence under the Coal Industry Nationalisation Act 1946.

Opencast coal mines are operated by private producers on behalf of British Coal, or on their own account under a licence. Mine operators who work on their own account are members of the National Association of Licensed Opencast Operators.

Eighty-three per cent of production is from underground pits, 17% from opencast mines. At the end of 1990 the British Coal Corporation operated 69 pits. In 1988 the combined output of the 170 underground mines operated under licence by private operators was less than 0.9 million tonnes.

Despite being the largest and most efficient coal producer in the Community, the UK mining industry suffers from uncertainties linked to the repercussions of the privatization of the electricity industry, with supply contracts expiring in March 1993.

2. Germany is the Community's second largest coal producer, and has eight mining undertakings:

Ruhrkohle AG, owned by VEBA (37.1%), Beteiligungs-Gesellschaft für Energieunternehmen mbH (21.9%), Thyssen Stahl AG (12.7%), Montan-Verwaltungsgesellschaft mbH (10%), Verwaltungsgesellschaft Ruhrkohle-Beteiligung mbH (10%) and Société Nouvelle Sidéchar (8.3%);

Saarbergwerke, most of the capital of which (74%) is held by Germany, the remainder (26%) by Saarland;

Auguste Victoria, which currently belongs to BASF but is shortly expected to merge with Ruhrkohle AG;

Sophia Jacoba, the main shareholder in which was until recently the Dutch Robeco group, but which is now controlled by Ruhrkohle AG;

Eschweiler Bergwerks-Verein AG, controlled by Ruhrkohle AG;

Preussag Kohle, a subsidiary of Preussag AG, is a private company, in which the Gesellschaft für Energie und Versorgungswerke mbH, a subsidiary of the Westdeutsche Landesbank, has a 25% holding;

Dr Arnold Schäfer GmbH and Merchweiler Bergwerksgesellschaft mbH are both private companies. Their output is a lot smaller than the other companies.

At 31.12.1990, total coal and anthracite production was concentrated in 28 underground pits.

3. In France, almost all production of coal and anthracite is controlled by the State-run "Charbonnages de France"; there are only a few small operators outside this monopoly. A little over 10% of total production comes from opencast mines in the Centre-Midi coalfield. At the end of 1990 a total of eight mines were in operation.

Administratively, these mines are divided into two groups according to coalfield: Lorraine and Centre-Midi; the last remaining mine in the Nord-Pas de Calais coalfield closed at the end of 1990.

4. At 31 December 1990, Spain had 206 mining undertakings, which share the production of coal, anthracite and black lignite; however, 34 undertakings account for nearly 80% of total production. Four of them - HUNOSA, Minas de Figaredo SA, ENDESA and ENCASUR - belong to the public INI group and supply a little over 30% of the coal, anthracite and black lignite produced; the others are private companies. Seventy-five per cent of total production is from underground mines and the rest from opencast mines.

5. Belgium, which launched a massive redevelopment exercise in January 1987, leading to the closure of the last remaining mine by the end of 1992, has only one coal-mining undertaking: Kempense Steenkolenmijnen.

6. Portugal has only one undertaking: Empresa Carbonifera do Douro SA, with an annual output of some 0.2 million tonnes. The sole mine in operation is expected to close by 1995.

7. Italy and Ireland also have coal and anthracite mines, but their production is insignificant by comparison with the other countries. Their total output is about 0.1 million tonnes.

SECTION 2: PRODUCTION, EMPLOYMENT AND OUTPUT

A. PRODUCTION

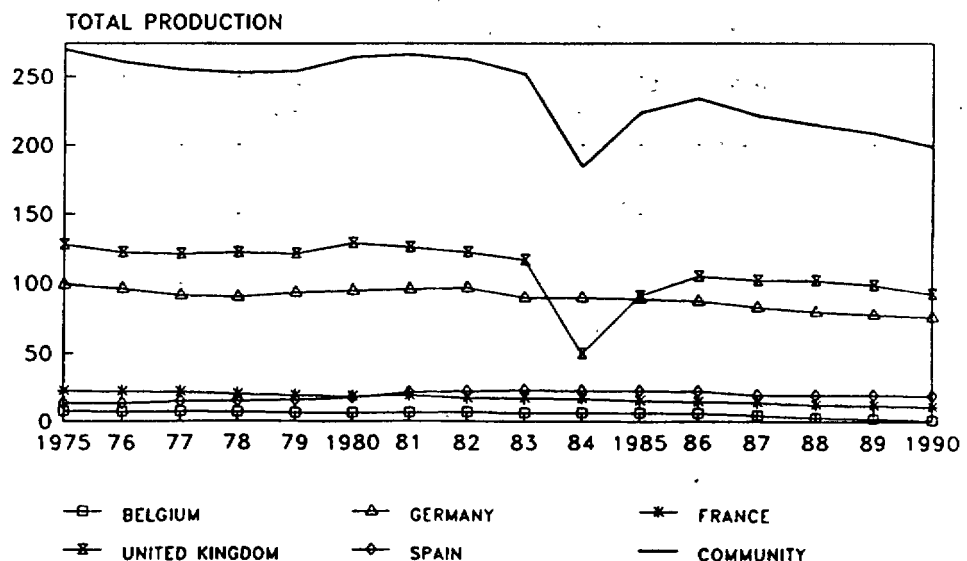
Community production has slowly but surely fallen over the last few decades, from nearly 500 million tonnes at the end of the 1950s to 200 million tonnes in 1990. It will continue to fall, probably significantly, over the coming years, in spite of proven, technically recoverable reserves of some 70 billion tonnes, i.e. some 300 years of operation at current output levels.

The reasons for this trend are the high costs of production which place Community coal at a severe disadvantage compared with much of the coal produced outside the Community and with other fuels, i.e. mainly oil and natural gas. However, for reasons of national policy, or for social reasons, and often for both, a large part of uncompetitive indigenous production has been kept running artificially thanks to direct or indirect support measures (aid to cover operating losses, consumption aid, barriers to coal imports in the form of customs duties or quantitative restrictions).

Over the years the Community coal industry has been forced to restructure, modernize and rationalize and to close the least efficient mines.

COAL PRODUCTION IN THE COMMUNITY

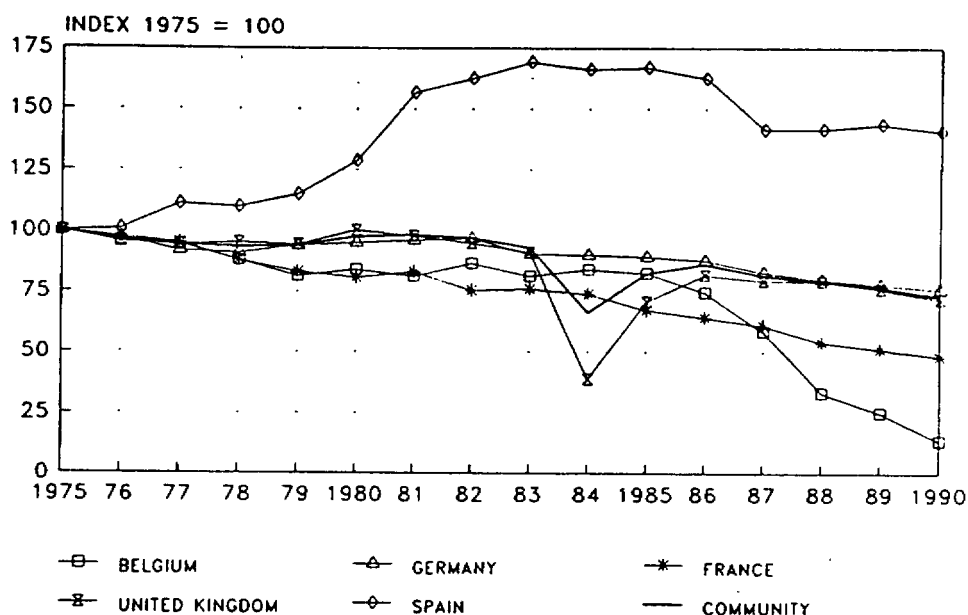
(million tonnes)



The scale of restructuring has been and is still very different from one country to another, on account of the energy options of each country and the rate of social and regional adjustment considered acceptable by the national authorities.

