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ANNEX

to the report by Mr Roger GAUTHIER

on behalf of the Committee on Energy,

Research and Technology

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Opinion of the Committee on Budgets

PE 86.681/fin./Ann.

English Edition

O P I N I O N

(Rule 101 of the Rules of Procedure)

of the Committee on Budgets

Draftsman: Mrs M. HOFF

On 21 September 1983, the Committee on Budgets appointed Mrs Hoff draftsman of the opinion.

The committee considered the draft opinion at its meetings of 28, 29 and 30 November and 5, 6 and 7 December 1983. It unanimously approved the conclusions contained in the opinion on 6 December 1983.

The following took part in the vote: Mr Lange (chairman); Mr Notenboom and Mrs Barbarella (vice-chairmen); Mrs Hoff (draftsman); Mr Abens, Mr Adam (deputizing for Mr Lalumière), Mr Baillot, Mr Balfour, Mr Blaney (deputizing for Mr Bonde), Mrs Boserup, Mr Harris (deputizing for Mr Newton Dunn), Mr Langes, Mr Louwes, Mrs Nebout, Mr Price and Mr Konrad Schön.

INTRODUCTION

1. This opinion concerns a long-standing aid system which is now being reviewed.

PREVIOUS OPINIONS

2. When Decision 73/287/ECSC concerning coking coal and coke for the iron and steel industry in the Community was last amended (ROGALLA report), the European Parliament considered that it could approve the prolongation of the existing aid system until the end of 1983, provided that the system was revised (resolution of 19 February 1982). In so doing, Parliament also considered that the subsidy scheme should be extended to all coking coal and coke consumed in the Community and to their by-products.

3. In its resolution of 14 December 1982 on the fixing of the ECSC levy rate and on the drawing up of the ECSC operating budget for 1983, the European Parliament stated that it was 'not prepared to accept mixed financing for the marketing aids granted for coking coal and coke in the iron and steel industry beyond 31 December 1983' and called on the Commission to 'present proposals for Community financing by 30 June 1983.'

CURRENT AID SYSTEM - AN ASSESSMENT

4. Because of higher production costs, Community coking coal is not competitive with imported coking coal, and competitiveness has decreased over the years (see table I in point 6). To ensure secure supplies for the Community iron and steel industry and a reliable market for Community coking coal, this adverse situation had to be overcome with a view to ensuring the utilization of European coal stocks. The Member States were therefore allowed to grant production aid to coking coal mines, and a system of marketing aid was developed. So far, the aid has been successful, but the system has not been effective in ensuring increased use of European coal stocks.

5. A separate system was planned for financing marketing aids for intra-Community supplies. This consists of a Community fund financed from three sources which in 1982 contributed as follows:

- ECSC 6 million ECU
- iron and steel industry 17 million ECU
- the six Member States regularly involved in the trade max. 24 million ECU

Aid from the fund is limited to an annual maximum of 47 million ECU for a maximum of 14 million tonnes.

6. Despite falling demand for coke (cf. Table II/3) and the existing aid system, the share of imported coking coal purchased by Community coking plants has increased consistently, to the detriment of domestic supplies or those obtained through intra-Community trade (cf. Table II/10). This increase is due to lower cost of imports, as may be seen from Table I.

Table I: Production costs and aid (in dollars per tonne) for coking coal

	1 production costs Ruhr	2 transport costs to processing plant	3 cost of Community supplies (3=1+2)	4 cost of imported supplies	5 Community's adverse competitive position (5=3-4)	6 marketing aid	7 production aid
1974	46	1.6 to 8.2	47.6 to 54.2	45	2.6 to 9.2	2.0 to 3.7	0
1982	105	1.7 to 11.6	106.7 to 116.6	81	25.7 to 35.6	2.8 to 4.8	11.2

Source: COM(83) 174 final

It would however, be wrong, to draw the conclusion that in future measures to maintain intra-Community trade in coking coal and coke may be completely abandoned in favour of cheaper imported coal. If supplies from the European mining industry were to be discontinued, the resulting demand would have to be met on the imported coal market (cf. Table II/5., 7.and 8.). This additional demand would boost prices to such an extent that the cost price advantage of imported coal would be considerably reduced overall, in all sectors. Meanwhile, however, a process would have been started which would end in the wholesale destruction of existing coal and steel structures. The connection between coal and steel, which are closely concentrated in a few regions of the Community and provide an effective stimulus to employment and economic activity both within and outside these regions, cannot be maintained at the required level without the stabilizing element provided by the coking coal system. The problems facing the coal and steel regions, which are already affected by high, above-average unemployment rates, would increase dramatically. The resources required to combat the resulting economic and employment problems in these regions would be many times greater than those required for a sensible coking coal system.

Table II: Some trends in coking coal production and consumption and their causes

(Europe of the Nine)

	1973	1982
1. Crude steel production (m tonnes)	150.1	111.3
2. Pig iron production (m tonnes)	106.9	72.6
3. Consumption in iron and steel industry (m tonnes)	64.3	45.5
4. Consumption outside iron and steel industry		11
5. Coke production (m tonnes)	82	59
6. Consumption of coal by Community coking plants (m tonnes)	107	79
7. World coking coal production (m tonnes)	304[1]	300
8. Potential world coking coal production (m tonnes)		335 (360 for 1985)
9. International maritime trade in coking coal (m tonnes)	105[1]	120
10. Supply sources for coal converted into blast-furnace coke (in %):		
Domestic origin	54[1]	49
Intra-Community trade	19[1]	15
Imports from third countries	28[1]	36
11. Coking coal supplied by German mines to the steel industry in other countries (m tonnes)	18	10

