STRUCTURAL POLICY TOWARDS DECLINING INDUSTRIES
WITHIN THE EUROPEAN UNION
BASED ON THE EXAMPLE OF COAL MINING
Introduction

In European Union (EU) countries there are several sectors that are considered to be declining industries in contemporary conditions and from the perspective of the economies of highly developed countries. In general these include most of the heavy and extractive industrial sectors, such as metallurgical and metal industries, extracting industries. The most striking examples include coal-mining, shipbuilding and rail transport. The various countries of the EU have conducted their own structural and industrial policies with regard to these industries, based on different rules with different goals.

Among declining industries special place belongs to the coalmining. This is the result of its strategic importance to the security of energy supply and social consequences of coal production. In each European country where the coal industry played important role in the economy, it also provided an employment for significant number of people. Considering relatively high wages, coalmining had also a great influence on the level of social incomes. Thus, the problems of reforming the coal-mining industry were shared by many countries of Western Europe. The restructuring process began there about 40 years ago and was often supported with different kinds of financial aid. State aid was granted mainly in order to ease the social consequences of reducing the production potential of mines. In total, between 1960 and 1995 the number of mines in the EU countries decreased from about 1,500 to below 200, and the number of people employed in mines decreased from 1.8mln to about 100,000 persons.

At present, within the area of the EU, coal is mined by four countries: Germany, France, Great Britain, and Spain. Each has solved the problems of restructuring coal-

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2 Great Britain is an exception
3 S. Skowron, op. cit., p.82
mining in a different way. The quality of those solutions was mainly related with the significance of the coal industry in the economies of given countries. In Germany, at the beginning of the 80’s, about 100mln tons were excavated and mining employed 200,000 people. Coal output in Great Britain amounted in the same time to 110mln tons and mining employed 231,000 people. In other European countries which implemented restructuring programs, its scale was tenfold smaller as well. After WWII, French mining produced about 50mln tons of coal and employed 350,000 persons. Since 1984 the French government has been limiting mining production by means of introducing free competition in the energy market. Between 1986 and 2000, employment in coal-mining in France was decreased by around 20,000 people. This program resulted in stabilization of the amount of coal output at the level of 4mln tons per annum. Nowadays, there are 8 working mines, including 4 involved in deep mining. The coal industry employs about 12,000 people. The termination of coal excavation is expected by 2005. Similarly in Spain, coal is excavated in 61 small mines. The restructuring program that has been carried there also assumes the termination of coal excavation by 2005. Table 1 presents the production of coal in the EU.

The experience of the EU countries has also become a determinant for the actions taken in post-socialist countries, in which the process of restructuring heavy industries itself began almost 30 years later. The similarity in the scale of the problem in transforming coal-mining in Poland makes it important to pay special attention to two countries, Germany and Great Britain. At the beginning of the transition period (1989) coal output in Poland amounted to about 178mln tons and over 490,000 people were employed. In 1997 Poland produced 137mln tones and the employment in coal industry was decreased to 234,000 people.

Heavy industry is still of great significance economically and socially in most of the new planned EU member states. This is due to both a lower level of economic growth and the policy of pushing heavy industrial development that existed in their previously socialist economies. This is especially true of the post-communist countries of Central Europe (Poland, the Czech Republic, Slovakia, Hungary, etc.). In most of these countries, governments already today face the problem of restructuring the declining industries and they will continue to do so into the near future. Despite differences in external conditions or the level of taxpayer wealth, the analogies
presented above make it possible to adapt the English and German pattern of reforms as a frame of reference for the process of restructuring coal-mining (and other declining industries) taking place in the planned member countries.
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Restructuring the coal industry in Great Britain and Germany

Great Britain

The British coal industry was nationalized in 1947. That time annual extraction amounted to over 1800 mln tones and about 700 thousand workers were employed in 1460 mines. Until 1959, coal production was treated as social industry.

Generally speaking, the British model of restructuring was radical with reference to both capital and property. However, the intensity of its changes was different in various periods. The main assumption of all reforms was first, the technical modernization of selected companies and second, the permanent profitability of the industry.

