Coal industry: State aid and security of energy supply

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The Commission presented a report on the application of Council Regulation (EC) No 1407/2002 on state aid to the coal industry.

Although the Coal Regulation entered into force on 24 July 2002, the de facto application of the Coal Regulation commenced only on 1 January 2003. With regard to the Member States which joined the EU on 1 May 2004 and 1 January 2007, the Commission started to apply the Coal Regulation as of 1 May 2004 and 1 January 2007 respectively. Following the end of coal production in France in 2004, 11 Member States produce coal covered by the Coal Regulation (Germany, Bulgaria, Spain, Hungry, Italy, Poland, the Czech Republic, Romania, United Kingdom, Slovakia and Slovenia). Among the candidate countries, Turkey and the Former Yugoslav Republic of Macedonia also produce coal covered by the Coal Regulation.

The report starts by giving an overview on the use of **State aid** for the coal industry and the results of the restructuring process. As regards the **operating and investment aid**, 3 groups of Member States can be distinguished: those having stopped coal subsidies for mines in operation (the Czech Republic, France, Italy), those granting investment aid (Poland, Slovakia, the United Kingdom), and those granting operating aid (Bulgaria, Germany, Hungary, Romania, Slovenia, Spain).

Closures of unprofitable mines have taken place in all Member States that produce coal, with the exception of Italy. Germany, Spain and France have granted **closure aid** in order to cushion the social consequences of the mine closure. In the period 2003 to 2006, France closed 2 mines, Germany closed 2 mines, Spain closed 8 production units, and has committed to close down a further 9 mines by the end of 2007. In other Member States, mine closures have also taken place in this period. Hungary closed 2 mines, Slovakia 1 mine, and Poland 3 mines. These closures have taken place without the disbursement of closure aid.

In the Czech Republic and France, the state continues to pay **subsidies for inherited social and environmental liabilities**. However, the mining undertakings still in operation do not seem to benefit from these payments. The other Member States, with the exception of Hungary and Italy, have taken over to a certain extent inherited social and environmental costs not only for closed mines, but also for mines which are still in operation.

The report also covers the issue of the **impact of coal subsidies on the internal market**. State aid to the coal industry potentially affects three different product markets: the market for coal, the market for steel, and the market for electricity. There are also spill-over effects on the mining machinery sector and the eco-technology sector.

As regards the coal market, the Commission notes that the distortion of the market within the EU seems to be limited by the fact that most subsidized coal covered by the Coal Regulation is consumed in the national market. This suggests that there is little direct competition between coal produced in different Member States. In order to avoid spill-over effects from State aid for the Coal industry in the market for electricity, the Coal Regulation foresees a safeguard clause in its Article 4 (e).

The Commission considers that the combined application of Article 4 (c) and Article 4 (e) of the Regulation should allow excluding that coal subsidies have an impact on the market for electricity.

The Commission notes, however, that State aid to the coal industry might have an impact on the internal market for electricity with respect, in particular, to investment decisions for new coal-fired power plants.

The safeguard clause in Article 4 (e) of the Regulation applies also to the markets for coke production and steel. Neither stakeholders nor Member States have made any observations on possible distortions of competition in these markets.

The Commission has encountered **5 main problems in applying the present State aid rules** to the coal industry: i) the control of the criterion "no price distortions"; ii) the distinction between coal covered by the regulation and coal not covered by the regulation; iii) the reduction of production costs; iv) the control of the categories of aid for inherited liabilities set out in the annex of the Coal Regulation, and v) the control of mine closures.

Lastly, according to the Coal Regulation, the Commission shall evaluate whether the development of the coal market and/or the **social and regional consequences of coal mining** render amendments to the Coal Regulation as of 1 January 2008 necessary.

None of the replies received from stakeholders or Member States indicate that there have been important changes with respect to the social and regional aspects of coal mining.

In the light of the above the Commission considers that it is not necessary to propose amendments to the Coal Regulation. The Commission invites the Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and all stakeholders to present their views on this report.