European Communities

EUROPEAN PARLIAMENT

Working Documents

1983 - 1984

18 November 1983

DOCUMENT 1-993/83

Report

drawn up on behalf of the Committee on Energy, Research and Technology

on the communication from the Commission of the European Communities to the Council (COM(83) 174 final - Doc. 1-295/83) containing proposals for establishing a 'new system for coking coal and coke for the iron and steel industry'

Rapporteur: Mr R. GAUTHIER

English Edition

By letter of 21 April 1983, the President of the Council of the European Communities consulted the European Parliament on the Communication from the Commission to the Council containing proposals for establishing a 'new system for coking coal and coke for the iron and steel industry'.

On 18 May 1983, the President of the European Parliament referred this proposal to the Committee on Energy, Research and Technology as the committee responsible and to the Committee on Budgets and the Committee on Economic and Monetary Affairs for an opinion.

On 25 May 1983, the Committee on Energy Research and Technology appointed Mr GAUTHIER rapporteur.

The committee considered the proposal from the Commission of the European Communities at its meetings of 16 May, 18 October and 3 November 1983.

At the latter meeting the committee decided unanimously with two abstentions to recommend to Parliament the adoption of the Commission's proposals without amendment.

The committee then adopted the proposal as a whole and the explanatory statement unanimously with two abstentions.

The following took part in the vote : Mrs Walz, chairman, Mr Seligman, vice-chairman; Mr Gauthier, rapporteur; Mr Adam, Mr Fuchs, Mr Gabert (deputizing for Mr Linkohr), Mr Key (deputizing for Mr Percheron), Mr Moreland, Mr Normanton, Mrs Phlix, Mr Purvis, Mr Schmid, Sir Peter Vanneck and Mrs Viehoff (deputizing for Mr Rogalla).

The opinion of the Committee on Economic and Monetary Affairs is attached to this report.

The opinion of the Committee on Budgets will be published separately.

This report was tabled on 4 November 1983.

C O N T E N T S

A

The Committee on Energy, Research and Technology hereby submits to the European Parliament the following motion for a resolution together with explanatory statement.

MOTION FOR A RESOLUTION

closing the procedure for consultation of the European Parliament on the communication from the Commission of the European Communities to the Council concerning proposals for establishing a new system for coking coal and coke for the iron and steel industry in the Community

The European Parliament,

- having regard to the communication from the Commission to the Council[1] (COM(83) 174 final),
- having been consulted by the Council (Doc. 1-295/83),
- having regard to the report of the Committee on Energy, Research and Technology and the opinions of the Committee on Budgets and the Committee on Economic and Monetary Affairs (Doc. 1-993/83),
- having regard to its earlier resolutions on coal policy,
- having regard to the result of the vote on the Commission's proposals,

1. Recalls that coal and other solid fuels have an important role to play in the Community energy strategy by diversifying energy sources so as to reduce dependence on oil;

2. Underlines the special nature of the production and use of coking coal which constitutes the meeting point of two traditional Community industries - coal and steel;

3. Recalls the serious crisis affecting the steel industry in the Community, which is beset by indebtedness and marketing problems, and warmly welcomes Community measures to assist this still important industrial sector;

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1 OJ No C 132 of 19.5.83, p.4.

4. Is aware of the structural changes in the world market for coking coal, the drop in demand, the falling-off in intra-Community trade and the growth of imports from third countries, but underlines that the present economic situation is not irreversible and that, on the contrary, the Community has a crucial role to play in reversing this trend, and considers that the new Community system for coking coal for the iron and steel industry should be implemented in the short term and be subject to review and revision during its application;

5. Considers that it is necessary to maintain coking coal production capacity in economically viable units, and to keep such cokeries in operation to prevent certain regional and social imbalances becoming more acute.

6. Emphasizes also the urgent need to safeguard supplies to the steel industry and to maintain coking coal production capacity within the Community at a level that is profitable;

7. Considers that national aids should gradually be replaced by a system of Community sales aids, which will help to maintain a minimum level of production effectively guaranteeing the Community's energy supplies in the event of a crisis;

8. Takes the view that the new system for coking coal and coke for the Community iron and steel industry should be incorporated into a comprehensive coal policy for the common market in solid fuels and should be consistent with the objective of that policy;

9. Endorses the principle expressed by the Commission in its draft decision that a certain core of coking coal production and cokeries should be maintained within the Community and considers that the new system proposed will help to achieve this objective;

10. Welcomes the fact that the financing of sales aids for an increase in intra-Community trade will be covered by the general budget of the European Communities in accordance with the European Parliament's resolutions and calls on the High Authority of the European Coal and

and Steel Community to state clearly its long term intentions as regards the future financing of the High Authority if it becomes more and more dependent on the general budget of the European Community in respect of solid fuels, noting the existing dependence in respect of steel.

