Coal industry: State aid and security of energy supply

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PURPOSE: To redefine state aid to the coal industry after 2002. CONTENT: The European Coal and Steel Community - a building block of today's European Union, was signed in 1951 and set to last for fifty years. The ECSC will become obsolete in 2002 prompting a massive rethink of Community policy towards a European coal policy. There are currently four coal producing countries in the European Union - the United Kingdom, Germany, Spain and France. Of these the only country which shows any sign of potential competitiveness is the United Kingdom. For the rest, thanks in large part to geographical conditions, there is no scope for reducing production costs to a level where the EU could eventually compete efficiently with third country industries. In 1991 the European Commission presented a Communication to the Council on the way forward for the European coal industry. Following examination of the Commission proposals by the Industry Council, it was agreed that upon expiry of the current Treaty coal should be treated like any other industrial product and included in the framework of EU competition policy. Bearing the later in mind it has become particulary pertinent to establish Community policy on State Aid to the European coal industry. Although the ECSC prohibits national subsidisation of the coal industry, in practice thanks to structural weaknesses, the European coal industry has been heavily dependant on subsidies. The Commission proposal accepts that, in spite of huge changes to the coal industry since 1951 and in spite of the undesirable effects in general of subsidies to the industry, complete withdrawal of state aid would doom the coal industry in the very short term. In preparing this Regulation the Commission therefore put the future of EU state subsidies to the coal industry within the context of the current political and economic landscape. Thus, the formulation of the Regulation took two important factors into account. Firstly, the need to maintain, for security reasons, an independent source of energy. This thinking is based on the Commission's Green Paper "Towards a European strategy for the security of energy supply" published in 2000, in which it was recognised that priority should be given to securing an indigenous energy supply. Clearly a complete end to coal production in the Community, thanks to the withdrawal of state subsidies, would have negative consequences on the security of the EU's energy supply. Secondly, the Regulation takes account of the Kyoto Agreement and the EU's commitment to reducing Greenhouse gases. Against this background, the Commission Regulation proposes a continuous, albeit limited, subsidisation of the coal industry. The Regulation specifically states that subsidisation will derogate over the years and suggests that as the subsidies decrease more money will be invested in renewable energy sources. Taken together, these measures will contribute to the creation of a base quantity of indigenous primary energy sources. Also stressed in the proposal is therecognised need to take socio-economic conditions relating to closures and lessened subsidisation into account. In essence the defining principles of this proposed legislation are to: - offer aid to safeguard resources; and - aid for the reduction of activity. The Regulation proposes that the scheme has a term of eight years and should expire on 31 December 2010, with a mid term assessment in 2006.