

COAL INVESTMENT AID

DESCRIPTION

I. INTRODUCTION

1. On 16 July 2002 the Secretary of State, Patricia Hewitt, announced that the Government would consult on the case for an investment aid scheme. The Government subsequently issued a Consultation Document on 20 September, which invited comments by 15 November. The Government's response to comments made during the consultation is set out in the Results of Consultation, published on DTI website. In section 6.72 of the Energy White paper (published on 24 February), the Government proposed to introduce an investment aid scheme. On 16 June 2003 the Government launched Coal Investment Aid, inviting applications for the first application period by 31 July 2003.

2. The Government anticipates receiving Commission approval for the criteria of Coal Investment Aid on 25 June 2003. Payments under Coal Investment Aid will be conditional on Commission approval having been secured.

II. LEGAL BASIS

3. The Government anticipates that financial assistance under Coal Investment Aid will be provided as "aid for initial investment" under Article 5(2) of the European Council Regulation No. 1407/2002 on state aid to the coal industry ("the Regulation"). Payments will be made by the Government under section 8 of the Industrial Development Act 1982.

III. RATIONALE

4. The coal industry plays an important regional role in providing quality, well-paid manual jobs in areas that are often socially and economically disadvantaged. However, investment in the mining industry is running at low levels, threatening the future viability of many mines and putting thousands of jobs at risk. Further mine closures would have significant negative impacts on local areas, the majority of which perform below the national average across a broad range of social and economic indicators

5. The aim of Coal Investment Aid is to create or safeguard jobs in the UK coal industry within socially and economically disadvantaged areas by



encouraging coal producers to enter into commercially realistic investment projects that:

- maintain access to coal reserves;
- would not otherwise go ahead; and
- will ensure the medium-term economic viability of the relevant mines

IV. CRITERIA

A. Applicant

6. **Applicant viability** - The applicant must be in a position to remain financially viable, taking into account the contribution of the project, from June 2003 to the later of:

- (a) the scheduled end date for exploitation of the reserves to which access is maintained by the project; or
- (b) December 2008.

B. Production unit

7. **Qualifying mine** – Under Article 5(2)(a) and Article 2(d) of the Regulation, aid may only be granted to existing mines. An application must relate to:

- a single mine (deep or open cast);
- located in a socially and economically disadvantaged area¹ of the UK; and
- which was in commercial production for the majority of the period from 1 July 2002 to 31 December 2002.

A mine, which was on care and maintenance for the majority of this period, would not be eligible for aid under Coal Investment Aid.

8. **Production unit viability** - An applicant must demonstrate that any aid granted to the investment project would ensure the financial viability of the production unit from June 2003 until the later of:

- (a) the end date in the production unit's most recent operating and financial plans; or
- (b) December 2008.

C. Project

9. **Additionality (need)** - An applicant must be able to demonstrate that there is no realistic prospect of the reserves being exploited (whether by them

¹ "Socially and economically disadvantaged areas" are areas performing below the national average across a majority of the following indicators of local labour market conditions: employment, claimant count, ILO unemployment and vacancies as a proportion of claimant count. Contact DTI to determine whether a production unit is located in a socially and economically disadvantaged area.



or another undertaking, at present or at a later stage) without the receipt of investment aid. Aid will only be awarded to projects which will safeguard jobs at a production unit for at least two years longer than if the aid was not granted.

10. **Qualifying coal** - Aid will only be granted under Coal Investment Aid to cover costs in connection with coal used in the Community for the production of electricity, combined production of heat and electricity, production of coke, and fuelling of blast furnaces in the steel industry (as required by Article 3 of the Regulation). Coal for domestic use or for industrial uses other than those set out above will not qualify for aid under Coal Investment Aid. Where an investment project will result in the production of coal sold for both qualifying and non-qualifying uses, an applicant should apportion its relevant costs by reference to the revenue generated by sales for qualifying uses compared to total sales revenue.

11. **Eligible costs** - Coal Investment Aid will provide assistance towards investment costs directly related to infrastructure work (including surface operations) and to the equipment necessary for the mining of coal reserves in existing operational mines, which is instrumental in creating or safeguarding jobs.

12. Coal Investment Aid will support costs associated with securing access to reserves but will not support costs associated with the exploitation of those reserves. Eligible costs could include, inter alia, capital expenditure on fixed assets (covering property, plant and machinery - including face equipment and designing and developing machinery); labour costs associated with capital work; geological surveys; and site development expenditure relating to the access of qualifying reserves.

13. Major projects to access and work new areas of coal may include all items of investment expenditure associated with the establishment of production inclusive of the development of the first face.

14. **Minimum size** – A project with total eligible costs of less than £500,000 will not normally be eligible for aid under Coal Investment Aid. The cost of assessment and monitoring by DTI and external consultants of projects with eligible costs of less than £500,000 will normally be disproportionate to the size of grant potentially payable under Coal Investment Aid.