11. Insists that the budgetary authority of the European Community should assert the necessary control of its disbursements to the European Coal and Steel Community, and that the spending of such monies should be subject to audit by the Court of Auditors and control by the European Parliament through its Committee on Budgetary Control;

12. Calls upon the Commission, nonetheless, to reduce substantially the proposed validity period of the new system;

13. Instructs its President to forward to the Council and Commission, as Parliament's opinion, the Commission's proposal as voted by Parliament and the corresponding resolution.

B

EXPLANATORY STATEMENT

I - INTRODUCTION

1. The steel industry is one of the main outlets for coal since blast furnaces are designed to use coke exclusively.

For economic reasons and to safeguard supplies it is therefore logical to build up to the maximum the proportion of Community coking coal in supplies to the EEC steel industry.

2. Unlike the supply of coal, which is partly covered by imports, almost all the Community's coke requirements are met by domestic production. The secondary importance of the coke trade with third countries is primarily due to the fact that for reasons of profitability and security of supply, the production of coke for the iron and steel industry is traditionally linked to steel production.

3. Two important principles emerged from the debate conducted at Community level in the early 1960's on the implications of the crisis in the coal industry - the need to rationalize the collieries to adapt to market conditions and the concern to safeguard supplies of coking coal.

4. These objectives were pursued in two series of decisions based on Article 95 of the ECSC Treaty:

- financial intervention by Member States to assist their coal-mining industries (inaugurated in 1965);

- the system applying to coking coal (initiated in 1967).

5. Following successive extensions, the general system of aids will remain in force until the end of 1985; the system for coking coal and coke expires at the end of 1983.

6. The general system allows the Member States a great degree of freedom in the levels and terms and conditions of their intervention to assist the coal-mining industry. Their action is limited by the fact that undertakings are

prohibited from underquoting competing offer prices and from disrupting the operation of the Common Market for coal and steel.

II - CONTENTS OF THE COMMISSION PROPOSAL

7. The communication from the Commission to the Council on the 'new system for coking coal and coke for the iron and steel industry in the Community', comprises:

- a decision under the ECSC Treaty concerning coking coal and coke for the Community iron and steel industry;

- a proposal for a Council regulation (EEC) establishing a Community contribution for sales aids relating to intra-Community trade in coking coal and coke for the iron and steel industry of the Community.

8. These proposals are consistent with the guidelines set out by the Commission in its communication of February 1982 on 'the role of coal in Community energy strategy', which served as a basis for the Council's considerations and during a meeting of ministers in Copenhagen on 16 December 1982.

9. In addition, the Commission recently published in Official Journal No. C 147 of 6 June 1983 its communication on the Community coal market in 1982 and the outlook for 1983. This document forecasts consumption for the Community as a whole for the current year of the order of 301 million tonnes, against 202.7 million tonnes in 1982 and 302.6 million in 1981.

Between 1982 and 1983 only the power stations (+3%), the iron and steel industry (+3%) and other industries (+10%) will witness an increase in coal consumption, whereas coking plants, affected by the crisis in the steel industry and the production of patent hard-coal fuels, will see their coal consumption fall by 11 and 2% respectively.

10. The new system that the Commisison proposes to apply from 1984 onwards is based on the following considerations:

- the fall in the coking coal and coke requirements of the Community iron and steel industry and the abundant supply on the world market have reduced the problems of security of supply;

- this means that a gradual reduction in the level of coking coal production capacity maintained within the Community can be envisaged; this cutback should be associated with an improvement in the competitive position of Community coal producers on the world market; increased competitiveness would result in greater stability in sales.

11. The new system is characterized by the following features: it is valid for a limited period of 5 years (1984-1988), with a degressivity in the tonnages eligible for Community aid (the maximum tonnage for which a Community contribution may be granted is 10 million tonnes in 1984 and will be reduced annually to 2 million tonnes).

12. Production aids for coking coal financed by the Member States will be assimilated to other forms of intervention and can henceforth be covered by the general system of measures taken by the Member States to assist the coal-mining industry (Decision 528/76).

13. The Community's financial contribution to promote intra-Community trade in coking coal and coke will amount to 6 ECU per tonne instead of the present figure of 3 ECU. This contribution will be financed by a total of 180 million ECU from the general budget of the EEC, thus answering a long-standing request by the European Parliament (see report by Mr IBRUGGER - Doc. 69/79), and no longer by means of special contributions which impose a serious burden on the ECSC budget and the liquidities of the iron and steel industry.

