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REPORT FROM THE COMMISSION

Preliminary report

**The Market for Solid Fuels in the Community in 2001 and
the Outlook for 2002**

1. INTRODUCTION

Member States have presented to the Commission their estimates of production, supply and deliveries of coal and other solid fuels during 2001 and 2002. The data received from Member States is summarised in this report. The Commission has found it necessary to make estimates where the information from Member States has not yet been received. This has particularly been the case for Italy and the Netherlands. Some of the figures may differ from those of Eurostat.

This report focuses on the provisional results for 2001 compared with the actual figures for 2000, and makes the first estimates for 2002.

2. ECONOMIC AND ENERGY BACKGROUND

The economic situation in the euro area deteriorated throughout the year 2001. Euro area GDP contracted by 0.3% in the last quarter of 2001 after two quarters of almost no growth. The average growth rate for 2001 is estimated at 1.4 %. Private consumption weakened as various price shocks eroded purchasing power of households who were further negatively affected by the fall in stock prices and uncertainty about labour market developments. The contraction of international trade by 2% in value resulted in a steep fall in foreign demand. In response to a faltering final demand, there was a contraction of investment for four quarters in a row and a steep fall in inventories, both posting negative contributions to GDP growth. A weak recovery is projected in the first part of 2002 and growth should resume to its potential level in early 2003.

Monetary policy has been conducive to growth in 2001. The ECB has cut short-term interest rates four times and the main rate for refinancing operations dropped by 150 bp to 3.25% at the end of 2001. Long-term interest rates slightly declined in 2001, but since the last quarter of 2001 prospects for a recovery in 2002 have triggered an increase in long rates. The euro depreciated against the US dollar in the first part of the year to a trough at 0.84, then appreciated shortly until September but a slow depreciation has been recorded since. The start of 2002 has seen the introduction of the euro coins and notes.

In the first part of the year **headline inflation** kept on a rising path also observed in 2000. The average inflation rate in 2001 was 2.5% in the euro area. A hike in food and energy prices was the main cause for this surge, but the weakness of the euro also contributed. However, inflation displayed a downward trend in the second half of 2001 and is expected to be around 2.2% in 2002.

Employment in the euro area is estimated to have grown by 1.2% in 2001. This healthy pace of employment growth contrasts with the historical trend of low job creations observed in the 90s. The unemployment rate has only marginally increased by 0.1% at 8.4% since its trough in 2001. However labour markets always reflect the economic situation with a lag and a deterioration in the forthcoming months cannot be ruled out. Despite slightly higher inflation, wage moderation continued in 2001. Real compensation per employee was slightly higher than the low productivity growth.

The EU-wide **government deficit** excluding UMTS proceeds increased from 0.1% of GDP in 2000 to 0.7 % in 2001 and the euro area deficit was at 1.3 % of GDP in 2001. The main explanation for the deterioration in the budgetary position is the cyclical downturn. According to stability and convergence programmes, the budgetary stance (measured by the change in the cyclically adjusted primary balance) is estimated to be tightened by 0.4% of GDP in 2002.

COMPARISON OF THE MAIN FEATURES OF THE SOLID FUEL MARKET					
(million tonnes)					
	2000	2001	2002	2001/2000	2002/2001
	actual	estimates	forecast	(%) **	(%)**
HARD COAL					
Resources					
- Production	86.1	78.1	77.0	-9.3	-1.4
- Recoveries	2.4	1.4	1.4	-41.3	+1.6
- Imports from third countries	169.1	182.0	183.0	+7.7	+0.5
Total	257.5	261.5	261.4	+1.5	0.0
Deliveries					
- To coking plants	50.1	45.0	44.8	-10.2	-0.5
- To power stations*	180.7	182.7	184.2	+1.1	+0.8
- To others	25.0	26.4	23.7	+5.8	-10.4
- Exports to third countries	0.3	0.3	0.3	-11.3	+10.1
Total	256.1	254.5	253.0	-0.6	-0.6
COKE					
Resources					
- Production	37.1	33.9	33.3	-8.7	-1.6
- Imports from third countries	9.6	10.1	9.6	+4.5	-4.5
Total	46.7	44.0	43.0	-5.9	-2.3
Deliveries					
- To steel industry	42.8	40.5	39.9	-5.3	-1.5
- Other deliveries within the Community	4.2	3.9	4.0	-6.9	+2.8
- Exports to third countries	0.5	0.2	0.3	-51.4	+26.6
Total	47.5	44.6	44.2	-5.9	-0.9
LIGNITE					
Resources					
- Production and imports	243.8	255.3	255.1	+4.7	-0.1
Deliveries					
- To briquetting plants	14.1	13.9	12.8	-1.2	-7.6
- To power stations	228.6	239.6	240.6	+4.9	+0.4
- Others (incl. exports to third countries)	1.9	1.7	1.6	-11.9	-0.8
Total	244.5	255.2	255.1	+4.4	0.0
PEAT					
Resources					
- Production and imports	11.2	13.7	13.8	+22.7	+0.5
Deliveries					
- To briquetting plants	0.4	0.4	0.4	-11.8	-4.9
- To power stations	7.0	9.4	9.7	+33.4	+3.3
- Others (incl. exports to third countries)	3.1	3.5	3.5	+11.9	-1.5
Total	10.6	13.3	13.5	+25.3	+1.8

(!) The sums may not add up due to rounding.

* Including industrial and pithead power stations

Overall **energy demand** in the EU could grow by some 0.8% annually over the coming years. While the demand for natural gas is expected to grow by around 2.7% a year, the demand for solid fuels could decrease by as much as 3% per annum. The growth in electricity demand could be around 1.4% per annum, with the use of gas increasing by some 3.7% per year while the input of solid fuels into power generation could decline by around 1.9% per year.

November 2000 saw the publication of the Commission's Green Paper "Towards a European strategy for the security of energy supply"¹, which provoked a wide-ranging debate across the EU on the national policy options in the field of energy.