In the 1960’s, after the market depression, hard coal was gradually squeezed out by oil, natural gas and nuclear power and lost its leading position as an energy source. From 1960 until 1979, at the time of national industry, competition between hard coal and other fuels had been limited by political forces – especially the protection system for less profitable mines. The main reasons for such activity was the security of energy supply and the social costs of scaling down coal-based energy in favor of other fuels. Nevertheless, about 400 coalmines had been closed by the end of the 1960’s. In the same time the employment in coal sector was cut by 400 thousand workers. Further redundancies triggered social conflict ending with the strike of 1972. Civil unrest and the crisis in the oil market forced the government to the pay special attention to the coal industry and work out a new, broad investment program. As a result, hard coal became the leading energy source again.

At the beginning of the 1980’s the optimistic scenario for the coal market fell through. In the same time Margaret Thatcher came to power. In 1986, British Coal Corporation took on the task of restructuring. The main assumption was privatization in the energy sector. Competitiveness and implementing market rules in the coal industry became the guidelines. The social costs of shutting down less efficient companies were pushed aside. Thus, from 1980 till 1992 annual extraction was decreased by 60 million tons, employment was reduced from 232 to 47 thousand workers and the number of coalmines fell from 170 to 51.
In 1992 the British government adopted a new program, which assumed the further closing of inefficient mines, the formation of five Coal Companies and the Coal Authority – an enterprise set to control coal resources and production. Thus, in 1997 the British coal industry employed 19,4 thousand workers, produced 50-53 million tons a year and reached the costs level comparable to import price parity.

As in 1995, British power plants were released from the obligatory purchase of national coal, the closure of another five coalmines was unavoidable. These circumstances brought about new activities including expanding coal exports to the Spanish and German markets, restrictions for electricity imports from France, subsidies for coal producers and protection from Polish coal imports from Poland (on a charge of dumping).

The main cost of streamlining the coal industry in Great Britain was social protection for the dismissed workers. In ten years (from 1985 till 1995) state aid for it amounted to about 14 billion euros. This was assigned to the reduction of production capacity, social protection for workers and revitalization of the coal regions. A social protection program made it possible to secure the credits for establishing new workplaces, supporting local entrepreneurial agencies and running retraining and scholarship programs. Between 1984 and 1992 the British Coal Corporation had found or created new workplaces for 76 thousand persons.

Germany

The German model of restructuring was based on balanced transformation as well as social and energy security. These activities are regularly supported by state aid. It is impossible to divide the history of German reforms into separate periods. Through all this time government policy was flexibly adjusted to economic circumstances.

In 1957 the annual production of hard coal amounted to about 150 tons and employed over 600 thousand workers. The crisis in the German coal industry occurred in the 1960s, i.e. at roughly the same time as in Great Britain. Yet in 1968 annual coal extraction dropped to 112 million tones and employment was reduced to 264 thousand workers.
In contrast to the British case, German reforms never assumed the competitiveness of the coal sector. Initially, protective policy was focused on maintaining the leading position of the steel and power industries. Nevertheless, such a policy could not be maintained for a long time. The fundamental move made in 1968 concerned setting the concern called Ruhrkohle Aktiengesellschaft (RAG). This company's work was aimed at adjusting the coal supply to decreasing demand, cutting down production costs and ensuring/providing the sale of domestic hard coal. The agreement with steel and power plants, concerning long-term purchase quotas, was the most important for guaranteeing a stable market. The difference in the price of domestic and imported coal was settled by the taxpayers. Since 1987 a special tax (called Kohlenpfennig) came to 4.5% of the electricity bill.

At the same time the German government ran an active social policy for the newly unemployed miners. Between 1981 and 1991 the budget expenditures for social protection amounted to about 5.2 million euros. Special attention was also paid to structural changes in the region of Ruhr. The main objective was to develop technologically advanced industry in the former coalfields.

At the beginning of the 1990's the government faced more difficulties as the European Commission exerted pressure on the reduction of state support for coal. The permission for subsidies depended on the submission of a comprehensive restructuring program. The decrease in financial support from Kohlenpfennig forced the management to close less efficient mines. The announcement of the dismissals caused trade union protests. The agreement reached in 1991 guaranteed the demand for 50 mln tons of coal in return for employment reductions. It gained the Commission’s acceptance. In 1994, the European Constitutional Tribunal judged the financial support from Kohlenpfennig illegal. It was another blow to the German coal industry. Since 1995 this tariff must have been collected as supplementary tax and it forced mines to cut down the production costs in order to compete with imported coal.

