II

(Acts whose publication is not obligatory)

COMMISSION

COMMISSION DECISION

of 1 August 1990

concerning supplementary financial measures taken by the United Kingdom to support the coal industry in the 1989/90 financial year

(Only the English text is authentic)

(91/221/ECSC)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Coal and Steel Community,

Having regard to Commission Decision No 2064/86/ECSC of 30 June 1986 establishing Community rules for State aid to the coal industry [1],

Whereas :

I

In its letter of 12 July 1990 the United Kingdom Government provided the Commission, in conformity with Commission Decision 90/634/ECSC of 28 March 1990 concerning financial measures taken by the United Kingdom in respect of the coal industry in the 1987/88, 1988/89 and 1989/90 financial years [2], with additional information on certain aid which it intends to grant to the coal industry in respect of the 1989/90 financial year.

The United Kingdom Government also informed the Commission in this letter in accordance with Article 9 (3) of Decision No 2064/86/ECSC of the final account in respect of the aid to cover operating losses of British Coal Corporation incurred in 1989/90 and supplied the information relating to British Coal Corporation's business strategy.

The following aid is submitted for the approval of the Commission pursuant to Decision No 2064/86/ECSC :

— supplementary aid totalling £ 215 million to cover operating losses of British Coal Corporation incurred in 1989/90,

— a financial measure totalling £ 820 million reflecting the balance of the decline in the underlying value of British Coal Corporation's fixed assets.

The measures planned by the United Kingdom Government to support the coal industry comply with Article 1 (1) of the Decision. Consequently, under Article 10 of the Decision, the Commission must determine whether the measures are compatible with the objectives and criteria laid down in Decision No 2064/86/ECSC and with the proper functioning of the common market.

II

By Decision 90/634/ECSC the Commission authorized the United Kingdom Government to pay aid totalling £ 5 100 million to the coal industry for the 1989/90 financial year. The total amount of aid is broken down as follows :

— aid totalling £ 800 million to cover operating losses of British Coal Corporation incurred in 1989/90,

[1] OJ No L 177, 1. 7. 1986, p. 1.
[2] OJ No L 346, 11. 12. 1990, p. 22.

— aid totalling £ 500 million to British Coal Corporation for the constitution of a provision to cover compensation for hearing loss arising from production activities prior to 1989/90,

— aid totalling £ 2 000 million to British Coal Corporation for the constitution of a provision for concessionary supplies of coal, smokeless fuel or, in certain cases, a payment in kind to mineworkers on retirement, former mineworkers or their beneficiaries, in respect of production activities prior to 1990/91,

— a financial measure totalling £ 1 800 million reflecting the decline in the value of British Coal Corporation's fixed assets.

The authorization given by the Commission in respect of the financial measure reflecting the decline in the underlying value of British Coal Corporation's fixed assets related to only part of a notified measure totalling £ 2 600 million.

Since the capital losses on these fixed assets could not be precisely evaluated until the detailed examination of the future prospects of the United Kingdom coal industry in the overall corporate strategy had been completed, the Commission was only able to approve a part-sum of £ 1 800 million.

Consequently, the United Kingdom Government was requested to communicate to the Commission by 1 October 1990 the information relating to British Coal Corporation's business strategy.

In the light of the information contained in the communication of 12 July 1990 from the United Kingdom Government, the Commission is now in a position to take a decision in respect of a financial measure totalling £ 820 million reflecting the balance of the decline in the underlying value of British Coal Corporation's fixed assets.

Moreover, the final account in respect of the aid to cover operating losses incurred in 1989/90 reveals an increase of £ 215 million in the measure authorized by Decision 90/634/ECSC, which brings the total amount of aid which the United Kingdom Government plans to grant to cover operating losses incurred in that financial year to £ 1 015 million.