In some cases, as in Spain, production increased during part of the 1970s and 1980s under the influence of internal development measures adopted to counteract the effects of the 1973 oil crisis and also partly under social pressure. At the other extreme, restructuring measures in Belgium are leading to the closure of the entire industry.

PRODUCTION TREND



The abnormally low level of production in the United Kingdom in 1984-85 was a result of the serious strikes in the coal industry during that period.

In addition to the economic disadvantages of Community coal there is one drawback which affects all coal whatever its origin, and appears set to grow in importance in the near future: the environmental effects of burning coal. Coal is one of the main targets of all movements and all measures adopted or planned in the short term to prevent deterioration of the natural environment (acid rain, greenhouse effect) and, to some extent, this can be expected to discourage the use of coal to the advantage of certain other sources of energy. However, it would be premature to be overly pessimistic, and certain technologies such as combined heat and power production and major improvements in output offer promising ways forward for coal.

B. EMPLOYMENT

The restructuring, modernization and rationalization of the coal industry have logically resulted in a contraction in the workforce, sometimes with serious social and economic consequences. In certain regions where the economy was based almost exclusively on coal, measures have been taken to promote employment of the excess labour and create new jobs outside the mining sector.

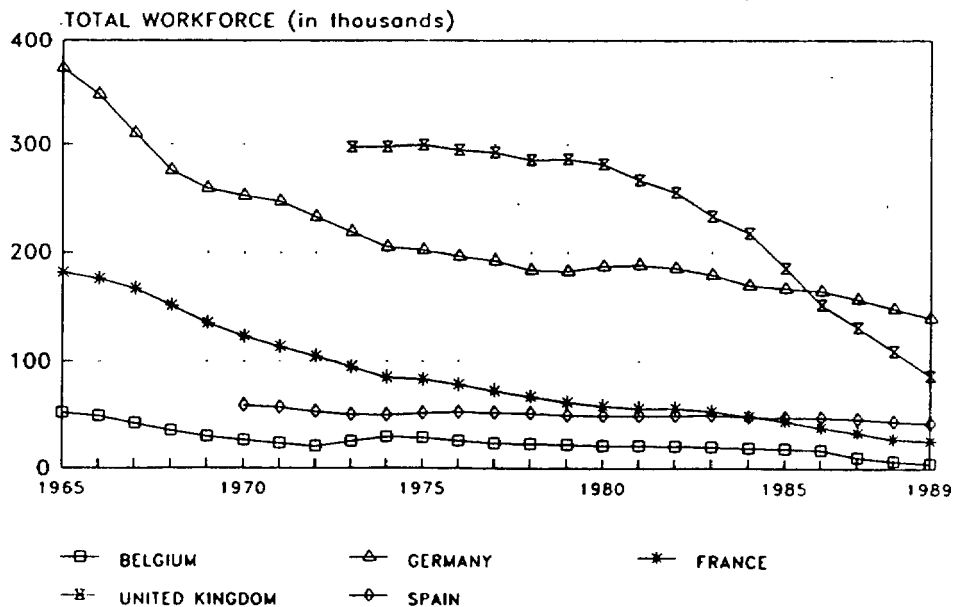
Since the end of the 18th century, which can be considered to mark the beginning of the coal industry as such, the entire economy of certain regions has developed exclusively on the basis of coal mines and, where this was not the case, reasons of proximity led to the installation of the iron and steel industry, a sector which has also been substantially restructured over the last twenty years.

The Community coal industry was substantially restructured in the 1960s, and this affected marginal mines with low productivity and favoured a radical mechanization of most mining tasks. This led to the closure and reorganization of many underground mines and released considerable excess labour.

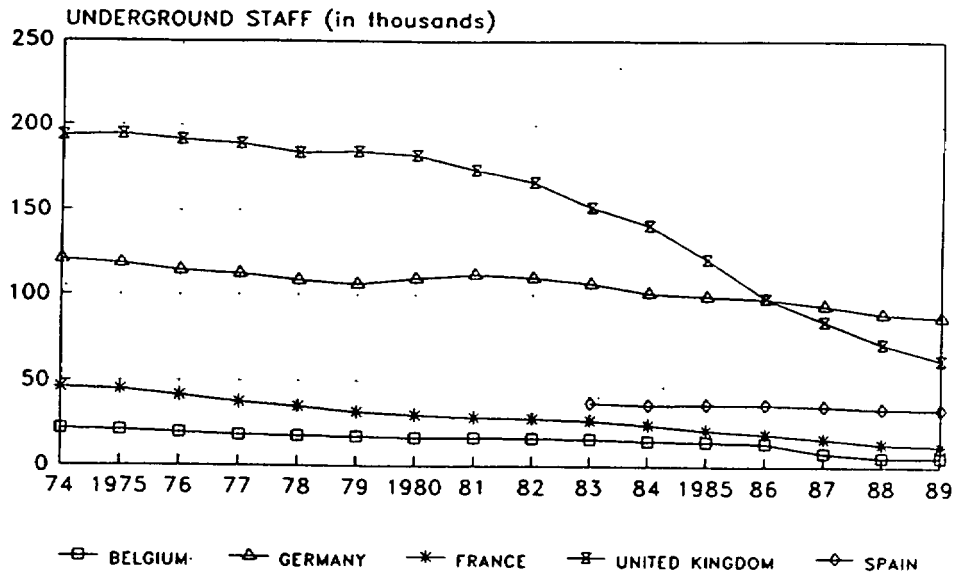
By way of example, average underground staff levels for the Community (EUR-12), which stood at 1.1 million in 1960, had already fallen by half by mid-1969 and fell to about 200 000 at the end of 1989.

The following charts plot the trend of employment in the main Community coal-producing countries.

TREND OF TOTAL LABOUR FORCE

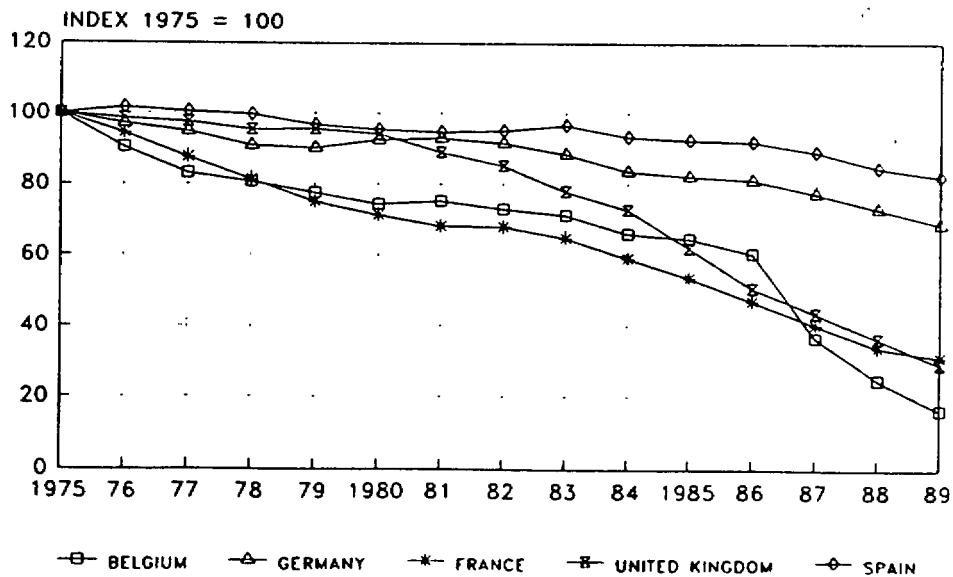


TREND OF UNDERGROUND STAFF



There have, however, been fluctuations in the downward trend in employment levels, and job losses, in both absolute and relative terms, have not been on the same scale in all the Member States.