14. In addition, the Commission plans to back up this Community measure to improve the competitiveness of the coal-mining industry by a significant consolidation of the social aids now available. A proposal to this effect is apparently in preparation.

III - PREVIOUS MEASURES

15. Like the aids granted by Member States to assist their coal-mining industries, the specific Community measures in the coking coal sector stem from the Protocol of Agreement of 21 April 1964.

16. In this protocol the governments of the Member States 'judge that the problem of long-term coking coal supplies for the Community demands the Council's special attention'.

17. Since it was inaugurated, the system for coking coal has pursued two objectives: to maintain the coal and coke production capacity necessary to supply the Community iron and steel industry and to promote the marketing of coal and coke, in particular by means of intra-Community trade.

18. To date there have been three systems designed to achieve these aims. On 16 February 1967, the governments of the Member States adopted a Protocol of Agreement on coking coal and coke intended for the Community iron and steel industry, which was followed by the High Authority's Decision No. 1/67 of 21 February 1967. This decision was originally taken for two years and subsequently extended for a further year.

19. It was followed by Commission Decision No. 70/1/ECSC of 19 December 1969, which was succeeded by Decision No. 73/287/ECSC of 25 July 1973 currently in force and the validity of which, initially until the end of 1978, was extended until 1981 by Decision No. 1613/77/ECSC of 15 July 1977.

20. The main instruments of the special system for coking coal have remained unchanged since 1967. They are:

- aids which the producing Member States may grant to their coalfields within the limits laid down;

- price rebates with a wider alignment margin than is available under the Treaty;

- Community financing of certain aids.

21. The ways in which the above instruments have been applied have changed over the years and important new criteria were introduced in the texts adopted in 1970 and 1973.

22. In 1967 there was only one type of aid to assist the production and sale of Community coking coal; the amount was 1.7 units of account per tonne; there was a margin of alignment around this rate but in no event could the figure exceed 2.2. units of account per tonne.

23. The second aspect of Decision 1/67 was a system of compensation between the Member States for aids covering intra-Community deliveries (deliveries to steel undertakings located in a Member State other than that producing

the coal).

24. Decision No. 1/70 was also applied for a period of three years, until 31 December 1972. It provided for two types of aid: production aid and sales aid.

25. Production aid could amount to up to 1.50 units of account per tonne of coking coal; the rate was fixed annually, governments taking into account the average production costs of each coalfield, the price of coking coal in its principal sales area and the long-term supply conditions; the rates granted were subject to Commission approval. The production aid was complemented by a uniform but degressive sales aid.

26. Decision No. 73/287/ECSC, originally adopted for 6 years and extended in March 1977 until the end of 1981, gives the system for coking coal an additional objective, that of promoting the conclusion and execution of long-term contracts between Community partners: in parallel, only such contracts are eligible for the above aids and alignment.

Apart from this, the essential elements of the previous decision are maintained although a number of the conditions have changed.

IV - CLEARER GUIDELINES UNDER THE NEW SYSTEM

27. The new system provides for a special 'production aid' for coking coal, calculated on the basis of two parametres (coalfield production costs and, price of cif imports at the same coalfield). In the case of sales to customers remote from the coalfield, the state may grant a 'sales aid' which shall not exceed a predetermined amount.

28. Sales aids for deliveries to countries other than the producing country ('intra-Community trade') are reimbursable to the producing state through a Community fund financed from three sources (ECSC, iron and steel industry, the six founder Member States).

29. Rebates granted by producers on their list prices must not be less than the 'guide price' (average cost of imports) published by the Commission and applying to the Community as a whole. The system also lays down broad rules governing relations between coal undertakings and the iron and steel industry

(duration of contracts and margin of flexibility for tonnages in particular).

V - CONCLUSIONS

30. In conclusion, and in accordance with his terms of reference, your rapporteur recommends that the Committee on Energy, Research and Technology should approve the Commission communicaton and calls on Parliament to support this initiative, subject to the introduction of some degree of flexibility in the way in which the new system is applied, in particular with regard to its duration.

ANNEX

OPINION

of the Committee on Economic and Monetary Affairs
for the Committee on Energy, Research and Technology

Draftsman: Mr E. VAN ROMPUY

On 26 May 1983, the Committee on Economic and Monetary Affairs appointed Mr VAN ROMPUY draftsman of the opinion.

It considered the draft opinion at its meeting of 27 and 28 September 1983 and adopted the conclusions contained in the opinion by 11 votes to 2 with 3 abstentions on 28 September 1983.