To sum up, the activity of RAG in the years 1968-1992 brought about the closure of 34 companies, the reduction of employment from 264 to 92.6 thousand workers, the decrease of annual production from 112 to 52 million tons and an increase in labor efficiency by 35%.
In the 1990's alone, state aid for the German coal industry amounted to about 57 billion euros. It was assigned to cover the difference between production costs and the market price for coal, to decrease hard coal production, to provide social protection for unemployed miners and to protect the environment.

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Although in Great Britain and Germany the instruments and radicalism of the policy regarding the coal industry were absolutely different, some features seem similar.

1. The restructuring in both countries proceeded over 30 years and has not yet been completed .

2. All activity was supported by a variety of state aid for both the coal mining regions and the coal industry itself. It is not possible to estimate the total amount of the aid, however the following should be remembered:
   - From 1985 to 1995, financial support provided by the British government came to 14 billion euros.
   - In Germany in the years 1981-1991, state aid came to 5.2 billion euros and in the years 1990-1999 amounted to about 57 billion euros.

3. The reduction in state aid was in both countries carried out gradually, with great dependence on the social pressure, and in particular on the trade unions.

Restructuring the coal industry in Poland

The aim of restructuring the coal industry in Poland was (like previously in the Western Europe) to balance needs and production capacity, as well as to begin the self-financing of mines and work out an economic system able to stimulate work efficiency. The restructuring process of the mining industry was begun in 1990 when mines became independent economic entities.

The first government program was stabilizing in nature. The World Bank and International Agency for Energy participated in designing the program. The actions taken in the first stage were to concentrate on the gradual shutting down of unprofitable mines and withdrawing state subsidies from the mining industry. Complete price
deregulation, the de-monopolization of the domestic coal trade and aspirations for creating several independent production cooperatives were to facilitate the creation of a coal market.

Between 1990 and 1992, legal and organizational barriers to a free domestic coal market were removed. In 1992 the prices of coal were finally deregulated and the process of closing down 7 unprofitable and outdated mines was initiated. At that time coal production decreased 5% a year on average. That pace converged with a decrease in the coal supply as measured by sales volume.

Aspirations for the liberalization of the coal industry was brought to a halt on March 1, 1993 when 62 previously independent mines lost their legal status and were re-formed into seven coal companies. The goal of this restructuring was to protect less effective mines from being shut down. As in the initial stage of the reform in Great Britain, less profitable mines functioned thanks to a transfer of profits from more lucrative ones. In order to improve the financial standing, the mining industry was relieved of debt and the state took over the cost of liquidating permanently unprofitable mines. Coal companies were also forced to enter long-term agreements with the main coal exporters. It was also assumed that the coal prices on the domestic market would stay below import parity.

The execution of the program resulted in short-term improvement in the financial results of the coal companies. However, in the scale of the whole industry a negative result was recorded. The situation was also not helped by the new restructuring project adopted in April, 1996. The aim of this document was “to achieve economic efficiency of the actions carried out by coal-mining entities and to guarantee social safety for the workforce at the same time”. The program assumed that by 2000 employment would decrease by about 80,000 people. Employment was expected to be reduced as a result of using leave by employees, early retirement, the transfer of miners to other economic entities and by the possibility of miners obtaining preferential credit in order to start their own businesses. In 1996 Państwowa Agencja Restrukturyzacji

4 S. Skowron, Zarządzanie w górnictwie w perspektywie strategicznej, Lublin Politechnic, Lublin 2000, pp. 59 - 60
Górnictwa Węgla Kamiennego S.A. (the State Agency for Coal Mining Restructuring Co.) was brought into existence. Its aim was to monitor the course of the reforms.