RATE OF CHANGE IN TOTAL LABOUR FORCE

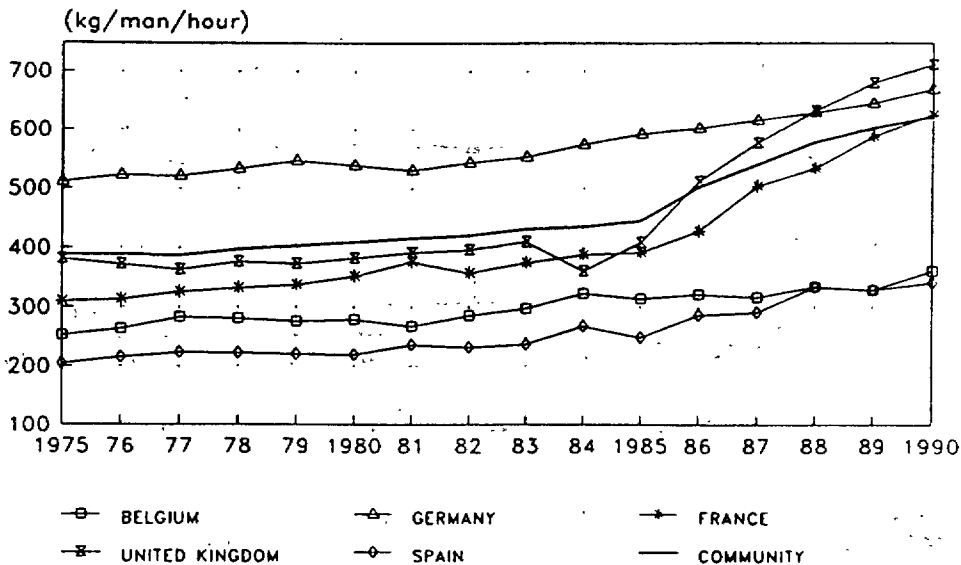


C. OUTPUT

The rationalization, restructuring and modernization of underground coal mines have resulted in increased productivity following the closure of marginal mines, generally the least productive, and improvements in mining techniques.

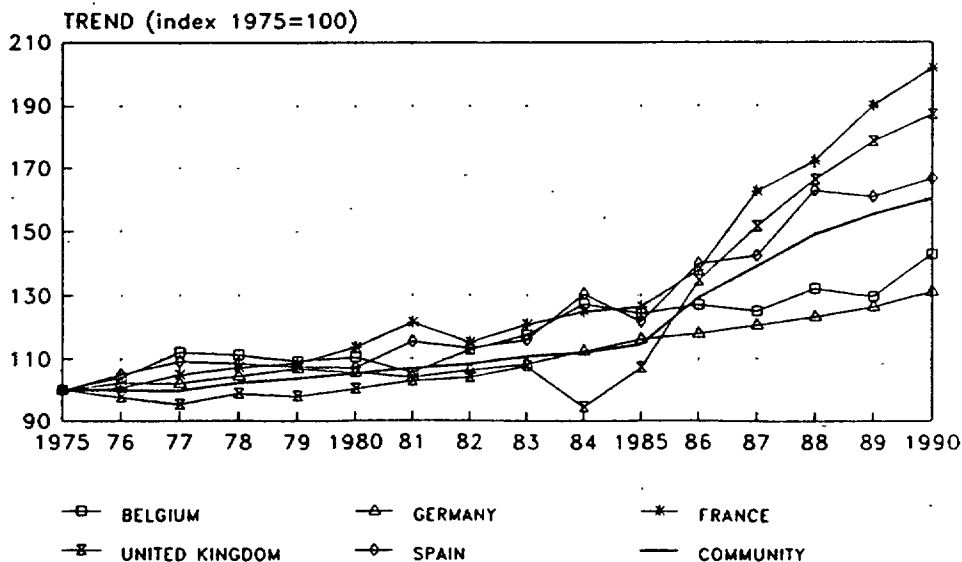
This trend has been continuous and common to all Community Member States, but has had mixed fortunes, the characteristics of individual deposits making them more or less suitable for innovations.

TREND OF OUTPUT PER MAN/HOUR UNDERGROUND



However, the increased productivity made possible by mechanization and the introduction of advanced technology has often failed to produce the reduction in total costs of production initially predicted, since very large-scale investment has been required; in other cases, the considerable amounts invested in mechanization have not substantially increased productivity, as there was already a high level of mechanization.

TREND OF OUTPUT PER MAN/HOUR UNDERGROUND
1975-90

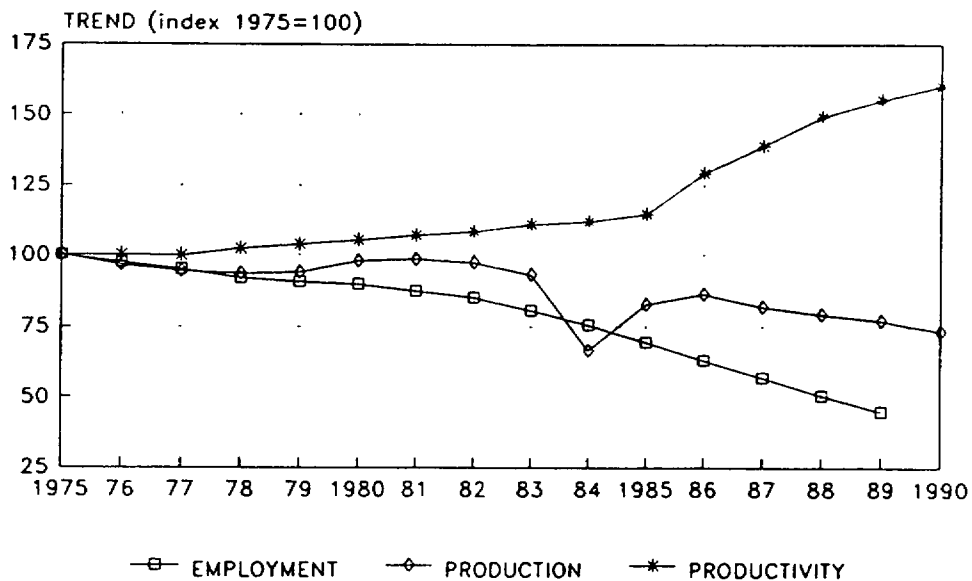


Attention should be drawn to the productivity trend in the United Kingdom, France and Germany. The United Kingdom undertook a major programme involving the closure of the mines making the greatest losses, generally the least productive, and improvements in mining techniques. France has also introduced technical improvements, but here the emphasis was on closing the least productive mines. In Germany, modernization took priority over the closure of the least competitive mines.

D. SUMMARY

In spite of the steps taken so far to improve results and the intrinsic advantages over the coal industries of third countries as regards proximity to markets, the Community coal industry is in a difficult situation facing competition from imported coal and, all things considered, will have to continue to rationalize and restructure.

TREND OF THE COAL INDUSTRY (EUR-12)
EMPLOYMENT, PRODUCTION AND PRODUCTIVITY



The fall in production and employment following the closure of many uncompetitive mines and the resulting increase in productivity not yet having brought about a significant reduction in costs of production, as we shall see later, a not insignificant part of the industry will in future need substantial aid if it is to survive and retain a share of the Community energy market in competition not only with other sources of Community coal, but also with coal from third countries.

SECTION 3: COSTS OF PRODUCTION

The average costs of production of all Community Member States are substantially higher than those of the world's main coal exporters.

