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INTERVIEW

Coal Not Becoming Superfluous

Interview with Dr Fritz Hellwig, Vice President of the Commission of the European Communities, Brussels

The rapid change in the European energy sector has mainly affected the coal. It is more and more threatened to lose its importance. The importance of exploitation and transport means increasing competitiveness of non-European suppliers, and technical progress enables the economical use of new power categories. For the adjustment of coal demand to the present and future one, many-sided politico-economical measures and programmes are imperative. INTERECONOMICS had the occasion to talk with Dr Hellwig, Vice President of the Commission of the European Communities, about these questions.*

QUESTION: The categories of fuel to be considered when trying to ensure an ample, cheap and secure supply of energy for both industrial and private households use are coal, oil, natural gas, water power and nuclear energy. To cover future demand, producers and consumers of energy need to plan and look ahead. Thus the probable development of demand is of primary importance in the formation of a rational energy policy. What do you think to be the likely development of energy demand over the next few years in the ECSC?

ANSWER: In answering that question, I should like to differentiate between the overall consumption of energy and the shift in favour of electricity within the overall consumption of energy. The demand for electricity approximately doubles over a period of 10 years. This corresponds to an average annual growth rate of 7.2 per cent. In the immediate future, the demand for electricity should probably grow at an even faster rate. However, over the last few years overall consumption of energy has risen by about 5 per cent per annum. We expect growth

of the same order to continue over the next few years, although we must not overlook the fact that a certain recession has taken place in this area, corresponding to the deceleration in cyclical growth. In concrete figures, the total energy requirement will rise from 660 million tons of coal equivalents in 1965/66 to 740 million tons of coal equivalents in 1970 and 1,100 million tons of coal equivalents in 1980.

QUESTION: In what ratio is it anticipated that the various sources of energy—coal, oil, etc.—will contribute to the overall demand for energy within the ECSC?

ANSWER: The shift towards the newer forms of primary energy will continue. Replacement of coal by other forms of energy is a worldwide phenomenon. Naturally, this happens more quickly in countries deficient in coal; but even in coal-producing countries like France and Germany coal's lead in meeting the demand for energy has been lost. For instance, over the years 1950—1970 coal's share will probably have fallen from 74 to 27-32 per cent. It is mainly oil which has taken the place of coal. (Details about percentages of the various forms of primary energy are best seen from the following table.)

FRITZ HELLWIG

has been a member of the High Authority of the European Coal and Steel Community since September 1959; after the fusion of ECSC, EEC and Euratom, his sphere of operations will be broadened yet further; on 1st July of this year he became a member of the Joint Executive of the three European Communities. Hellwig was born in Saarbrücken in 1912. He studied philosophy, history and economics at the Universities of Marburg, Vienna, Berlin and Heidelberg. In 1933 he became a Doctor of Philosophy and three years later a university lecturer. After being active in organisations concerned with industrial economy and as an economic adviser, Hellwig was Director of the Deutsches Industrieinstitut (German Industrial Institute) in Cologne from 1951 to 1959. From 1953 to 1959, Hellwig was a member of the German Bundestag, and held the post of Chairman of its Committee on Economic Policy for three years. From 1953 to 1956 he was a member of the Advisory Assembly of the Council of Europe and in 1959 became a member of the European Parliament.

* The interview was arranged by Ernst Niemeier and Dietrich Keschull.

| Form of Energy | 1950 | 1960 | 1965 | 1970 | 1980 |
|----------------|------|------|------|-------|-------|
| Brown coal | 8 | 7 | 6 | 5 | 4 |
| Coal | 74 | 53 | 38 | 27-32 | 73-66 |
| Oil | 10 | 27 | 45 | 54-49 | |
| Natural gas | 0 | 3 | 3 | 7 | 8-11 |
| Water power | | | | 6 | 4 |
| Atomic energy | 7 | 9 | 8 | 1 | 8-11 |

QUESTION: Shifts among the primary forms of energy are an important, but not the only decisive, reason for the deteriorating outlook for coal sales. On top of this, how much are sales of Community coal affected by coal imports from other countries?