Source: COM(83) 174 final

THE NEW SYSTEM AS PROPOSED BY THE COMMISSION

7. According to the Commission, the situation has changed radically since these aid systems were introduced: coking coal needs are falling and increased imports mean that there is no longer any serious risk to supplies. The Commission therefore considers that it is appropriate to phase out gradually a Community measure which can no longer be justified on the basis of the original reasons. To allow both steel and coal producers to adjust to this new situation, a transitional period of degressive support is proposed. The transitional period would last five years (1984-1988), and the maximum quantity of coal eligible for aid would be 10 million tonnes (the present

quantity) in the first year, falling gradually to 2 million tonnes in the fifth year. However, the Commission proposes to improve the effectiveness of this aid initially by increasing it on average by between 3 and 6 ECU per tonne. For a coastal plant, aid will be 8 ECU (instead of the present 4.70 ECU); in other cases 5 ECU (instead of 2.80 ECU).

8. The Commission also proposes replacing the present mixed financing system by 100% financing through the Community budget. In this respect, it is in line with the demands made by the European Parliament.

ASSESSMENT OF THE NEW SYSTEM

9. The transitional system proposed by the Commission aims at the abandonment of an effective mechanism for shaping the production and marketing conditions of European coal stocks. It therefore conflicts with the Commission's own objectives. It will not be possible for the proposed degressivity to correspond to natural trends in trade flows. The effect could be to disrupt severely the restructuring and adjustment process - prompted by the crisis in the steel industry - in the Community's iron-producing and coal-mining industries. In particular, this could further exacerbate employment problems in the coal and steel regions.

The Commission will claim that the new system for coking coal must be seen in the context of the review of the solid fuels policy, of which coking coal constitutes no more than a minor aspect. Indeed, this review also covers the following aspects:

- stimulation of consumption
- modernization of productive capacity through new investment and through closures
- social measures accompanying closures
- reduction of systematically increasing stocks
- research and development in the field of production and use of solid fuels and their impact on the environment.

Nevertheless, since the other measures are still in the preparatory stage, it seems premature to accept the replacement of domestic coking coal by imported coal without any guarantee that other measures would be implemented to make the Community's coal industry more competitive. Furthermore, the current budget does not provide enough resources to ensure the effective implementation of coal policy as a whole.

The Commission's proposal also provides for financial contributions from the Member States at a time when these Member States have not even decided whether they are prepared to make resources available to the Community budget. Although Parliament has for a long time strongly pressed for funding to be provided from the Community budget, most recently on 14 December 1982, the current situation is hardly propitious for such a move.

BUDGETARY IMPLICATIONS

10. Appropriations entered under the relevant budget lines for 1984

	(in m ECU)	Preliminary draft	Draft	Parliamen
7023	New arrangement for coking coal for the Community iron and steel industry	PA 30 CA 60	p.m. (1) p.m. (1)	p.m. (1) p.m. (1)
7024	Aid to investment for the production of solid fuels in the Community	PA 75 CA 300	p.m. (1) p.m. (1)	p.m. (1) p.m. (1)
7025	Operations relating to coal stocks	PA 75 (Chap.100) CA 100(" ")	p.m. (1) p.m. (1)	p.m. (1) p.m. (1)
7027	Restructuring of the Community's coal industry	PA 60 (Chap.100) CA 60 (" ")	p.m. (1) p.m. (1)	60 (Chap. 60 (Chap.

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[1] An overall reserve earmarked for new policies (Chapters 70, 73, 75, 77 and 78), totalling 24.6 m ECU in payment appropriations and 30 m ECU in commitment appropriations, has been entered in Chapter 100

[2] An overall reserve of 1,202 m in payment and commitment appropriations is earmarked

1. for projects in the United Kingdom and the Federal Republic of Germany
2. for the following budget lines
   - . Article 560: conurbations (new regulation)
   - . Chapters 60 and 61 and Article 649: Social sector
   - . Chapter 70: Energy policy - in accordance with the priorities laid down by Parliament
   - . Chapter 78: Transport

11. The cost of the arrangement will be 180 m ECU over its entire duration. The new financing system will also mean relief for the ECSC budget amounting to some 6 m ECU a year. The difference in the impact on the two budgets is due to the fact that the Community is to fund the entire amount of aid, i.e. by replacing the contributions from Member States and from the iron and steel industry. Another factor is the increase in the amount of aid per tonne.

CONCLUSIONS

12. The Committee on Budgets

1. Regrets that the Commission's proposals do not take account of the impact on employment in the Community's coal industry; this information is provided in certain other documents concerning solid fuels. It would be appropriate for the Commission to take this problem into account in each individual proposal in future;

2. Considers that the Commission's proposals for phasing out certain support arrangements are premature, with no guarantee that the other aspects as regards the establishment of a competitive coal sector and the appropriate accompanying measures will be implemented; recommends, therefore, that the present system be maintained and reviewed again after three years;

3. Affirms its call for the replacement of the mixed financing system by Community financing; nevertheless, in the present situation, where there is no guarantee that the Member States will increase the Community's own resources, it would not be appropriate to take responsibility for the Member States' share. Only the share from the ECSC budget may be transferred to the general budget of the Community;

4. Points out again, in this connection, that since 45% of the ECSC budget is already being financed from the Community budget, with further financial demands on the Community budget likely as a result of measures to assist the coal and steel industry, proposals for coordinating the ECSC operating budget with the Community budget should be prepared in good time;

5. Gives precedence, on economic grounds, to the use of the Community's primary energy sources. This implies making the necessary budgetary appropriations available to finance this policy as a matter of priority.