3. HARD COAL

3.1 Production

Hard coal production in the **European Union** in 2002 is forecast to be just over 77 million tonnes. This represents a fall of 1.1 million tonnes or 1.4% on the 2001 total of 78.1 million tonnes, and is over 9 million tonnes or 10.5% below the levels of production in 2000.

French coal production continued to decline in accordance with the National Coal Pact agreed in 1994, which foresees the ending of indigenous hard coal production in 2005. Production fell from 3.2 million tonnes in 2000 to 2 million tonnes in 2001, and is forecast to decline further to 1.4 million tonnes in 2002. Employment at the end of 2001 stood at 6,945, compared to 7,973 the year before.

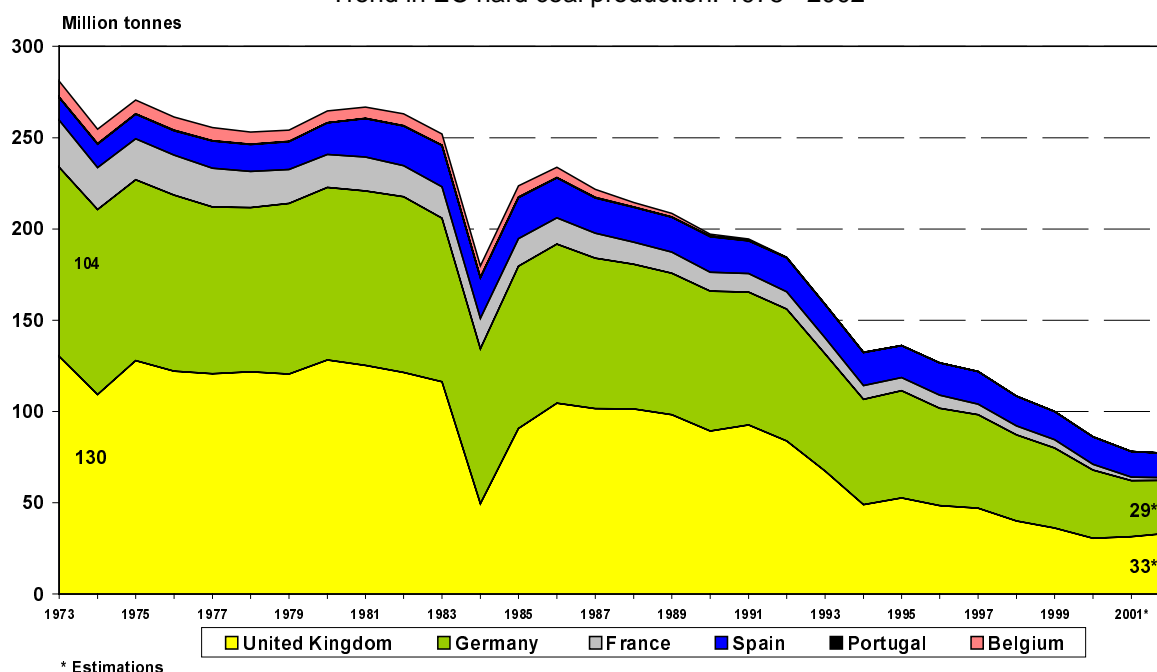
Two underground mines remain in operation in the Lorraine coalfield: *Merlebach*, which will close in October 2003 and *La Houve*, which will close in July 2005. Following the closure of the opencast *Blanzey* mine in the *Saone-et-Loire* department in December 2000 and the opencast mines of *Gard* in January 2001 and *Aveyron* and *Aumance* in June 2001, only the *Gardanne* underground mine remains open in the Centre-Midi coalfield. Closure of this mine is foreseen in December 2003.

In **Germany**, hard coal production fell by 6.7 million tonnes in 2001, compared to the previous year, and is forecast to decrease by a further 1.7 million tonnes in 2002. The year 2000 saw the closure of the *Westfalen* and *Ewald/Hugo* mines in the Ruhr and the *Göttelborn/Reden* mine in the Saarland. In July 2001, the *Auguste Victoria* and *Blumenthal/Haard* mines were merged and in January 2002 the *Niederberg* and *Friedrich-Heinrich* mines were combined to form the *West* mine. At the end of 2001, total employment stood at around 52,600, compared to 66,400 at the end of 1999.

Spanish production fell by nearly 1 million tonnes in 2001 compared to 2000, and is forecast to decrease by a further 700,000 tonnes in 2002. Spanish coal fields are small, geographically isolated, areas highly dependent on coal mining and production is split between some 47 undertakings. Eight companies produce around or above 1 million tonnes per annum, namely *ENCASUR*, *HUNOSA*, *ENDESA GENERACIÓN*, *Coto Minero del Sil*, *Hullera Vasco-Leonesa*, *Minero Siderurgica de Ponferrada*, *Minera Catalano Aragonesa* and *Unión Minera del Norte*. The reduction in production is spread across the industry, with a higher intensity in Asturias. Employment stood at 14,159 at the end of 2001, compared to 15,677 the year before.

¹ COM(2000) 769 of 29th November 2000. The Green Book and the web page consecrated to the debate can be found at the following address:
http://europa.eu.int/comm/energy_transport/en/lpi_lv_en1.html

Trend in EC hard coal production: 1975 - 2002



Following a long period of steady decline, **UK** production increased by just over 900,000 to 31,5 million tonnes in 2001, compared to 30.6 million tonnes in 2000. Both underground and opencast output increased. Production is forecast to increase by a further 1.8 million tonnes this year to 33.3 million tonnes. Employment in the UK coal industry, including contractors, fell from 10,636 in December 2000 to 10,232 in December 2001. Deep-mine employment decreased by 746 (9%), while opencast employment increased by 342 (13%).

At the start of 2002, 17 underground mines were in production and there had been no closures for two years. However, the flooding of *Longannet*, the last underground mine in Scotland, has forced its closure while UK Coal have announced the closure of the UK's oldest pit, the *Prince of Wales* in West Yorkshire, for August 2002. In addition, the small independent *Blenkinsopp* drift mine in the North-East is due to close the same month. The main underground coal producer, UK Coal, announced in April 2002 that it would be conducting a review of the mining prospects in the Selby complex (covering the *Riccall*, *Stillingfleet* and *Wistow* deep mines). The results are expected to be announced in June 2002.

