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"TOWARDS A COMMON ENERGY POLICY"

1. I am delighted to find myself in Scotland again after an absence of over a year. It is also a great pleasure to address this audience, which I know is drawn from a wide and distinguished background. And I am pleased to take part in a series of lectures dedicated to the future of the European Community. You are organizing these lectures at the right time. In the UK, the Community is at present under heavy discussion - some of it critical. I am sure these lectures will help to give a balanced picture.
2. Heriot-Watt is famous and has been in existence for a long time. But its history as a University is recent, and its development as such requires skill and imagination. Europe is in a similar position. As a continent it is old; as a community it is new. It is still developing; what we see as "the Community" today is not the finished product.

Therefore if we are to forge something of value, we must keep on the move. This means generating and maintaining the necessary political will power. And it means statesmanlike and mature judgement on the issues which confront us.

Let me take up three particular areas in which we shall be put to the test.

3. The first of these is enlargement of the Community, to include Greece, Portugal and Spain. To me this is an exciting challenge. We owe a duty to the new democracies of southern Europe. There will of course be problems. The British are already uneasy about the CAP*. I cannot say that its workings will be made easier by the addition of large quantities of mediterranean produce. There is also the problem of regional imbalances. We have to admit that in the 20 years of the existence the Community has made little progress in ironing out regional disparities in terms of employment, productivity and incomes.

The man in Hamburg still earns six times more than the man in Palermo and this gap may get worse with enlargement. Just to quote a few figures : Income per head in Portugal is only 32 % of the Community average. In Greece it is 44 % and in Spain 54 %. Enlargement will increase the Community's GNP by 10 %, but the population will grow by 20 % and there will be 50 % more farmers.

I am not quoting these figures as an argument against enlargement. I give them to reveal the magnitude of the task before us. We must not ignore them, otherwise our efforts may be inadequate. It is a daunting challenge. We must prove equal to it.

I reject utterly the argument that enlargement is to be welcomed because it would restrict the movement towards greater European unity. A man who is afraid of flying may be glad if his aircraft takes on so much cargo that it cannot take off. A determined aviator would make sure that the aeroplane is fitted with more powerful engines and that, in practical terms, is what we are trying to do.

* Common Agriculture Policy

4. This is what the European Monetary System is all about and it brings me to my second theme.

It all started with the collapse of the dollar. We have had problems with the dollar before. But we never experienced such monetary chaos. The shock waves were comparable to those produced by the 1973/74 oil crisis. Last month alone the dollar dropped by more than 10 % against the DM, the Swiss franc and the Yen, only to bounce back again (10 to 11 % against major European currencies) a few weeks later after tough action by Washington. We have been experiencing such unprecedented upheavals for almost two years. This in turn disrupted the internal parities of the Community and threatened to blow the Community apart.

The basic decision to act was taken at the Bremen summit. Let me recall what this was. We decided to create a zone of monetary stability in Europe and to set up a durable and effective European Monetary System. We also agreed to examine how to strengthen the economies of the less prosperous members of the Community.

The ambition and the political commitment behind the move were much admired. But from the outset there was also suspicion of various kinds. There was a belief that the EMS was really directed against the outside world. Let me state quite clearly that the EMS is not aimed against any country, against any currency. It is in fact devised for positive ends, for economic growth and full employment and increasing trade everywhere.

Firmer exchange rates within the Community will enable large and small enterprises to plan ahead on a sounder basis. They will be able to trade more easily with each other and to increase their investments. But the EMS will not cut us off from the rest of the world.

An economic recovery in Europe will also help to increase trade with the rest of the world. It will be a major factor in a revival of the world economy. In the medium term, I expect to see an upturn in trade with the outside world, with the USA, the far East, the developing countries.

These will be results beneficial to all of us. But we intend to achieve more with EMS. What we are really going for is better cohesion within the Community. Looking back over the last five years, we have been doing badly. When the Community was founded 21 years ago no one then imagined that there could ever be such wide divergences between currencies. But there cannot be a European Common Market at all without firm exchange rates. The Common Market can only function when buyers and sellers know what they are going to have to pay and how much they will receive when they sell machines and goods and services.

It is no surprise, therefore, that in recent years trade within the Community, the very basis of the Common Market, has slowed down and ^{has} been increasing at only half the rate of world trade.

I think we can now reverse this trend and look forward to a better future.