ANSWER: The deterioration in sales prospects for Community coal is no longer caused only by pressure from oil and gas—this factor is relatively new—but also because Community coal is relatively more expensive than imported coal from third countries. We were aware that industrial and steam coal from third countries—mainly the USA but also from Britain—could be delivered to the coasts of Europe at prices below those of equivalent qualities in the Community. Over the last two or three years American coal, on the average, has been about \$ 3-3.5 per ton cheaper delivered to the coasts of Europe, than the prices at which Community coal can be bought there. Price differences may become even more extreme when Community coal has to bear higher transport costs to certain localities where it is used—for instance, near the Italian or French coasts. The reason why American coal is cheaper is, firstly, because of the large increase in wage costs in Europe (primarily in West Germany) compared with America, where pit-head prices have remained constant. A further shift in favour of America was due to the success of American coal dealers in the transport sector. Over a period of only a very few years sea freight rates for coal have fallen by about \$ 1.5 per ton. The Americans have also reduced rail freight costs from pit-head to port by a further \$ 1-1.5, so that even at constant production costs American coal has a cost advantage cif European ports of about \$ 3-3.5.

QUESTION: The mining industry, which is already under severe pressure from imported American

coal, particularly in West Germany, is constantly complaining that oil firms, with their low-price policy, are attempting to force coal out of the market. Is there any justification for this accusation of "pressure competition"?

ANSWER: There is certainly some justification for this argument. Undoubtedly, West Germany is the largest energy market in Europe and, because of coal's high market share, it offers additional opportunities to other fuels. It is understandable that, in such a situation, there should be very severe competition between oil, gas, etc. But we have made the following observation: the price level of mineral oil derivatives inside the Community has undergone a certain adjustment over the past years. Differences from country to country are by no means as great now as they were a few years ago when price levels were particularly low in West Germany. This is due, in part, to the fact that the oil market in West Germany is not subject to the same compulsory controls as those in other Community countries.

QUESTION: Coal's decreased sales prospects require a reduction of output in the mining industry. In West Germany, however, pressure to close pits is countered by the argument that in other Community countries—Belgium, for instance—there are pits still in operation which are far less efficient than those German pits it is proposed to close down. Are there any objective criteria for closing down pits in the Community so that it would be possible to decide the controversy over which pits in which country should be closed?

ANSWER: There are no clear objective criteria, at least not one single one, which can be said to apply to all countries and all pits. The outcry about pit closures in West Germany has to do with the

output per shift in pits in Community countries. For example it is pointed out that in Germany the average output is currently about 3,300 kg., whereas in other Community countries pits show shift outputs of only 1,400 kg. In reality, however, this output criterion is not a useful measure of whether a pit can survive. Even with a high output per shift, the market may not buy the coal extracted, whilst coal produced on a smaller shift output can be sold without difficulty. Pits producing anthracite and lean coal for use on local domestic markets—which is still very much the case in Belgium—cannot be compared with pits in the Ruhr producing only easily marketable types of industrial and steam coal. For pits with a relatively low shift output there will, as a rule, always be local buyers who find such coal reasonably priced because of the saving on transport costs. In any case, the shift output cannot be used to prove the assertion that better German pits would be closed down whilst less efficient Belgian mines continue to operate. Neither is it true that German pits have been harder hit by closures or that greater output capacities have to stand idle. In Belgium, output fell by 40 per cent between 1957 and 1966; In France the comparable figure was 11 per cent, in Holland 11.5 per cent and in West Germany 16 per cent. However, technical output capacity—i.e. the workable pits—fell by 36 per cent in Belgium, 12 per cent in France, 12.5 per cent in Holland and by only 6.5 per cent in West Germany. Thus the fall in capacity has no relation to any decrease in effective demand. The result is that at the present time, in the Ruhr and in West Germany generally, not even good pits are able to exploit their capacities to the full because there are still too many bad pits sharing in the total saleable output. In recent years, what have often been called closures have to a large extent been unavoidable rationalisation measures. Pits were closed down not to reduce capacities but because demand was shifted from bad pits to better pits.

QUESTION: It is certainly desirable that coal production should be shifted from bad to better pits whilst simultaneously achieving a genuine decrease in capacity. But how are these pits to be selected so as to exploit the better pits to their utmost?