III

Considerable restructuring, rationalization and modernization has been carried out in the United Kingdom coal industry over the last five years. These measures have resulted in a reduction in the number of collieries from 169 in March 1985 to 73 in March 1990, and a drop in the number of miners from 171 000 to 66 000. Productivity in this period increase by over 75 %. Deep-mined output fell by 13 million tonnes during the same period from 88,4 million tonnes to 75,5 million tonnes.

These pit closures have led to an appreciable increase in the Corporation's financial burdens. The industry has also had to bear a growing share of its redundancy costs.

By Decision 90/634/ECSC the Commission authorized aid to cover operating losses in 1989/90 totalling £ 800 million. The final account for the financial year will necessitate the granting of supplementary aid amounting to £ 215 million, bringing the total amount to £ 1 015 million.

This increase is chiefly due to a lower-than-expected selling price, new difficulties caused by geology and temporary problems connected with production conditions.

The aid to cover operating losses incurred in 1989/90 is granted for production totalling 95,8 million tonnes and does not exceed the difference, for each tonne produced, between foreseeable average costs and the foreseeable average returns, and therefore complies with Article 3 (1) of Decision No 2064/86/ECSC.

This measure facilitates the process of restructuring, rationalizing and modernizing the United Kingdom coal industry, by improving its competitiveness through the closure of production capacities that offer no prospect of long-term economic viability, and through the introduction of new production techniques or new equipment for capacities of production offering prospects of long-term economic viability. It is therefore compatible with the objectives specified in Article 2 (1) of the Decision.

IV

The continuing decline in the market share of coal produced in the United Kingdom, the outlook for coal prices and for the dollar exchange rate, the concentration of production on the pits most likely to be economically viable, the Corporation's determination not to commit itself to any more commercial operations which are unlikely to produce economic returns in the long term, the technical problems encountered in deposits hitherto considered promising, and the problems of controlling emissions from coal with a significant sulphur content, suggest that over 60 % of British Coal Corporation's assets will have to be definitively written off.

Consequently, the United Kingdom Government decided to grant British Coal Corporation aid totalling £ 2 620 million, of which £ 1 800 million was authorized by the Commission in Decision 90/634/ECSC. This measure, which reflects the decline in the underlying value of the Corporation's fixed assets, serves not only to improve the transparency of the Corporation's accounts and bring them into line with orthodox accounting principles, but also especially to avoid burdening collieries with good long-term prospects of achieving economic viability with financial charges related to uneconomic production capacity.

In the light of the demand and price trend scenarios and the short and long-term profitability targets assigned to British Coal Corporation, the restructuring, rationalization and modernization measures that will be necessary in the years ahead will involve the closure of collieries which offer no prospect of achieving economic viability. This concentration of the Corporation's activities on those pits which offer the best prospect of being economically viable is consistent with the objective of improving the competitiveness of the coal industry set out in the first indent of Article 2 (1) of Decision No 2064/86/ECSC.

Apart from the aid to permit the Corporation to meet the cost of redundancies and other social costs of restructuring, rationalization and modernization of the coal industry, the United Kingdom Government has notified the Commission that it will not grant the Corporation any other type of aid in the coming financial years until the date of expiry of Decision No 2064/86/ECSC.

V

The aid which is the subject of this Decision is therefore compatible with the proper functioning of the common market,

HAS ADOPTED THIS DECISION :

Article 1

The United Kingdom Government is hereby authorized to grant aid in addition to that authorized by Decision 90/634/ECSC totalling £ 1 035 million to the coal industry for the 1989/90 financial year. The total amount of aid breaks down as follows :

— supplementary aid not exceeding £ 215 million to cover operating losses incurred by British Coal Corporation,

— a financial measure not exceeding £ 820 million reflecting the balance of the capital loss on British Coal Corporation's fixed assets.

Article 2

This Decision is addressed to the United Kingdom.

Done at Brussels, 1 August 1990.

For the Commission

António CARDOSO E CUNHA

Member of the Commission