(million tonnes)

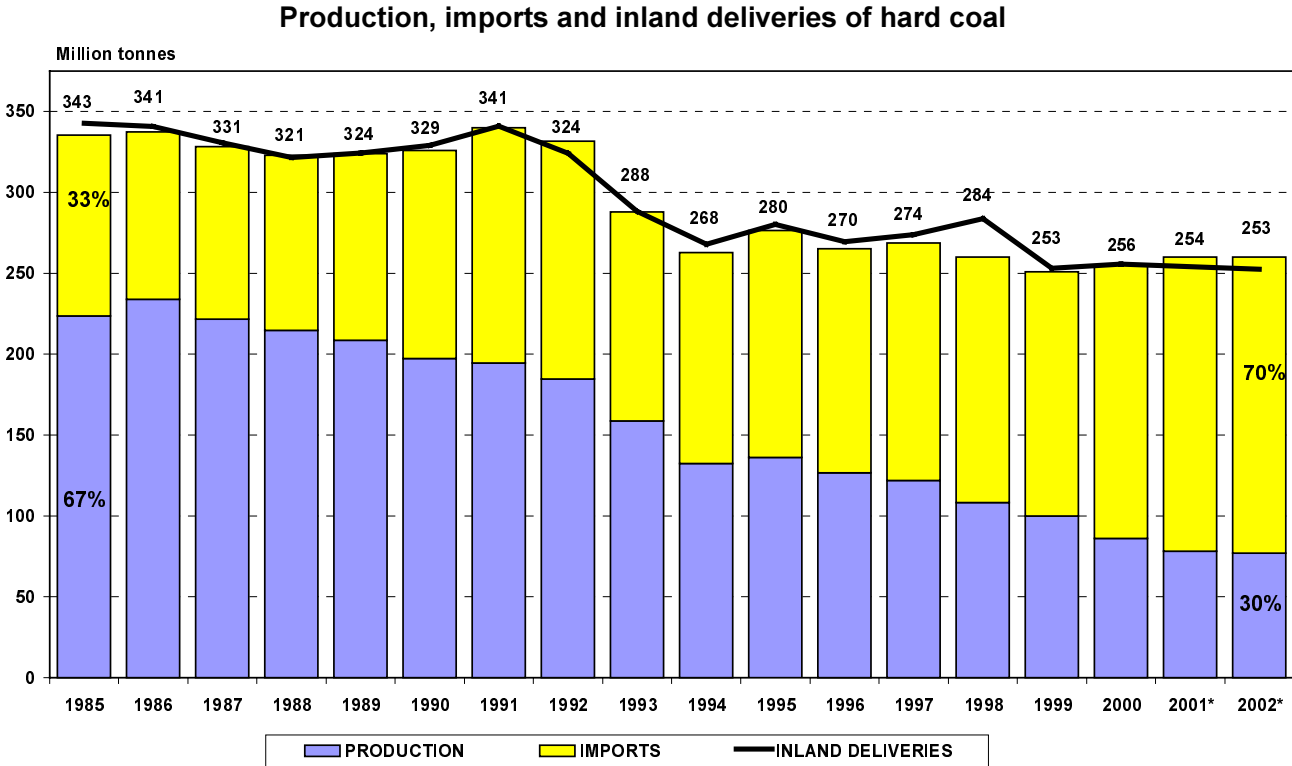
Member State	Production			Difference 2000-2002
	2000	2001 (estimate)	2002 (forecast)	
Germany	37.4	30.7	29.0	-8.4
Spain	14.9	14.0	13.3	-1.6
France	3.2	2.0	1.4	-1.8
U.K.	30.6	31.5	33.3	+2.7
EU	86.1	78.1	77.0	-9.1

(figures rounded to nearest 0.1 million)

There are around 51 opencast mines, concentrated mainly in Scotland, the north and midlands of England and south Wales, producing over 14 million tonnes in 2001. However, opencast production is only increasing in Scotland, where there are between eight and ten opencast companies in operation, compared to only four in England and four to five in Wales. Planning permission for new sites remains a major challenge, particularly in England.

3.2 Deliveries

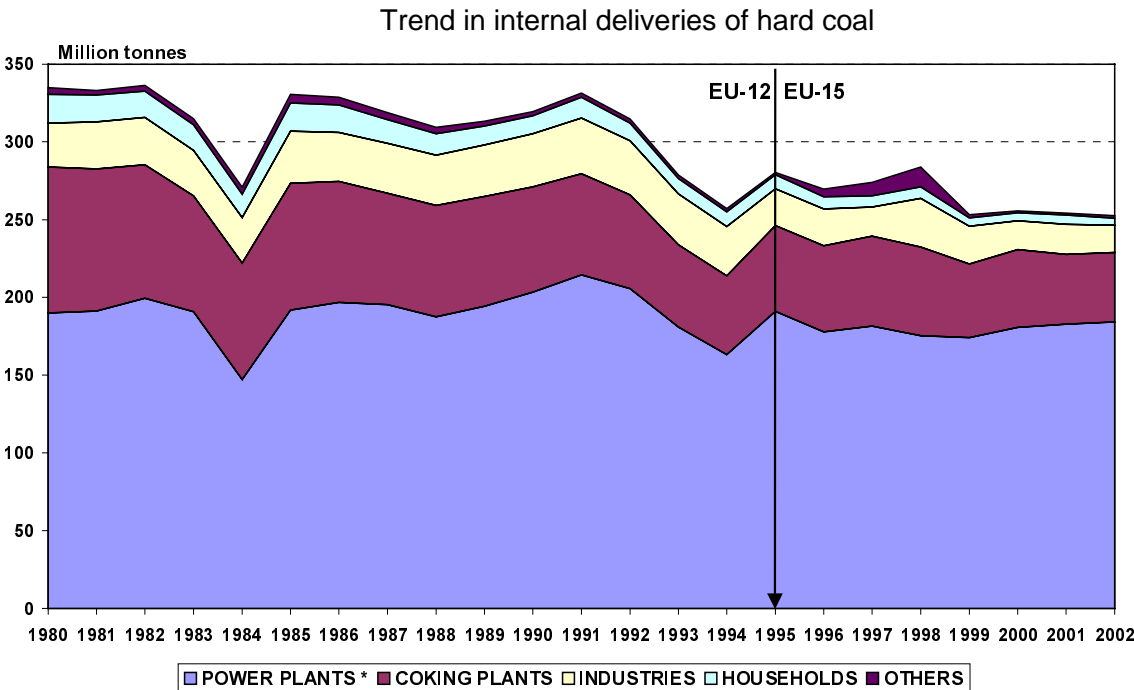
Total internal hard coal deliveries in the EU are estimated to have been 254.2 million tonnes in 2001, which is 1.3 million tonnes down on the year 2000. However this decrease is largely due to lower deliveries to the coking plants (down by 5 million tonnes or 10%), since deliveries to the electricity generating sector and “other sectors”, increased slightly (by 2 million tonnes, +1.1%, and 1.4 million tonnes, +5.8%, respectively).