The relaxed restructuring policy between 1993 and 1997 brought about a repeated increase in coal output, despite decreasing supply. The lack of positive results of the reform made the government take more direct actions in order to quickly reduce the ineffective potential and to adjust the industry's structure to the requirements of a market economy. The program of the coal-mining industry reform for the years 1998-2002 was prepared as a very restrictive and radical project. During this period, coal output had decreased by 35mln tons. New organizational solutions were also created in the form of Spółka Restrukturyzacji Kopalni S.A. (Mines Restructuring Co.) whose tasks included mine closure, management of the assets of the liquidated companies and the creation of new workplaces.

In 1998, in order to minimize the negative social consequences of liquidating mines the Miner’s Social Package was created. The package was modeled on a British model. It consisted of a set of instruments activating workers on the labor market, including severance pay. Moreover, it introduced a total ban on working overtime and on days off, and provided for closing down of another 24 mines. These solutions resulted in a rapid acceleration in the employment restructuring process in coal-mining. Between 1998 and 1999 the employment reduction exceeded the expectations of the reform program by nearly 30%.

Two main instruments determined the success of the package, a one-time unconditional severance payout and leave time. In turn, the social benefit as a principal instrument activating work outside the industry played a marginal role. The introduction of the one-time severance payout turned out, however, to be the most controversial solution. Reaching for the British solutions it was underestimated that the experiment had not been fully successful. Severance payouts to the miners for investment purposes were quickly consumed and delayed next unemployment wave. Survey shows that 60% of miners using the social payout were retrained. This situation has repeated itself in Poland. By March 31, 2000, 6500 people had received severance payouts. Over 31% allocated the funds exclusively in profit-making investments, 14.7% in exclusively non-

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profitable investments, and 14.3% in consumption only. Moreover, the survey indicated that on the day of the survey, i.e. first quarter of 1999, only 20.3% of the miners who had received severance payouts had new jobs.\footnote{J. Martyka, K. Nowak, K. Tausz, Losy górników po odejściu z kopalni na przykładzie beneficjentów górniczego pakietu socjalnego, „Człowiek i Środowisko wobec procesu restrukturyzacji górnictwa węgla kamiennego”, Główny Instytut Górnictwa, Cracow 2001}

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Between 1990 and 2003 the reform in Poland had resulted in the coal output being lowered by over 45mln tons. During this time 35 mines were closed. Employment reduction continued mainly based on natural processes of labor fluctuation, natural leaves and with the use of artificially created instruments, such as social protection or transfer of employees to entities created by using the mines' assets. Between 1990 and 2000, employment in the coal-mining industry was reduced by 240,000 people.

One of the main targets of the coal-mining reform in Poland was to ensure the profitability of the industry. Initially, that target was to be reached by 2000. Between 1990 and 1998, coal-mining systematically brought financial losses. Since 1999 the losses have gradually decreased, and in 2001 the mining industry recorded a positive financial result on the level of € 40mln. Since 2000, the avalanche of increasing liabilities has been restrained. These results have been achieved with strong support by the state. The external support of the reform between 1990 and 2001, at prices from 2001, amounted € 9bln, and € 8.5bln came from public resources. Seventy-seven % of this amount constituted subsidies from the state budget and write-offs of public and legal liabilities. It looks like the beginning of “normal” operation of the industry. However, the restructuring process cannot be regarded as finalized. Mining still requires heavy investments and restrictive actions. A particularly difficult task is the necessity of shutting down more mines. It is estimated that about seven mines should be closed down by 2010.

From the point of view of advancement of the coal-mining restructuring processes, it seems that Poland is at the stage of Germany and Great Britain in the early 80’s. It is also the time to decide which path to follow. The level of wealth of Polish taxpayers directs Poland more toward British solutions. The Polish economy should develop at a much faster rate than the European Union it has been trying to catch up
with. In this situation it is not advisable that the losses of the mining industry be financed long-term. Moreover, the European Union will probably not, as in the case of Germany, allow it to subsidize unprofitable enterprises.

The concentration of the mining industry on the area of Silesia (in 1999 coal industry created 2.26% of GDP) brings Poland closer to the German situation than the British one. Thus, mass dismissals would have much stronger repercussions for the regional labor market as well as the social order. It should be remembered, however, that the slow process of dismissals applied in the Ruhr Coalfield has not saved this region from an unemployment rate significantly higher than in the rest of the country. It eased, however, the social consequences of the reform. Another barrier to radical reduction of the production potential of mines is limited mobility of the labor force in Poland.