One of the main reasons for this is that most deposits have already been worked intensively and extensively for two centuries and have thus aged; in other words, the reserves nearest the surface have been depleted and mining can continue only by extracting coal from ever greater depths - over 1 300 metres in some cases - and this clearly requires a more sophisticated, and hence a more costly, mining infrastructure.

In some cases, this disadvantage is compounded by the poor quality of deposits resulting from very complex, and irregular, geological structures and the very low density of reserves compared with deposits elsewhere in the world.

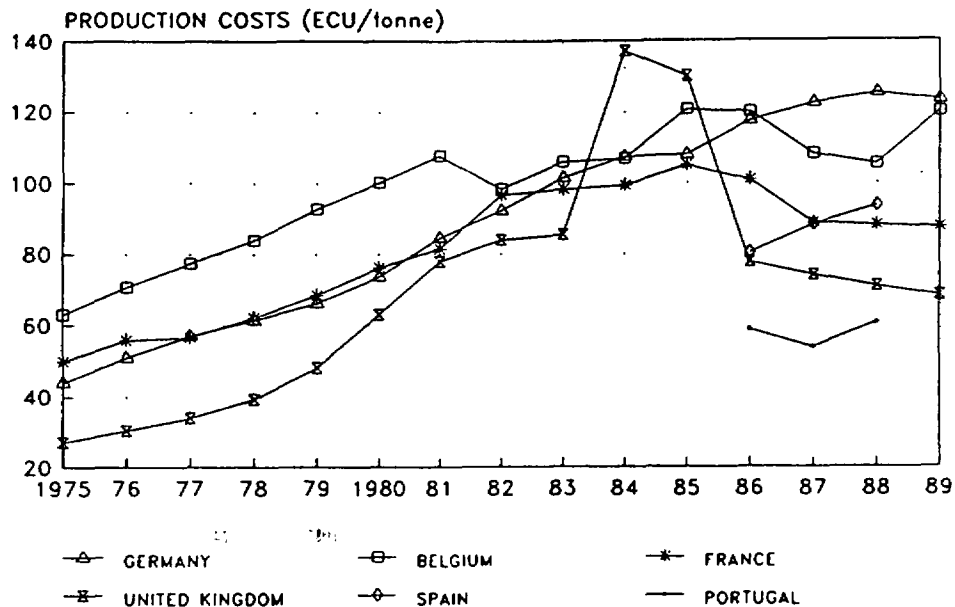
In spite of the characteristics of most of these reserves, they have continued to be mined, notably for reasons of self-sufficiency, as in most Community coal-producing countries coal is still the main indigenous source of primary energy.

However, we must also realize that the cost of mining certain deposits exceeds what is reasonable in purely economic terms, and that the operation of these mines has continued essentially for social and employment reasons. The economy and employment in many regions of the Community, mainly in Germany, the United Kingdom and Spain, depend greatly on the coal industry, and mining has traditionally been the main direct and indirect source of work and prosperity.

Looking at costs of production in the various coal-producing Member States between 1975 and 1989 we find a fairly consistent upwards trend between 1975 and 1985, in spite of the intensive mechanization introduced with a view to improving productivity and the closure of pits with the highest costs.

However, it must be remembered that this overall trend in costs of production in the Community's main coal-producing countries serves only to compare the various national trends and not to compare the various countries in absolute terms; these figures camouflage the major differences from one Member State to another as regards both coal quality (calorific value) and whether or not certain inherited liabilities are taken into account and certain other accounting disparities.

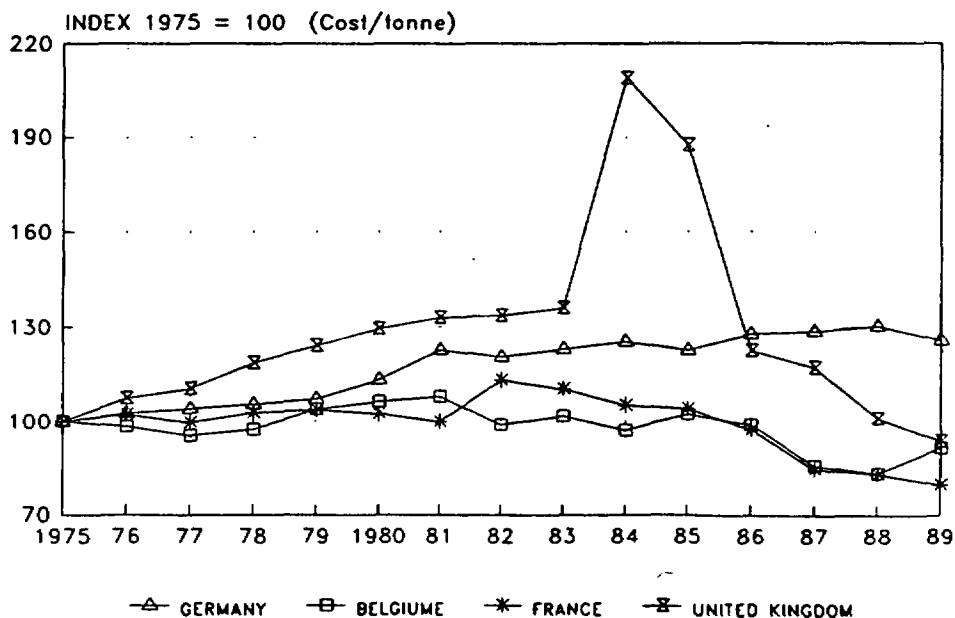
COAL INDUSTRY COST TRENDS



If these costs are adjusted to take account of inflation, taking 1975 as the base year (index = 100), we can see that having generally increased during the 1970s and much of the 1980s, unit production costs started to fall or, at least, to stabilize noticeably in about 1985, with few exceptions, as a result of the restructuring and rationalization carried out to different degrees by almost all Community coal-producing countries.

Thus, for example, production costs fell markedly in France and the United Kingdom and have stabilized in Germany. However, the upwards trend continues in Spain, which adopted corrective measures later than other countries. Belgium is a case apart, since its restructuring exercise should result in the complete abandonment of coalmining for lack of economic viability.

**COAL INDUSTRY COST TREND AT CONSTANT PRICES
(1975 = 100)**



However, the above production costs being calculated per tonne, it is interesting to compare them in terms of energy value, since the characteristics of the coal produced can vary substantially from one Community country to another.

COAL PRODUCTION COSTS IN 1989 (in ECU/t.c.e.)

GERMANY.....	131
BELGIUM.....	166
FRANCE.....	98
UNITED KINGDOM.....	87
SPAIN.....	145
<u>PORTUGAL.....</u>	<u>105</u>
Community.....	111

* Including opencast mines in France, the United Kingdom and Spain

Of course, the above costs are weighted averages for all the mines in each country, and the deviations from these averages are greater in some cases than others; likewise, the Community average is a weighted average of the various national costs.

In Germany, the costs of individual mines vary between about ECU 100 and ECU 175 per tonne of coal equivalent (t.c.e.).

In the United Kingdom we must distinguish between opencast mines, which have distinctly lower costs (some 55% lower on average) and underground mines. The costs of underground mines vary between ECU 60 and ECU 160/t.c.e.

Spain has the greatest variation in the operating costs of underground mines of any Community country, ranging from less than ECU 80/t.c.e. to about ECU 250/t.c.e. The average cost of opencast mines is about 46% of that of underground mines.

In France, since the closure of the Nord-Pas de Calais coalfield, production costs have tended to cluster around the average cost for underground production of some ECU 90/t.c.e. The average operating cost of opencast mines is substantially lower.