By Member state, the picture is varied. The United Kingdom has seen an increase in internal deliveries of 4.5 million tonnes, concentrated in the electricity generating sector and “other industries”, and more than compensating the decline expected in deliveries to the coking plants. This increase is due to the problems being experienced at some gas and nuclear power plants, which have caused the generators to rely more heavily on coal to make up the shortfall. This increased demand was met by a significant increase in imports and a greater use of the stocks held by the generators. Finland has also seen an increase of 1 million tonnes, again concentrated in the power sector. Other small increases are expected in Italy, Denmark and Belgium.

On the other hand, all of the remaining indigenous hard coal producing Member states expect inland deliveries to have fallen in 2001, by 3 million tonnes in France, 2 million tonnes in Germany and 1.5 million tonnes in Spain. In France the decrease is concentrated in the electricity generating sector, where nuclear electricity generation was up by 1.5% and hydro generated electricity up by 10.8% due to the high water availability in the first eight months of the year. The decrease in Spain was likewise concentrated in the power sector, due to a greater use of hydro. In Germany, however, the fall was in deliveries to coking plants, following the closure of the Kaiserstuhl coking plant at the end of 2000, and to “other industries”, which more than offset the slight increase in deliveries to the power generation sector.

For 2002, the forecasts point to a similar overall decline of around 1.5 million tonnes in inland deliveries. Again, the power generating sector bucks the trend, with a slight increase of 0.8% or 1.5 million tonnes, while a slight reduction of 200,000 tonnes is foreseen in deliveries to coking plants and a more significant drop of 2.7 million tonnes is expected in deliveries to “other industries”.

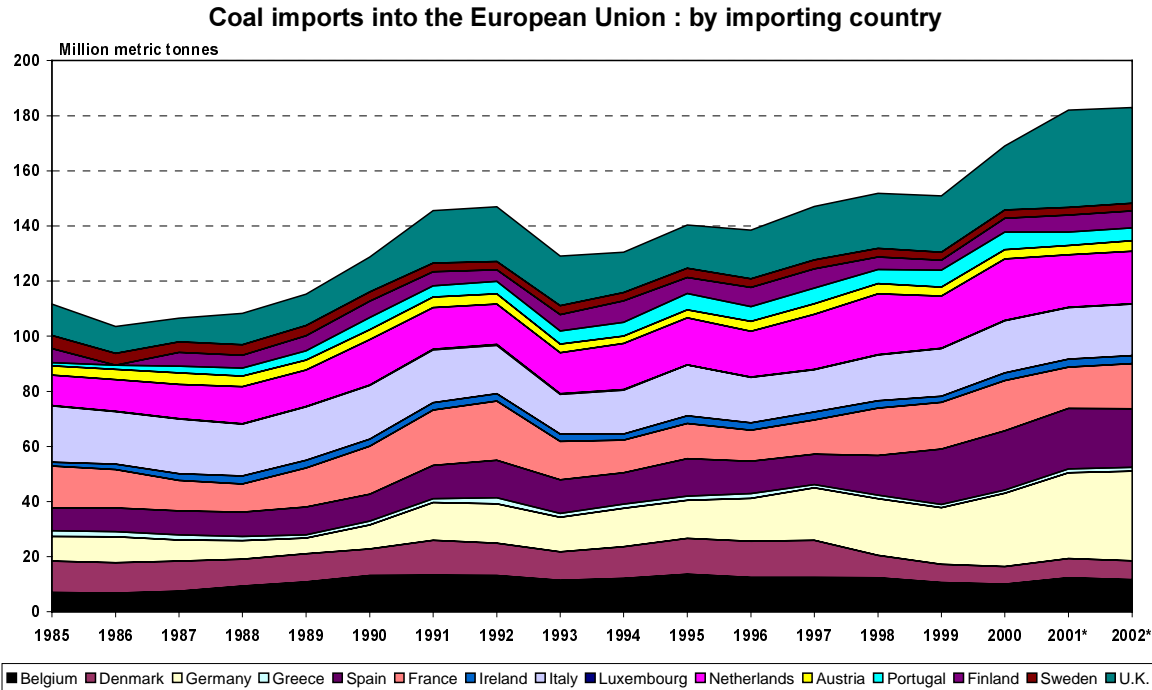


By Member state, only Austria and the UK are forecasting modest increases in inland deliveries, with both countries expecting higher deliveries to the electricity generating sector. Germany forecasts a decline of 1.2 million tonnes in deliveries to the electricity generating sector which, together with the expected slight decreases in deliveries to most the other sectors, will mean a drop overall in deliveries of nearly 1.9 million tonnes in 2002 compared to 2001. France, Belgium, Portugal and Ireland are also anticipating a decline in total deliveries.