The risk of triggering off the social upheavals by restructuring depends on the rate of economic growth and the social wealth. Declining rate of growth entails the absence of demand for coal as the row material. Such circumstances escalate the economic problems in the branch. Also the stagnation and all the more the recession of the other markets cause difficulties in solving the social problems, especially in creating alternative work places for the miners.

It seems that further programs implemented by the Polish government follow more German solutions although significant use is made of British solutions. This way is also strongly supported by the mining society. Nevertheless, the consequences of the admission to EU structures may turn out to be the serious danged for such policy. Admission to the common market and the subsequent removal of boarders, the privatization of the energy sector and the lack of long-term agreements may discourage Polish mills and power plants from buying coal. Therefore, what is left is a close analysis of the supply for Polish coal and the consent of the European Union for a costly efforts to ease tensions connected with the restructuring process.
Table 2: Coal extraction and employment in coal industry in great Britain, Germany and Poland in the selected years between 1955 and 2002

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**What next?**

Generally speaking, in most of “old” EU countries, structural policy referring to coal-mining was executed as national policy in conditions of relative leeway in carrying it out. At present, along with deepening integration within the European Union and increasing limitations in carrying out national industrial policies, the possibilities for conducting them in declining industries are becoming smaller and smaller. For most of so called “old” EU countries this is of no fundamental significance today. In most of them, problems related to restructuring have been overcome to a great extent. The inability to carry out independent structural policy, in turn, may pose an important barrier to solve the restructuring problems in the newly admitted countries of the European Union. In the face of the necessity of solving structural problems in the planned member countries (particularly in Hungary, Slovakia, Czech Republic and Poland) only two options remain:

1. lessen the economic and social consequences of capital withdrawal from shrinking industries; support in re-training employees and reallocating resources; support enterprises in saving those parts of production assets that may become competitive again

2. desist from active intervention and rely on the influence of market forces which will “take care” of an effective allocation of resources, together with bankruptcies, unemployment and downfall of the weakest regions that result from it.

Contrary to such countries as Germany, France or, to a certain extent, Spain, the possibilities of the planned member countries to conduct active industrial policy will be significantly limited. According to the European Commission regulation no. 1407/2002, it is acceptable to help elements of the coal industry destined for termination, ensure access to coal deposits, cover costs not related to current coal production and which constitute overdue liabilities, research and development, environmental protection and training. As a result, a combination of the two variants is most likely. The pressures of the market forces and limitation in free industry support will certainly force a quick restructuring of the coal industry in the new member countries. Simultaneously, the
social consequences of such quick restructuring should be lessening with adequate regional and social programs. Nevertheless, such a solution will pose a factor of social, and maybe also political, destabilization. Nowadays, every mention of the necessity of mine closer sets off a wave of protests by miners. This is not unique, however, to the Polish restructuring experience. Germany and Great Britain had similar problems.

In the case of such a scenario, the solution that assumes conducting structural policy for declining industries at the level of the whole Community is worth considering. This requires, however, answers to the following questions:

1. Which of those sectors and to what extent will be supported within the framework of common structural policy motivated either by strategic (energy, defense independence) or social reasons?
2. On what principles will the possible support within the frameworks of common industry policy be granted?
3. Whether, to what extent and on what principles will it be acceptable to conduct national industry policy apart from the common industry policy? What is meant here is, in particular, whether within the framework of the national industry policies such tools as subsidies, tax allowances or direct involvement of the state, will be allowed. Problems of defining the range of such a support or determining production (or support) “amounts” for specific countries and/or industries may also be considered here.

As regards coal mining, an attempt to answer those questions was made on October 16, 2001. The European Parliament adopted a resolution recognizing the importance of coal as a native energy source and stated that conditions for financial support to coal production should be guaranteed. This support is not unconditional. An increase in the effectiveness of the industry and reductions in the subsidized production to the amount really necessary to ensure a secure energy supply has become an absolute requirement. Support given by member countries will be possible only where mining is an element of a plan to preserve access to coal deposits. Member countries will define the minimum production amounts while the Committee will be responsible for selecting the economic criteria that companies will have to fulfill in order to obtain support.