A. COST OF COMMUNITY PRODUCTION

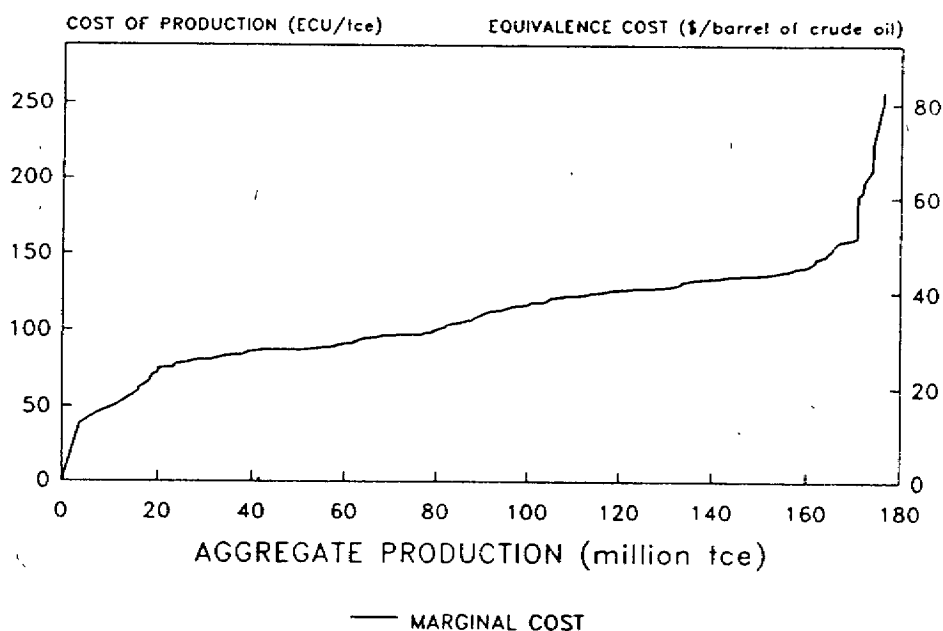
Having examined production costs broken down as far as possible by producer or area, we now look at the trend Community-wide.

The diagram below is based on the results obtained for the various countries, but it should be remembered that the individual values sometimes mask disparities in the way total cost is calculated, which can vary substantially from one Member State to another.

Coal is supplied to a market which is also served by other sources of energy; in principle, from the energy point of view, it is subject to competition. The same applies to liquid fuels derived from oil, in particular fuel oil; to make its cost price comparable with that of coal, we have based our comparison on the price of a barrel of oil. The following assumptions are made for the purposes of the following graph:

- (a) the unit cost of fuel oil is about 10% less than that of its oil equivalent; and
- (b) using fuel oil gives an economic efficiency some 30% higher than using coal, due *inter alia* to a lower proportion of unburnt fuel and lower handling and transport costs where the fuel is actually consumed.

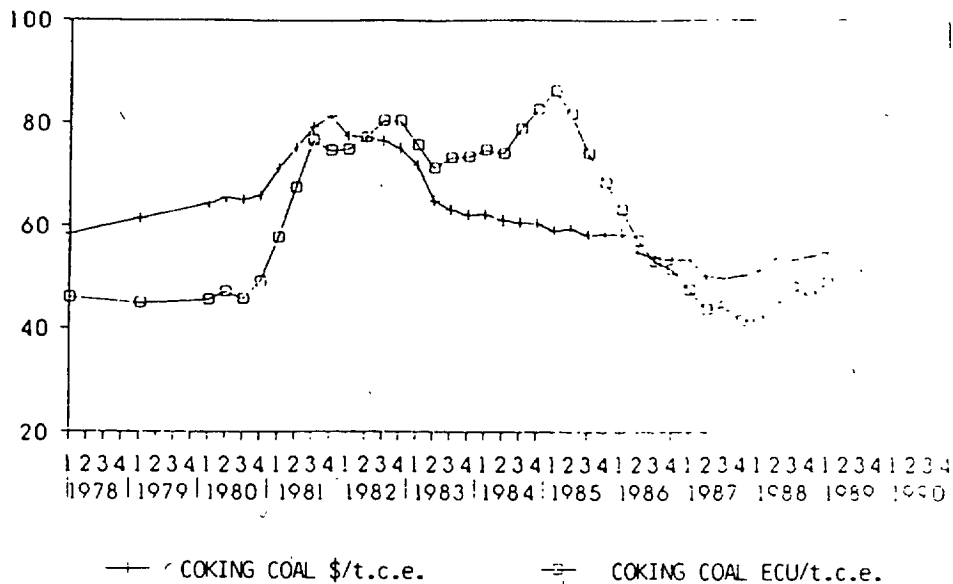
COST OF COMMUNITY COAL
(1989)



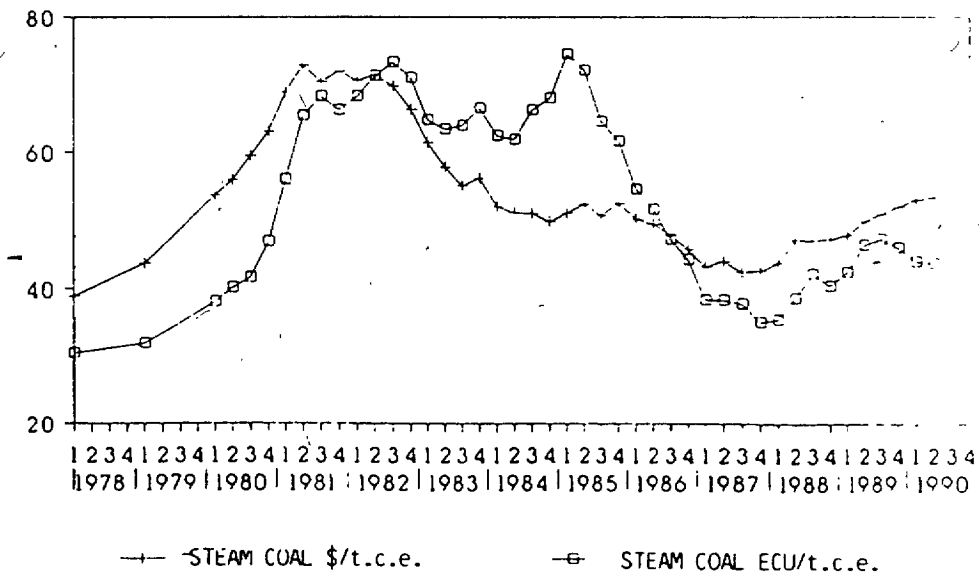
The overall comparison with the price of coal imported (cif) from third countries - to which should be added the cost of transport from the port to the place of consumption, which is generally higher than the transport cost of Community coal - is interesting.

Even if current prices often do not enable third-country producers to cover their costs in full, the enormous difference between the cost of some Community coal and imported coal means that greater emphasis should be placed on the uncompetitiveness of some Community coal than on the argument of security of supply often invoked to justify its production. Here again the solution takes the form of social and regional measures as part of a redevelopment programme.

AVERAGE CIF COST OF COMMUNITY IMPORTS OF
COKING COAL



AVERAGE CIF COST OF COMMUNITY IMPORTS
OF STEAM COAL



B. BREAKDOWN OF PRODUCTION COSTS

In spite of the very substantial differences from one country to another, given the geological characteristics of most European coal deposits, labour is the main cost factor for underground mines. This is certainly to the industry's disadvantage.