The following took part in the vote: Mr J. Moreau, chairman; Mr Van Rompuy, draftsman; Mr Beazley, Mr Bonaccini, Mr Franz, Mr I. Friedrich, Mr Giavazzi, Mr Heinemann, Mr Leonardi, Mr Mihr, Mr Papantoniou, Mr Purvis (deputizing for Sir Brandon Rhys Williams), Mr Rogalla (deputizing for Mr Ruffolo), Mr Schinzel, Mrs Theobald-Paoli, Mr Wagner and Mr Wedekind (deputizing for Mr Müller-Hermann).

The opinion was tabled on 30 September 1983.

1. After a Community system had been established in 1965 for aid from the Member States to the mining industry, a special Community system for coking coal was set up in 1967. This system for coking coal has since been repeatedly extended and adapted to changes in market conditions. The Directive discussed here is intended to extend the system for coking coal beyond 31 December 1983, when the current system is due to expire. The aim of this system is the maintenance within the Community, by means of specific aids, of production capacities for coking coal and coke sufficient to ensure profitable or marginally profitable mine production and the rational use of existing coke factories and also to ensure the continuity of supplies to the iron and steel industry under reasonable and non-discriminatory conditions.

2. Such a system must of course be seen within the context of the Community's global energy strategy. After the successive oil crises, a central point in the energy strategy was to ensure continuity of supplies by diversifying sources. Accordingly, when the general aid system for the mining industry[1] was revised in 1976, new considerations were taken into account, namely reducing dependence on oil and maintaining Community coal production at current levels under satisfactory economic conditions. In 1982, both the European Council and the Council of Energy Ministers expressed the political resolve to endeavour to establish a Community strategy for solid fuel. This was also in accord with the report adopted by Parliament on the extension of the coking coal system to 31 December 1983[2], paragraph 6 of the resolution stating:

> 'Notes with satisfaction that the Commission too appears now to have decided on the long called-for complete revision of coal policy as part of a coherent energy policy; assumes that a decision will be taken on this revision in consultation with the European Parliament during the period of validity of the 1973 Decision, which has now been extended;'

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[1] Decision 528/76/ECSC of 25.2.1976, OJ L 63, 11.3.1976, p. 1

[2] Doc. 1-985/81, considered at the part-session of February 1983

What progress has been achieved in creating such a comprehensive Community strategy for solid fuels? One has the impression that this has got no further than a fine-sounding declaration of intent by the European Council, with no concrete progress having been achieved in working out this strategy.

3. The proposal is intended to adapt the aid system for coking coal to current conditions and phase it out within 5 years. The proposed system, which is restricted to just sales aid, is 'degressive' and the Commission believes that circumstances are now propitious for the phasing-out of a Community aid that has outlived its justification. Without going into the arguments put forward by the Commission for ending this aid, it should however be asked how this fits into the coal policy the Commission is supposed to devise as an integral part of the Community's energy strategy. The Commission assumes that intra-Community trade in coking coal will continue to show a downward trend, though it believes that the coal mines have had time enough to take transitional measures in order to adjust to market conditions. It also thinks that regular supplies to the common market are no longer seriously at risk, given that demand is falling, as are the quantities supplied in intra-Community trade, and since the increasing employment of blending techniques enables use to be made of a wider range of coking coals offered on the world market. This would thus indicate that the Commission accepts a fall in sales of Community coking coal for the iron and steel industry.

4. How does this fit into the Community's global coal policy, particularly as regards the objective formulated in 1976 of maintaining the current level of Community coal production to ensure continuity of energy supplies? The Commission's explanation of its proposal does not answer this question. However, these are problems to which the Commission should address itself as a matter of priority.

To be sure, the Commission's ultimate objective is to maintain the level of Community coal and coke production, though under satisfactory economic conditions. As early as 1964, the agreement protocol of that year stipulated that aid measures for coal mines, other than those promoting rationalization, should in general be degressive. Even though the objective of making aid degressive has been regularly repeated, the aid measures for coking coal used in the iron and steel industry have been extended repeatedly and not on a degressive basis.

The Committee on Economic and Monetary Affairs is opposed to the preservation of outdated structures by the introduction of a permanent form of aid. The only acceptable form of support is transitional aid that is to be phased out gradually and which will give the industry the opportunity to adapt its structures to new market conditions. The five-year limit on the extension of sales aid for coking coal used in the steel industry and the degressive nature of the aid thus meets, in principle, with the approval of the Committee on Economic and Monetary Affairs. One must, however, examine whether this fits into a global energy strategy whose aim is continuity and diversification of energy supplies.