3.3 Imports

Total imports of coal from third countries in 2001 increased by some 7.7% compared to the year 2000, up from 169.1 million tonnes to 182 million tonnes. Imports now account for 70% of the hard coal on the EU market, compared to just 33% in 1985.

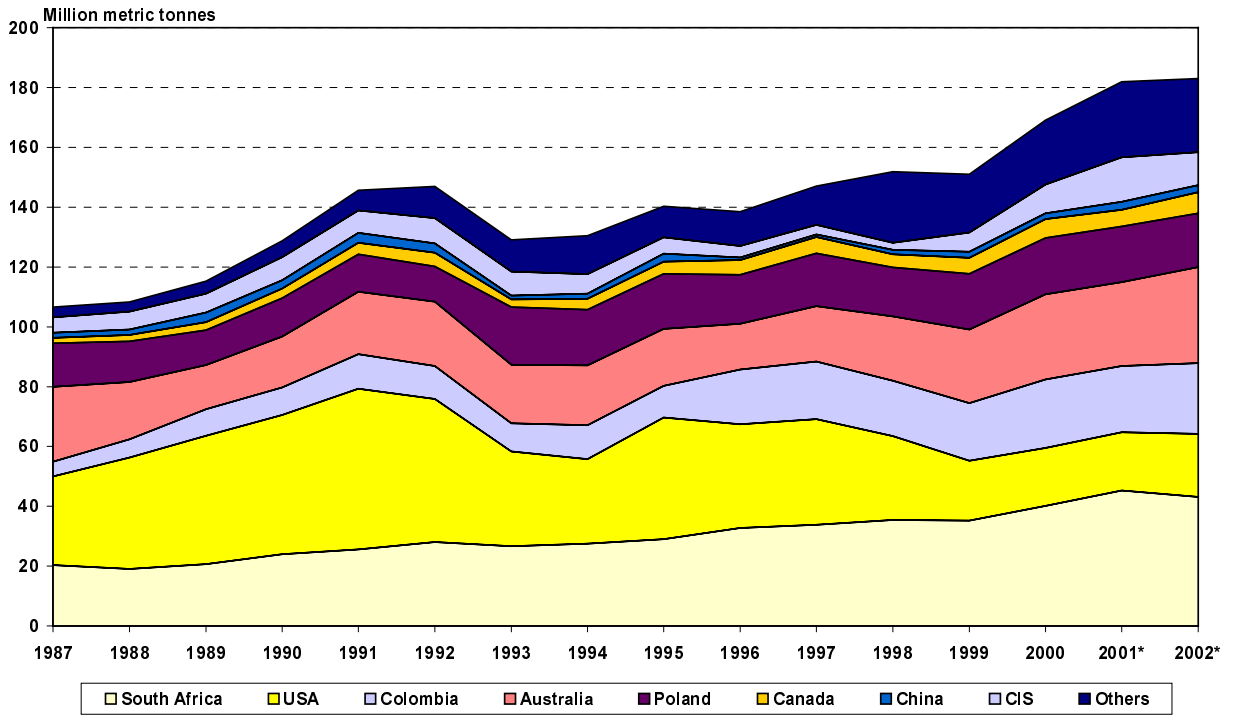
The small change in total imports conceals significant differences between Member States. Imports increased dramatically by over 50% (12 million tonnes) in the United Kingdom, mainly of steam coal for use by the power generating sector. Imports also rose significantly in Germany (by 4.6 million tonnes or 17.5%), Belgium (by 2.3 million tonnes or nearly 23%), Finland (by 1 million tonnes or nearly 21%) and Greece (183,000 tonnes or 15.5%). On the other hand, imports fell in France by over 3.2 million tonnes or nearly 18% and in Portugal by 1.5 million tonnes or 24.5%. Reliable figures were unavailable for the Netherlands for 2001, which is traditionally a significant coal importer both for internal use and for transit to other EU member states.



The preliminary figures for 2002 point to a slight increase of 1 million tonnes in hard coal imports. France and Germany both expect imports to increase slightly, by around some 1.4 million each (which represents a growth of 9% in France and 4.4% in Germany). On the other hand, Belgium forecasts a drop of over 760,000 tonnes (-6.1%), Spain a fall of nearly 700,000 tonnes (-3%) and the UK a decrease of 570,000 tonnes.(-1.6%).

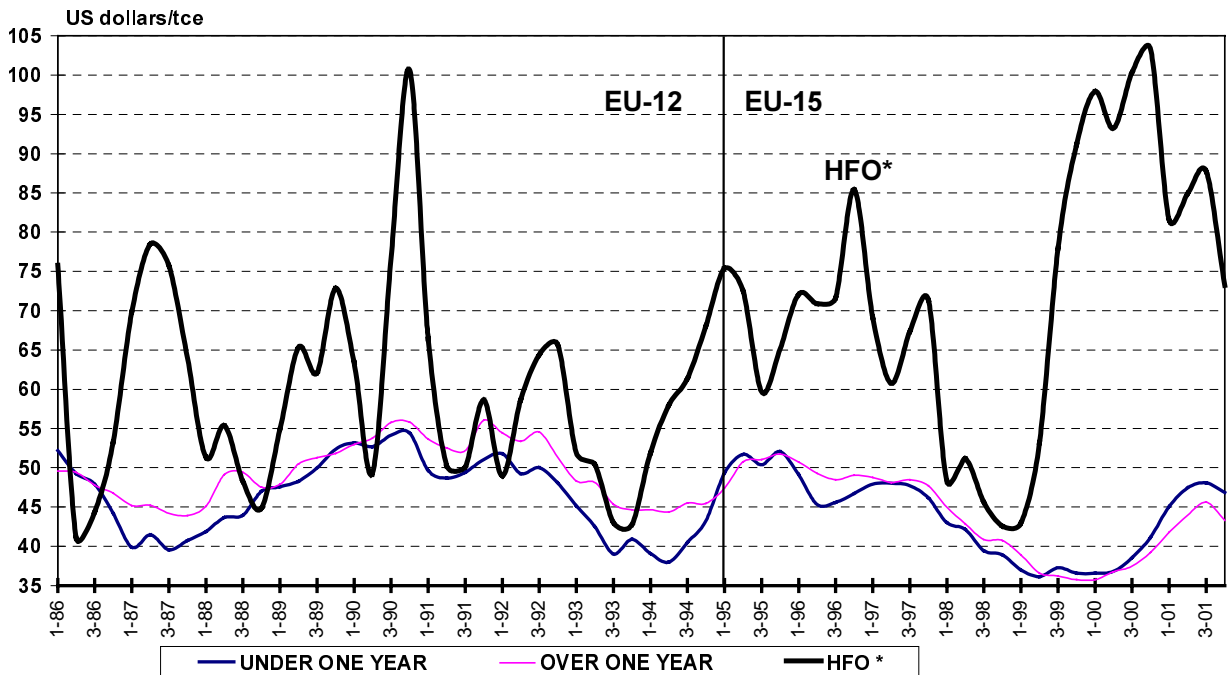
With respect to the origin of the hard coal imports, five countries continue to dominate the EU market, namely: South Africa, Australia, Colombia, the US and Poland. In the year 2001, these five accounted between them for 73% of EU hard coal imports, down from 85% in 1990. South Africa remained the largest single supplier, alone accounting for nearly 25% of the EU market, followed by Australia at 15.5%, Colombia at 12%, the US at just under 11% and Poland at 10%. The Australian share of the market, as well as tonnages, fell from nearly 17% in 2000 to 15.5% in 2001, despite increasing EU demand for imported coal, due to a large extent to the high freight rates seen during 2000 and the first half of 2001 that meant that Australian CIF ARA prices were placed at a disadvantage. Low freight rates in the latter part of 2001 and early 2002 help to explain the rebound in imports from Australia that is expected this year.