15. **Project viability** - An applicant must demonstrate that the investment project will secure access to viable coal reserves – that is, proven reserves that can be economically mined on the basis of reasonably anticipated coal prices. Reasonably anticipated coal prices should be determined by taking into account any existing contracts for the relevant period and a series of factors such as coal quality (including sulphur levels), available markets for coal, transport costs, anticipated international coal prices and anticipated



GBP/USD exchange rate. When assessing the viability of a project, only qualifying coal produced within the ten years of the start of exploitation of reserves to which access will be maintained by the project will be taken into account.

16. **Licences and consents** - At the time of submission of a claim form for an instalment of aid an applicant must have a relevant mining licence and have received all relevant planning consents relating both to the investment project itself and to exploitation of the reserves which the project will access.

V. ASSESSMENT

17. **Discretion** - The funding of any project under Coal Investment Aid is discretionary and an application satisfying all the criteria will not necessarily receive investment aid. In determining which eligible projects are to be supported and to what level, the Government will assess the relative quality of the projects.

18. **Quality** – The quality of an application will be judged by considering (in order of importance):

- the medium term viability of the applicant and the project.
- number of jobs created or safeguarded by the project and how long the jobs will last. Jobs to be taken into account are both those directly created or safeguarded by the project and those created or safeguarded indirectly which will have a direct bearing on the operation of the project (including relevant agency staff and subcontracted jobs). Jobs deemed to have been indirectly safeguarded using straightforward local multiplier effects will not be taken into account.
- the commercial efficiency of the investment project as measured by the net present value (NPV) of all relevant costs (including those covered by investment support) and revenues directly associated with the project and the development of reserves to be accessed by it, together with the indirect effects on other business and the wider economy, taking into account the risks involved. NPV analysis will use the Economic Efficiency Test employed in Regional Selective Assistance assessments, applying the Treasury advised rate for capital grants (currently 8%). The combined impact of such effects should be at least zero, unless the project offers exceptionally strong benefits in other areas.
- job quality, as measured by wages, how much training is provided, research and development related roles and skills required to do the job.



- labour productivity gains delivered by the project.
- wider benefits offered to the local area, for example jobs in the community safeguarded indirectly by the project but not deemed to have a direct bearing on the operation of the project and orders generated for other manufacturing or service companies.
- innovation/research and development benefits of the project.

VI. SUPPORT

19. **Funding** - Aid granted under Coal Investment Aid for an individual investment project will not exceed 30% of the total costs of the project. An application will only be eligible for support under Coal Investment Aid where it can demonstrate to the satisfaction of DTI that it has funding for at least 70% of the total costs of the project in place from its own resources or from other commercial sources. The payment of instalments of aid under Coal Investment Aid will be conditional on the timely supply by the applicant of the majority funding as detailed in the application.

20. **Form of support:** The aid will take the form of a grant. Funding for successful projects will be provided in instalments as required by the details of the project, but payments will be dependent on the achievement of agreed project milestones. Each payment will comply with the requirement that Government support does not exceed 30% of the total costs for the period to which the payment applies. No investment aid will be paid after 31 December 2010.

21. **Level of aid** - The level of grant awarded for any project will not exceed £20,000 per Full Time Equivalent job created or safeguarded by the project. The average level of grant will be substantially lower than £20,000 per job.

22. **Market effects** - Any aid granted to an applicant under Coal Investment Aid must:

- not cause delivered prices for Community coal to be lower than those for coal of a similar quality from third countries.
- not lead to any distortion of competition between coal buyers and users in the Community.
- not lead to any distortion of competition on the electricity market, the market of combined heat and electricity production, the coke production market and the steel market.

VI. ADMINISTRATION



23. **Team** - A team within the Energy Group at DTI will administer Coal Investment Aid, taking technical advice from DTI accountants, DTI economists and external consultants.

24. **Application deadlines** - Applications for aid under Coal Investment Aid may be submitted up to 30 May 2005 (provisional date). There will be three assessment periods with the following deadlines for submission of applications: 31 July 2003 for period 1, 30 May 2004 (provisional date) for period 2 and 30 May 2005 (provisional date) for period 3.

25. **Application information** - To be eligible for aid an application must provide all the information requested in the relevant application document.

26. **Budget** – Coal Investment Aid has a budget of up to £60m. While we anticipate that part of Coal Investment Aid’s budget will be available for award in each of the three assessment periods, it is possible that the bulk of the funds available under Coal Investment Aid could be allocated after the first assessment if a number of sufficiently strong applications were submitted at that stage.

27. **Monitoring** - The grant of aid under Coal Investment Aid will be conditional on the applicant agreeing to provide such information as DTI may reasonably require to allow on-going monitoring over a period defined in the offer letter for the grant.

28. **Accounting requirements** - A successful applicant will be required to ensure that all aid granted to it under Coal Investment Aid is subject to separate accounting in its annual accounts. Failure to comply with this condition could result in the applicant being required to repay aid granted to it under Coal Investment Aid.

29. **Publication** - DTI will publish outlines of each application on its website, together with information on all grants made.