PROPORTION OF TOTAL COST ACCOUNTED FOR BY LABOUR COSTS
(1988)

<u>COUNTRY</u>	<u>%</u>
Belgium	57
Germany	38
Spain	55
France	43
United Kingdom	33
Community	39

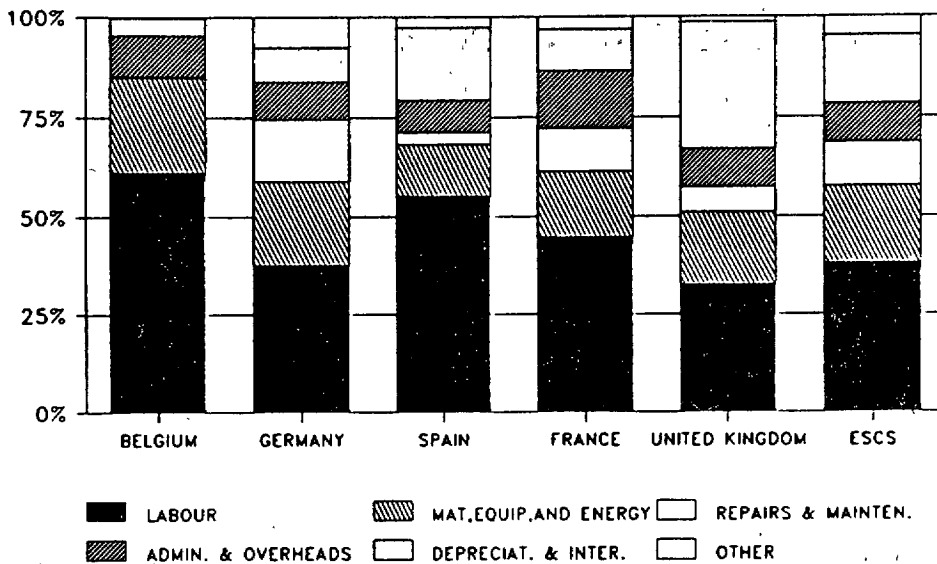
Part of the disparity in labour costs is due to the different social security systems in the various countries. In some countries the mines benefit from special arrangements different from those which apply to other industries, while in other countries, such as the United Kingdom, social security charges are almost entirely covered by the State.

Another part of the disparity can be attributed to the distinct characteristics of the deposits and the degree of mechanization which is possible. Thus, for example, there is a very high level of mechanization in Germany and the United Kingdom, and factors of production such as equipment, energy, repairs and maintenance account for a large part of the cost price of coal; at the other extreme, notably in Spain, where most of the numerous mines are not highly mechanized but use light equipment to extract coal and to cut galleries, the unit costs accounted for by repairs and maintenance are lower.

As regards the financial costs of mining undertakings, liquid assets are one factor to be taken into account for assessing the frequency and scale of recourse to financial markets; another is the interest rate charged in each country for, as Spain demonstrates, interest rates in one country can be several points higher than in the other Member States.

To summarize, ignoring the differences referred to above, the following chart shows the contribution of the various factors to production costs in each coal-producing country and for the Community as a whole.

**PRODUCTION COSTS OF COAL (1989)
BY COUNTRY**

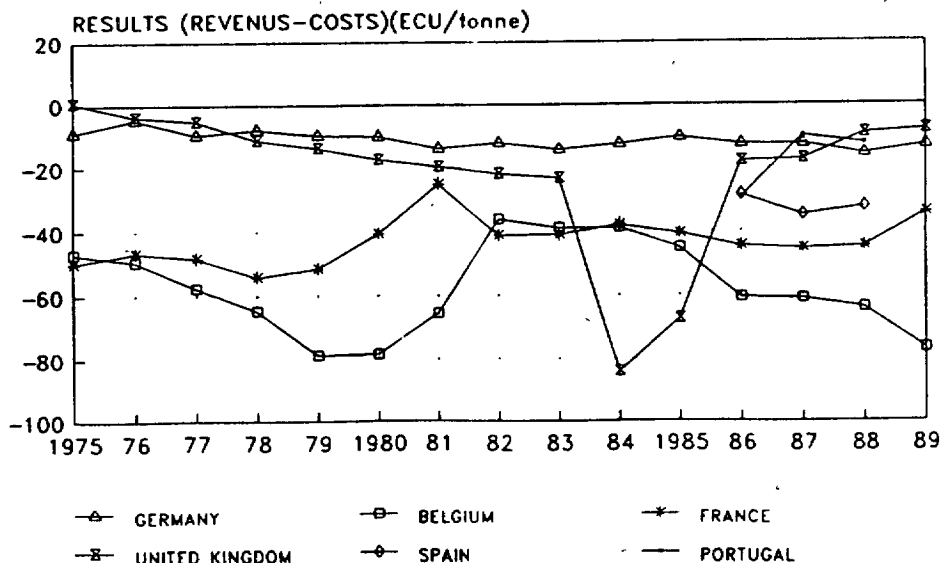


• UNDERGROUND MINES

C. FINANCIAL SITUATION OF THE MINING INDUSTRY

The precarious financial situation of the coal industry in the various Member States should be highlighted: average operating costs are often far higher than the average value of the coal produced. These operating losses are largely covered by direct or indirect subsidies granted by all Member States, affecting supply and/or demand or both.

**FINANCIAL SITUATION OF THE COAL INDUSTRY
TREND OF RESULTS**



• 1989 VALUES

However, pricing policies are not identical in all Member States. Some align the prices received by coal producers on the price of coal imported from third countries and subsidize their operating losses to varying degrees from the State coffers. Elsewhere, the prices charged tend to cover almost all production costs and it is the final consumer who indirectly pays for the losses. In some countries the two approaches coexist.

The terms of certain "vertical" contracts between coal and electricity producers, such as the Jahrhundertvertrag in Germany or the new contractual arrangements applicable in Spain, result in the fixing of totally artificial prices substantially higher than market prices; fluctuations in the price of coal on international markets accordingly have no effect on the internal market from the point of view of the producer, and often not from the point of view of the final consumer either, and any repercussions which are felt are very slight.

In France and the United Kingdom, the prices at which coal is sold to electricity producers are coupled to trends on the international market.

This system has resulted in an appreciable reduction in production costs following the closure of the most costly mines, i.e. those with the highest costs of production and hence making the greatest losses.

Germany applies separate pricing policies for each of the three markets: power stations, the steel industry, and other uses.

Power-station coal is covered by a sectoral contract between producers and consumers as described above; this policy is based on prices covering production and transport costs almost in full, in virtual isolation from the international market situation.

In Belgium, selling prices are aligned on the cif price of imported coal.

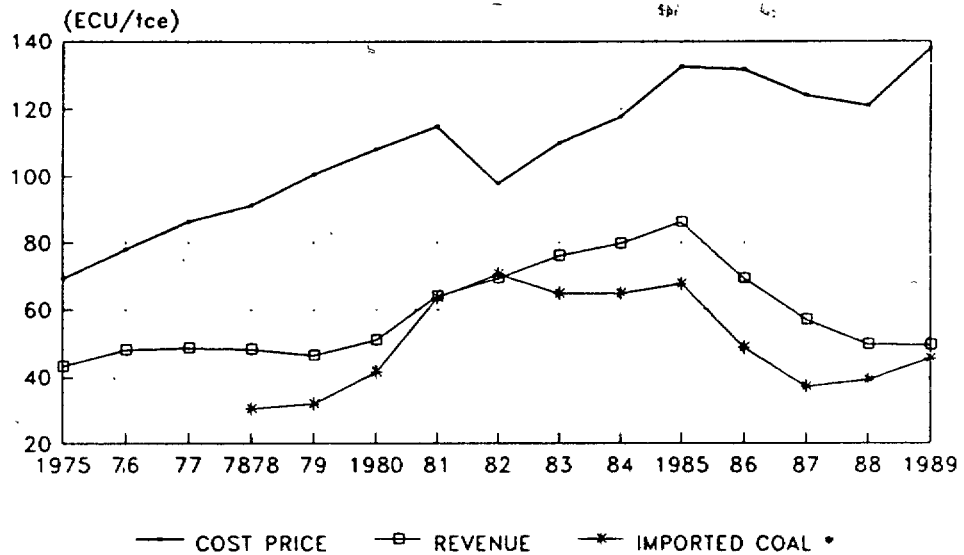
In Spain, coal prices are governed by the sectoral agreement signed by producers and consumers (electricity companies) and are independent of the international price situation and trends. They are reviewed annually, taking into account official forecasts of the overall increase in the domestic price index and corrected, although only slightly, by a factor taking into account the trend of the prices of coal produced in the other Community Member States.