Origin of hard coal imports into the European Union



For the year 2002, overall import levels are expected to increase slightly. The US, Australia and Colombia are expected to gain market share at the expense of South Africa, whose market share could drop to 23.5%, and Poland, whose market share could drop to under 10%.

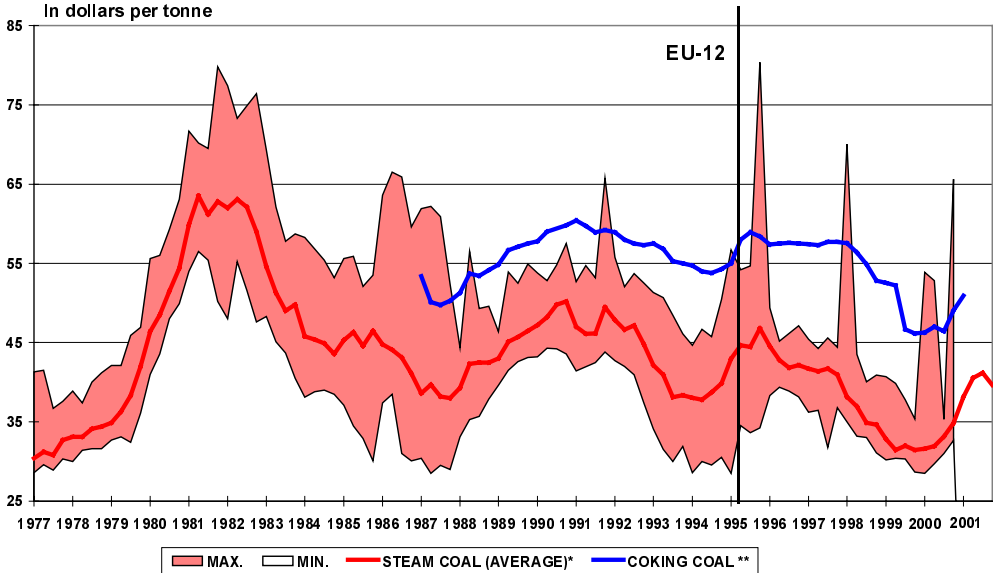
CIF PRICES FOR COAL IMPORTS CONTRACT PRICES FOR STEAM COAL



* Spot price Rotterdam; 3.5% sulphur. Source: IEA Monthly Oil Market Report

The average price of steam coal imported into the EU reached a low of \$36.18 per tce in the fourth quarter of 1999. It then rose steadily to a high of \$47.38 in the third quarter of 2001, but then fell back to \$45.42 in the fourth quarter of 2001. Given developments since then, it is most probable that the average price will fall further when the returns for the first and second quarters of 2002 become available.

AVERAGE CIF PRICES FOR HARD COAL IMPORTED FROM THIRD COUNTRIES



Steam coals purchased under spot or very short term arrangements command lower prices in times of over-supply, but spot prices can rise above contract prices when the market tightens. According to the information received by the Commission, the prices for contracts of a year or more have been more favourable than prices for spot or contracts of less than a year. In the third quarter of 1999 steam coal purchased in contracts of under one year fetched prices of \$37.28 per tce compared to prices of \$36.21 per tce for contracts of one year and over. The price difference increased dramatically in the first quarter of 2001, when short term and spot contracts were over \$3 a tce higher than prices for contracts of one year or more. This price difference fell back to \$2.48 per tce in the third quarter, before increasing again to \$3.54 in the fourth quarter of 2001. However, with the very significant fall in world prices for steam coal since the latter part of 2001, the spot and short term contract prices are likely now to have fallen once again below those for contracts of one year and over.

The percentage of steam coal purchased under contracts of a year or more, had been in steady decline from 80% of imports in the third quarter of 1995 to 25% of imports for the year 2000. However, given the price advantage of steam coal purchased under contracts of a year or more during the year, the percentage purchased under these longer term arrangements reached 40% in the fourth quarter of 2001.