5. It should also be noted that the ending of aid to the coking coal industry applies only to the sales aid benefiting intra-Community trade. This amounts to just 7% - 9% of what is called the 'alignment margin' in the proposal: the difference between the cost price within the Community and the price of imports from third countries. For the rest, this price difference may be covered by the Member States under Decision 528/76/ECSC, which introduced a Community system for measures taken by the Member States to aid the coalmining industry. The previous systems also provided for a specific production aid financed by the national governments on a per-coalfield basis, related to the difference between the price of coal from third countries and production costs in the Community. This specific aid will now disappear and be incorporated in the general Decision 528/76/ECSC. The question is whether the abolition of this sales aid will encourage the adaptation required by economic developments, if the remaining national aid measures are to be maintained. Is it precisely the aid to intra-Community trade that has to be abolished, while the remaining aid is maintained? The intention is probably rather to incorporate this specific aid into the general aid system for coal mines after the five years have expired, as already is the case with the specific production aid. Indeed, the Commission states in its explanation that the entire system of aid for coal mines may be revised when Decision 528/76 is due to expire, i.e. at the end of 1985.

6. An additional comment in the explanation notes that the period covered by the Community system should permit the realization of the objective set out in Decision 73/287/ECSC, requiring the iron and steel industry to bear the full cost of the supply of blast-furnace cokes it requires. What is intended here? Under the system of aid for Community blast-furnace cokes used in the iron and steel industry, the price of blast-furnace cokes cannot fall below

the world market price. This means that the iron and steel industry must in fact always pay at least the world market price for the coking coal it uses. Certain countries, particularly the Federal Republic of Germany, even oblige their iron and steel industries to buy domestic coking coal, though the prices they impose on their iron and steel industries in this case are not allowed to exceed the world market prices for coking coal. Given the crisis in the iron and steel industry, one cannot require it to pay a higher price for coking coal than the world market price, or else its competitive position will deteriorate still further and will need to be restored by other aid measures.

7. Whereas the previous aid measures were financed from a variety of sources, i.e. the ECSC, the iron and steel industry and the Member States, it is now proposed to finance sales aid from the Community budget. This makes the aid given more transparent and also meets the recommendations of the earlier opinion from the Committee on Budgets. With regard to the Commission's comment that 'account would be taken of the limited capabilities of the ECSC budget and of the steel industry which is engaged in a major phase of restructuring', it should, however, be noted that, in view of the exhaustion of its own resources, the capabilities of the Community budget have since become just as limited as those of the ECSC budget. For the rest, the Committee on Economic and Monetary Affairs does in fact agree that the contribution towards financing these measures for the iron and steel industry should be abolished, for maintaining this contribution would simply increase this industry's need for aid.

8. Conclusions

The Committee on Economic and Monetary Affairs

(a) regrets that the European Parliament should be required to give its views on the Commission's communication on the new arrangements for coking coal and coke for the iron and steel industry before the Commission has formulated its policy on fuels and related investments;

(b) urges the Council to devise such a strategy for solid fuels without delay; notes, however, that, although quite some time has already elapsed since the successive energy crises, the progress achieved in working out a Community strategy in response has been only slight and very slow;

(c) reserves, therefore, the right to return to this subject when discussing the Commission's proposals on a balanced policy for solid fuel and Community financial support for the Community's solid fuel producing industries;

(d) notes that the proposal is intended to end after 5 years Community aid for Community coking coal used in the iron and steel industry;

(e) points out, however, that the Community sales aid for intra-Community trade in coking coal used in the iron and steel industry covers only a limited part of the difference between the price for coal from third countries and production costs in the Community, whereas the remaining aid given under the general subsidy system of Decision 528/76 continues unchanged; asks therefore whether simply removing this specific sales aid will encourage the taking of the necessary decisions on adaptation that have become inevitable as a result of economic developments;

(f) has the impression, however, that, after eliminating this specific Community aid, the intention is to integrate it into the general system of Decision 528/76 for measures by the Member States to aid the coal mining industry, which will then probably amount to replacing this Community aid with national aids; the Commission proposal is, however, extremely vague and unclear on this point;

(g) stresses that the proposal can only be voted if it is compatible with the global objectives of the energy policy, particularly the maintenance of Community coal and coking coal production, to ensure the continuity and diversification of energy supplies; is, however, of the opinion that the abolition of intra-Community sales aid would result in a reduction of sales of Community coking coal and there would consequently be no guarantee that it was compatible with global energy objectives; expresses, therefore, its reservations about the Commission's proposal;

(h) approves of this aid being financed from the Community budget; wishes to point out, however, that the resources of the Community budget are limited as well.