In the United Kingdom, selling prices were fixed until 1989 on the basis of joint criteria, i.e. taking account of production costs and the international market situation. In future, this price should progressively come nearer to international market realities.

The countries where the trend of domestic prices has been closely coupled to that on the international market have generally gone further in restructuring and rationalizing their coal industry, and have closed the mines making the greatest losses.

In descending order of intensity of the solutions adopted we find Belgium, where production will end by the end of 1992, the United Kingdom and France, where severe measures have resulted in improvements in the financial situation and a substantial reduction in production costs, Germany, where more moderate measures have resulted in increased costs and revenue, and Spain, where, in the almost complete absence until recently of restructuring measures, both costs and revenues have increased.

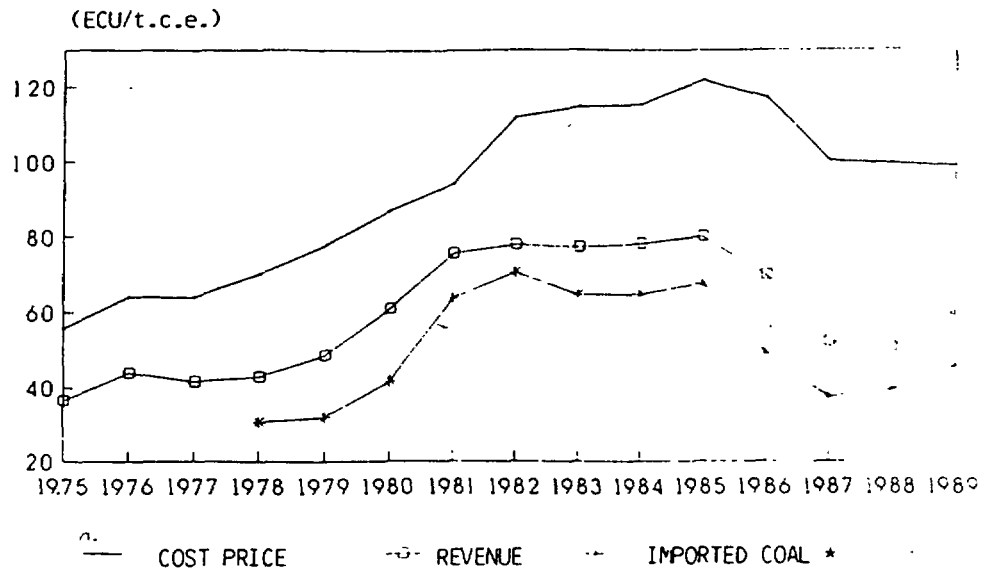
TREND OF RESULTS - COSTS AND REVENUE
BELGIUM



* AVERAGE CIF PRICE OF COMMUNITY IMPORTS OF STEAM COAL

TREND OF RESULTS - COSTS AND REVENUE

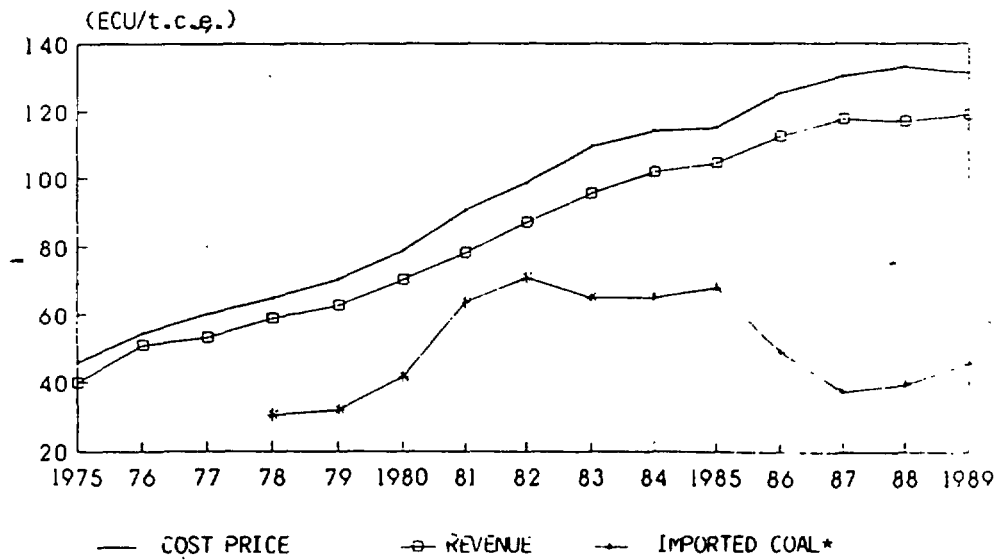
FRANCE



* AVERAGE CIF PRICE OF COMMUNITY IMPORTS OF STEAM COAL

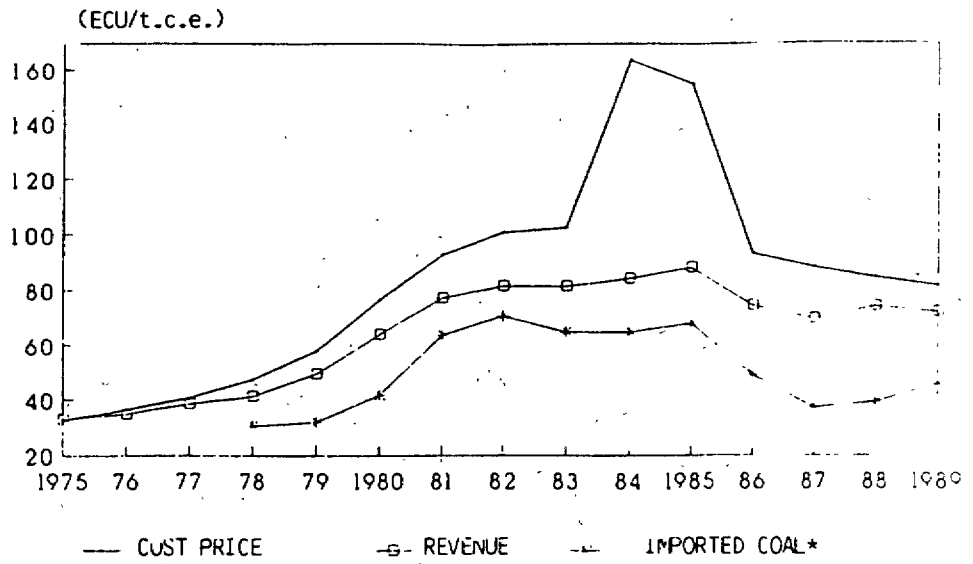
TREND OF RESULTS - COSTS AND REVENUE

GERMANY



* AVERAGE CIF PRICE OF COMMUNITY IMPORTS OF STEAM COAL

TREND OF RESULTS - COSTS AND REVENUE.
UNITED KINGDOM



* Average CIF price of Community imports of steam coal

**SUMMARY OF AID AUTHORIZED BY THE COMMISSION
PURSUANT TO DECISION NO 2064/86/ECSC**

Although the conclusions which led to the Commission authorizing at least part of the aid which the Member States intended to grant have been set out in detail in the decisions published in the Official Journal of the European Communities and in the periodic reports which the Commission draws up pursuant to Article 14 of the Decision, it seems appropriate here to include a summary by country and type of measure subject to authorization since the new aid rules were implemented.

For the purposes of Decision No 2064/86/ECSC, deficit grant aid (Article 3), investment aid (Article 5), aid for underground staff (Article 6) and aid for sales of coking coal and coke (Article 4) are considered to be direct aid for current production. Although the last category concerns sales, it is considered to be direct aid since it is in practice granted directly to the producer and not to the consumer. Financial aid which, while generally being granted to an economic operation other than the production of coal, nevertheless benefits coal undertakings, is considered to be indirect aid.

Annex 2 to the Decision defines indirect aid for current production as "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". This is the case in particular of sales aid, and aid for the financing of welfare benefit systems specific to the coal industry where this makes the effective social charges of undertakings lower than the charges which undertakings would normally have to pay in other industries.