AVERAGE CIF PRICE FOR COAL IMPORTED FROM THIRD COUNTRIES(\$/tce) *		
PERIOD	COKING COAL (US \$/t)*	STEAM COAL (US \$/tce)**
1/2000	46.26	36.40
2/2000	47.00	36.78
3/2000	46.43	38.18
4/2000	49.06	40.47
1/2001	50.93	43.91
2/2001	52.35	46.54
3/2001	55.87	47.38
4/2001	56.89	45.42
1/2002	56.95	

* Referred to a standard coal quality of: ash 7.5%, moisture 8.0%, sulphur 0.8% and volatile matter 26%

** For electricity generation purposes.

The supply of, and demand for, coking coals for the steel industry is relatively more stable, being constrained by technological factors and by the level of iron production. Following the record high of 163.2 million tonnes of steel produced in the EU in the year 2000, production is estimated to have fallen to around 159 million tonnes in 2001 and remain at about this level for 2002. Deliveries to coal to the coking plants, which stood at over 50 million tonnes in 2000, are expected to have decreased to just 45 million tonnes in 2001 and are forecast to remain roughly stable in 2002.

Prices for imported coking coal, c.i.f. major Community ports, have risen from a low of \$46.18 per tonne at the end of 1999 to a high of \$56.95 in the first quarter of 2002 and, unlike international steam coal prices, show no signs of having peaked. Indeed recent settlements would indicate that the Community guide price will increase again in the second quarter of this year, with the trade press indicating prices to \$48 to \$49 per tonne FOB Australia for European delivery, to which must be added a freight rate of some \$9 to \$10 dollars per tonne.

4. COKE

Total coke production in Member States in the year 2001 is estimated to have been 33.9 million tonnes, which is a decrease of 3.2 million tonnes or 8.7% on the figures for 2000. The largest decrease occurred in Germany, where coke production fell by 1.9 million tonnes with the closure of the Kaiserstuhl coking plant. The closure of this plant, following that of Fürstenhausen in the Saar and Gelsenkirchen in the Ruhr in 1999, leaves the German indigenous hard coal producer Deutsche Steinkohle with only one coking plant at Bottrop, with an annual production of 2 million tonnes. Coke production in the UK fell by 700,000 tonnes in the year 2001 as steel production there fell by some 7%. Coke production in 2002 across the EU is currently forecast to fall further by some 550,000 tonnes or 1.6%.

Deliveries to the steel industry in 2001 totalled 40.4 million tonnes. This represents just over 91% of total inland deliveries of hard coke in the EU of 44.4 million tonnes and which is over 2 million tonnes lower than for the year 2000. Deliveries to other industries, including iron foundries, non-ferrous metals, lime burning and sugar, totalled 3 million tonnes, a slight drop on the previous year. Deliveries to the domestic sector of just over 600,000 tonnes is some 100,000 tonnes lower than the previous year and continues the trend of steady decline. For 2002, the forecasts point to a slight decline in deliveries to the steel industry, a slight rise in deliveries to other industries and a further small decline in deliveries to the domestic sector.

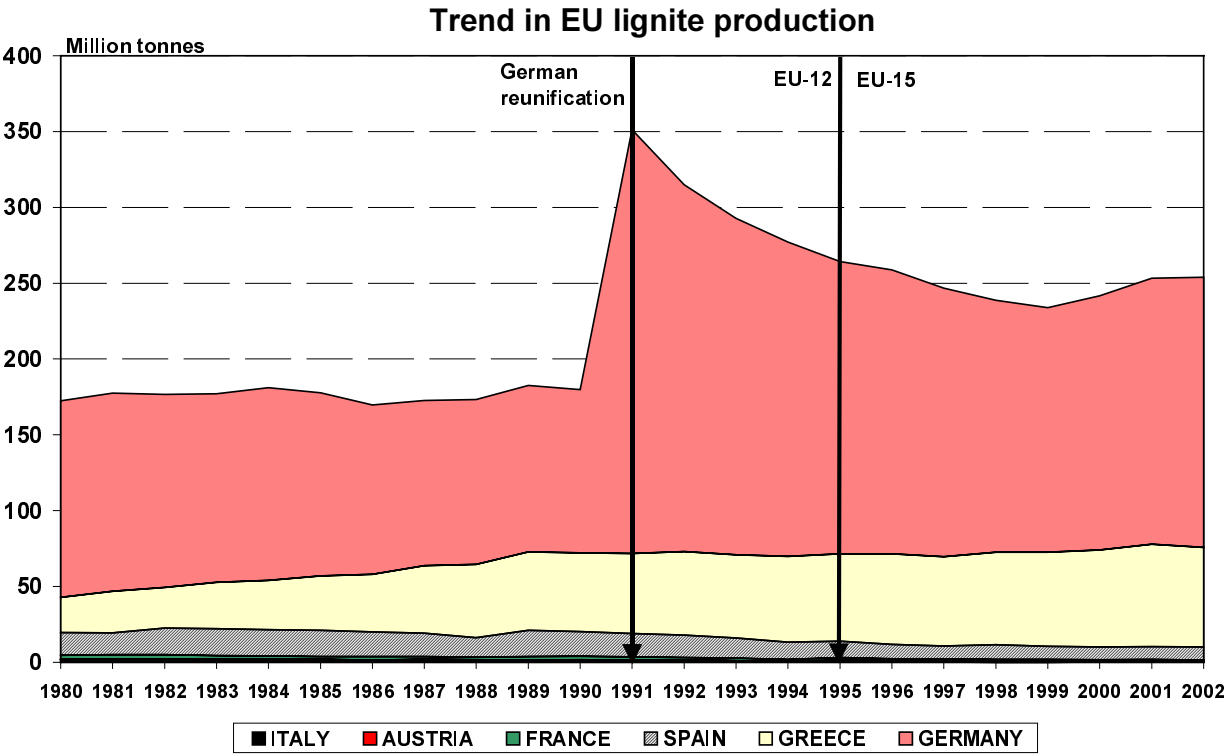
Imports from third countries increased from 9.6 million tonnes in 2000 to 10.1 million tonnes in the year 2001 as indigenous production fell. The current forecasts for 2002 are for import levels to return to the 2000 figure.