ANSWER: This might be done by agreement between the mine-owners. But as well as selecting the right pits it is also necessary to create the most effective units. This entails merging coalfields (from the qualitative aspect, too) and grouping individual mines to create units of the most efficient size. It is said to be an exaggeration to estimate potential savings at DM 2-3 per ton output. Very cautiously, the mining industry has indicated that a comprehensive re-organisation of the coalfields would mean savings of only DM 0.70 per ton. On the other hand: would any modern department store refuse to seize an opportunity to reduce costs by 1 per cent—and DM 0.70 represents more than 1 per cent for the mining industry? It is clear that very careful calculations must be made here if State financial aid to the mining industry is to be an economic success.

QUESTION: In connection with decreased output and pit closures, it is certainly of interest to take a look at future coal sales by the Community. What quantities of coal will it be possible to sell?

ANSWER: A year ago we made representations to Community Governments that if current levels of aid for coal were maintained they could not count upon selling more than 170 million tons of Community coal. The High Authority also pointed out that such a fall in demand would naturally entail an accelerated rate of closures, combined with considerable regional and social problems. We also proposed to the Governments that they should examine whether State promotion of coal sales could be handled in such a way that it would be possible to maintain an output of 190 million tons in 1970, West Germany's share in these 190 million tons being about 120 million tons. We put these proposals

forward in March of last year. It is already obvious, however, that it will not be possible to maintain this output of 190 million tons in 1970—nor, consequently, West Germany's share of around 120 million tons. The expenditure of State funds necessary to maintain such an output is gradually exceeding Budget funds, which cannot support the subsidies for uncompetitive coal production as well as the increasing contributions to social insurance for miners—these are due to the growing number of closures and the consequent reduction in the number of contributors to this insurance scheme.

QUESTION: When the question of limiting coal output and reducing State aid is raised, the mining industry always argues that coal is a reliable form of energy supply in order to demonstrate its right and its ability to survive. To protect supplies is also one of the primary aims of the Community Agreement. Of what significance is this argument in formulating the Community's coal policy?

ANSWER: Considerations of security, which were the basis of the Community Agreement, are still important. In our proposal on coal policy of a year ago, the maintenance of an output of 190 million tons in 1970 was based not only upon the regional and social consequences of a too rapid withdrawal from coal, but also upon security aspects. With a coal output of 190 million tons up to 1970, there would be very little shift in the ratio between Community energy and imported energy. Naturally, security of energy supplies cannot be based upon coal alone, but depends upon further development of natural gas extraction, upon water power and oil production within the Community. The increase of energy supplies from other sources within the Community and a coal output of 190 million tons p.a. would barely cover one half of the energy requirements of Community countries.

QUESTION: Is it not possible that energy demand will grow so considerably that there is a risk

of shortages which might then be covered by coal?

ANSWER: It is incontestable that oil supplies alone cannot cope with the growth in energy demand. Increasing industrialisation and motorisation might easily drive up the demand for oil-based fuels to a level where processing oil for fuels, compared with the intake of raw oil, will take on a greater significance than heretofore and that supplies of heating oil will grow relatively smaller. However, such a shortage of energy is only conceivable if no new sources of energy are discovered meanwhile. This is where immeasurables enter into our predictions. The astounding results of the search for natural gas in recent years make it plain that in this sector we are only at the beginning of significant developments. Finally, we must take nuclear energy into consideration; it has been proposed that the latter be developed jointly as a solution to the security problem in the long term. The economic use of nuclear energy will become possible even earlier than was anticipated in 1957, when the Community Agreement was drafted.

QUESTION: In view of these developments in the supply of energy, does the security argument offer any justification for a protectionist coal policy?

ANSWER: No, the exaggerated emphasis on the security argument is limited by realistic considerations of cost. Were the mining industry to make careful calculations, it might—in certain circumstances—find solutions to the coal problem other than continual subsidies to uncompetitive pits. Why, for instance, in discussing the security argument, do they not mention the technical problem of closing down capacity without destroying it? As the mining industry says, this is technically possible at any time. What is frightening is the very high cost of resuming production. A comparison between the costs of closing down pits and then resuming production and the expenditure upon subsidies for unsaleable output would certainly clarify this question.