Belgium

The Commission authorized the Belgian Government, pursuant to Decision No 2064/86/ECSC, to grant direct aid to the coal industry of ECU 362.5 million in 1987, ECU 202.6 million in 1988, ECU 159.4 million in 1989 and ECU 68.9 million in 1990. This aid was intended to compensate for operating losses, facilitate sales of coking coal and coke to the Community steel industry, retain qualified underground staff and, specifically in respect of 1988, to finance 50% of the costs of building a fluidized-bed power station. The Commission checked that the means of granting the proposed aid was in each case in accordance with the conditions and criteria laid down in the corresponding articles of the Decision.

Germany

Financial aid for current production authorized by the Commission amounted to ECU 3 864 million in 1987, ECU 4 505 million in 1988, ECU 4 417 million in 1989 and ECU 4 205 million in 1990. The proportion of this aid which, in view of the intended purpose, was considered to be direct aid for current production was 49% in 1987, 44% in 1988 and 1989 and 43% in 1990.

Direct aid within the meaning of Decision No 2064/86/ECSC was intended to facilitate sales of coking coal to the Community steel industry, investment, the retention of qualified staff in the coal industry and the application of a special depreciation system.

Indirect aid served mainly, under the third "Electricity-from-coal Law", to compensate for the excess cost to the electricity sector of using Community coal to generate electricity.

The two forms of aid for sales of almost exclusively German coal to the steel and electricity industries accounted for an average over the period 1987-90 of about 92% of total annual aid granted directly or indirectly to the German coal industry.

The Commission checked that the proposed conditions for the granting of aid were in accordance with the conditions and criteria of Decision No. 2064/86/ECSC.

The Commission approved the changes made to the German system of aid for sales of coking coal and coke to the steel industry (Article 4) which entered into force on 1.1.1989 for a period of three years and are designed to limit aid, notably by reducing the quantities of coal covered. Having regard to the objectives referred to in Article 2 of the Decision, the Commission considered the principles of limiting aid and scaling down aid required by the objectives of the system would further the restructuring of the coal industry and thus make it more competitive.

As regards the compensatory payments to be made to the electricity producers under the third "Electricity-from-coal Law", in view of the substantial year-on-year increase in the volume of aid requested and the fact that it was not being scaled down, the Commission called on the German Government in its decision in respect of 1988 to present a plan for phasing out the aid by the date of expiry of Decision No 2064/86/ECSC, i.e. 31 December 1993. This plan should form part of a programme for the restructuring, rationalization and modernization of the coal industry.

However, such a plan has not as yet been sent to the Commission. In respect of 1989 and 1990, the Commission limited its authorization to amounts less than those notified. The Commission considered that, although the requested aid reductions apparently indicated a phasing out of aid, application of the parameters laid down in the third Law did not justify authorization of the amounts notified by the German Government.

Spain

The Commission authorized the Spanish Government to grant aid for current production of ECU 461.4 million in 1987, ECU 449.5 million in 1988, ECU 508.7 million in 1989 and ECU 499.2 million in 1990.

Direct aid can be broken down into aid to cover operating losses, aid for sales of coking coal and coke to the Community steel industry and investment aid. Indirect aid mainly covers aid from the Ofico designed to reimburse the electricity companies for the price supplements, over and above the reference price, which they have to pay to almost all coal-producing undertakings to cover their operating losses.

In view of the trend of aid compared with the objectives referred to in Decision No 2064/86/ECSC, in its decision in respect of 1989 the Commission felt obliged to call on the Spanish Government to submit a plan for phasing out aid from the Ofico by 31.12.1993 as part of a programme for the restructuring, rationalization and modernization of the coal industry.

This decision was taken in view of the fact that after two years of implementation there was no sign of any scaling-down of the aid, even though this was included among the objectives of the measure. The Commission limited aid in respect of 1990 to the 1989 level, since no factual or legal argument justified increasing aid.

The Commission limited the amount of aid granted to Hunosa, Minas de Figaredo and Minero Siderúlgico de Ponferrada for the part of its activities resulting from the operation of the Mina de la Camocha to cover operating losses in respect of 1990 to the 1989 level and called on the Spanish Government to submit a plan for phasing out this aid by 31 December 1993 as part of a plan for the restructuring, modernization and rationalization of the industry, since the way in which the aid was granted did not encourage a return to competitiveness in the industry and was even such as to encourage the creation of production capacities with no prospect of economic viability even in the long term.

France

The Commission authorized the French Government to grant aid for current production of ECU 428.6 million in 1987, ECU 249.8 million in 1988, ECU 174.6 million in 1989 and ECU 166.2 million in 1990.

The bulk of this aid is intended to cover part of the operating losses of the coal industry.

As regards the compatibility of this aid with the objectives laid down in Decision No 2064/86/ECSC, the Commission took into account the substantial reduction in the amounts made available to the coal industry to cover operating losses since 1986 (covering only part of the difference between revenue and costs of production) and the continuous reduction in the level of production (32% down on 1986). This trend is part of a rationalization and restructuring plan made necessary by the lack of economic viability of certain mines. The programme resulted *inter alia* in the ending of mining in the Nord-Pas de Calais coalfield at the end of 1990, and will later lead to the closure of underground mines in the Centre-Midi coalfield.

Portugal

The Commission authorized the granting of aid to the Portuguese coal industry amounting to ECU 1.8 million in 1987, ECU 1.7 million in 1988 and ECU 4.6 million both in 1989 and in 1990.

This aid is intended to cover operating losses.

The substantial increase in aid led to the Commission, in its decision authorizing aid in respect of 1989, calling on the Portuguese authorities to present a strategic restructuring plan. The Commission ruled on the aid notified in respect of 1990 on the basis of the information contained in that plan.

United Kingdom

On the basis of the notifications from the United Kingdom Government, the amount of aid for current production authorized by the Commission amounted to ECU 842.7 million for the 1987/88 financial year, ECU 315.2 million for 1988/89, and ECU 6,627.5 million for 1989/90.

Aid during this period was intended to cover the operating losses of British Coal and the extra costs linked to the transfer of staff from pits affected by restructuring measures to other pits.

In its decisions, the Commission took into account the restructuring and rationalization measures implemented in recent years. The Commission approved the substantial increase in aid to cover operating losses in 1989 as this increase was due to the restructuring of the industry.

Aid for the transfer of staff to new activities or mines covers part of the costs (removal expenses, transport, training, etc.) resulting from some of the consequences of the restructuring and rationalization policy. Since this measure is intended to facilitate the restructuring of the coal industry, it was considered compatible with the objectives of the decision.

In addition to the above aid, the Commission approved aid to the British Coal Corporation in respect of the 1989/90 financial year to establish provisions to cover compensation for hearing loss resulting from production activities before the 1989/90 financial year and to cover free supplies of coal, smokeless fuel or, in certain cases, cash payments to miners at the end of their working life, ex-miners and their beneficiaries, resulting from production activities before the 1990/91 financial year.

These measures were approved because by facilitating the implementation of new accounting practices they make production costs more transparent and will facilitate the implementation of restructuring, rationalization and modernization measures and hence improved competitiveness in the coal industry.

The aid of ECU 3,910 million reflecting the reduction in the value of the fixed assets of the British Coal Corporation, also authorized in respect of the 1989/90 financial year, is a result of the contraction of the market share held by coal produced in the United Kingdom, price trend forecasts and technical problems encountered in deposits considered until recently to be promising. This aid not only renders the undertaking's accounts more transparent and brings them in line with standard accounting principles, it also avoids mines with good prospects for long-term economic viability from being burdened with financial charges linked to production capacities with no prospect of economic viability.

In order to avoid distorting the trend, this exceptional aid in respect of the 1989/90 financial year has not been included under the heading "Other" in our summary table (see Chapter I).