5. LIGNITE

Lignite production in the European Union in 2001 is expected to be 252.9 million tonnes, an increase of 4.6% or 11.2 million tonnes on the 2000 level of 241.7 million tonnes. Germany and Greece remain the leading producers, accounting for over 69% and 27% respectively of EU lignite production.

German lignite production is concentrated in four regions: the Rhineland (55% of total production), Lusatia near the Polish border (33%), Central Germany around Leipzig (10%) and Helmstedt (2%). Following the period of restructuring after reunification, German lignite production hit a low of 161 million tonnes in 1999. Since then, production has increased steadily, by 6.4 million tonnes in 2000, 7.7 million tonnes in 2001 and a forecast 2.8 million tonnes in 2002.

Greek production, concentrated mainly around Ptolemais in Northern Greece and Megalopolis in the Peloponnesos has increased steadily, with production estimated at 67.6 million tonnes in 2001, some 5.8% or 3.7 million tonnes higher than in 2002. However, production in 2002 is forecast to decline slightly, by 2.6% or 1.8 million tonnes. A new opencast site will open in 2003 in the Florina region to supply the new 300 MW power plant.

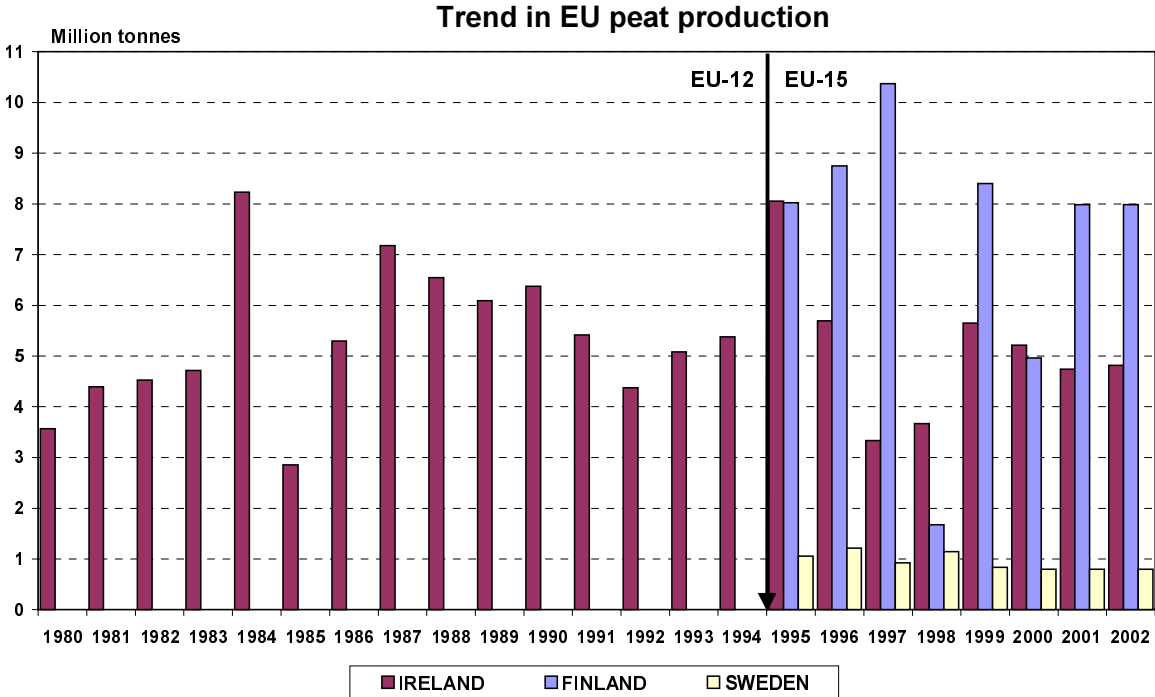


Spanish production, concentrated in the autonomous region of Galicia, is forecast to remain constant over the period, at 8.5 million tonnes, although it is planned to completely halt lignite production in Spain in 2004. Following this date, the power plants that had used Spanish lignite will then use imported sub-bituminous coal.

The electricity generating sector continued to account of an increasing proportion of the lignite available, up from 93.5% in the year 2000 to 93.9% in 2001 and 94.3% in 2002. Deliveries to power plants are estimated to have been 239.6 million tonnes in 2001, up by 4.9% or 11 million tonnes compared to 2000. Germany accounted for 8 million tonnes of this and Greece the remaining 3 million tonnes. Almost all lignite briquettes in the Union are produced and consumed in Germany.

6. PEAT

Production of peat in 2001 increased to 13.5 million tonnes, some 23% or 2.5 million tonnes higher than 2000. This growth is a result of the increase in Finnish production, which grew by 3 million tonnes. Swedish production levels remained stable, while Ireland saw a drop of 0.5 million tonnes. Forecasts for 2002 currently point to a stabilisation in production levels.



Deliveries to power stations were about 3 million tonnes in Ireland, representing nearly 70% of deliveries, and 5.8 million tonnes, or 74% of deliveries, in Finland. Only in Ireland is peat also used in briquetting plants.

7. CONCLUSIONS

It is clear that Community **hard coal production** will continue to decrease as the restructuring efforts continue to improve its economic performance. Only in the UK, where production costs are close to the inland delivered prices for imported coal, is production forecast to increase.

Inland deliveries of hard coal continue to contract slowly. Deliveries to the electricity generating industry however, rose slightly in 2001 and are expected to increase again marginally in 2002, taking an increasing share of hard coal deliveries (70% in 2000, 71% in 2001 and 72% in 2002). Deliveries to the other main consuming sector, the cokeries, is expected to have fallen in 2001 and 2002, continuing the downward trend that started in 1985 and was only broken by a surge in deliveries in the 2000.

Imports of hard coal from third countries continue to grow. In 2001, the growth in imports more than offset the reduction in indigenous production, while for 2002 there is almost a complete match. The availability of hard coal from third countries is increasing and will continue to be more than adequate to meet the EU's requirements for the foreseeable future. It should be noted that there has been a considerable amount of consolidation amongst the international hard coal supply companies, demonstrating that the restructuring of the industry is not just limited to the EU.

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