I am aware that not everybody shares our confidence. Naturally there have been hesitations over the EMS plan, and this is not confined to the UK alone. Some States are worrying about the risks of inflation. The weaker countries are concerned about the effects of tighter monetary constraints on investment and employment. I must say there is an element of paradox in this. But could it not be that this is really an argument in favour of the system? If a country like Germany fears a weakening of economic discipline should this not serve to reassure weaker countries striving for more flexibility, better growth and more jobs?

We should not, therefore, consider this system as interfering with our economic aims. In fact it is a powerful weapon for achieving greater convergence of our economies. Of course we cannot expect all this to happen at once. It is bound to take time. To speed things up we will have to give it a push. This will involve a major common effort to help the peripheral areas of the Community. Economic convergence does not mean convergence of activity towards the so called golden triangle; it means the opposite - the expansion of the triangle until it covers the whole of the Community map. In geographic terms, and in some respects economic terms, Scotland is a peripheral area. That is an important point which people in Scotland may overlook when considering the relation of the Scottish economy to the U.K. and European economies as a whole. So there is something in this for Scotland of real benefit.

One way of working on the regional problem is through the Community budget. There has been some criticism of the budget in the U.K. and I frankly agree that the budget is out of kilter. It is dominated by agriculture because Member States have failed to agree on comparable policies for other sectors. I want to see this redressed - not necessarily by clipping the CAP, but by building up really substantial Community programmes and budgets in fields such as regional policy and energy. But we can't do that without the firm support of all Member States. The British included.

5. The third great development we shall see in these next months is the election of a European Parliament by the people of Europe.

Its importance cannot be exaggerated. It will quite simply move the Community from being nothing more than a kind of Christmas Club for its citizens. It will move it into the broader uplands more in line with European democratic traditions. The ideals of these traditions are freedom, humanity and tolerance.

These words have been sadly misused in the past. But these words do express a principle for which we in Europe have fought and died for more than a thousand years. The principle is the respect for the individual. The individual is the focal point. With the direct elections we should give fresh expression to this ideal. In the 20 years of the Common Market I sometimes feel we have lost our way in a morass of customs duties, corn prices, harmonisation measures and legal sophistries. And there has been too little attention paid to the citizen's demand to have a real say in the running of this Community.

This has not up to now been the case and it has led to a belief that the Community was something remote from the ordinary citizen. Europe sometimes became a bore. In future, after next June, however, the citizens of Europe will be able to make their voices heard. They will be able to determine what policies should be followed, whether it's for energy, research or environment. They will be able to determine what the Community's political direction should be, what kind of ground rules should be laid down for the society they live in. Europe itself will be the dominant election theme. The Community will come out of its Committee rooms and conference chambers and into the market place of everyday life. All political parties, even those who don't think much of Europe, have had to sit up and take notice. They have had to take the elections seriously. Parties have already formed themselves on a European basis.

Of course, these direct elections will not solve all our problems. Maybe the Parliament's present powers won't much change. Certainly not all at once. But I cannot believe that the new MPs will allow that situation to last too long. No Parliament in all of human history has ever started life with the full panoply of power, and that of course includes the Parliament at Westminster. There are certain to be difficulties attending the birth and fledgeling years of the new European Parliament. But in time its authority can only increase. I look forward to these elections being a great success.

To sum up so far, I should say that none of these ambitions will be achieved overnight. Each advance needs careful planning. Maybe in recent years we have become discouraged by poor economic results, by defensive attitudes within the Community, and by slow progress in the Council. Perhaps we have been too willing to take the low road. Although this is against the tradition of the song, perhaps we should start to take the high road now.

6. Let me now turn to my own particular role in all this. Energy policy is an important component of this general policy picture I have just painted. Stable and adequate energy supplies at reasonable prices are fundamental to all economic and social activities. Without energy, nothing moves. It has international strategic connotations.

The event of 1973/74 brought this lesson home to us. It was an unpleasant way to learn. Oil prices were doubled at a stroke and doubled again within a few months. A barrel of oil that had cost only 2.30 dollar suddenly cost 10.45 dollar. Now we are having to pay 12.70 dollar and it looks as though OPEC will try to put the price up again in a couple of weeks time.

We all had to live with the economic consequences. Inflationary pressure put prices in Europe up by an extra 3 %. In Japan this was 4 %. World-wide the average was an extra 5 %. It ended the years of growth. World trade shrank by 5 % in real terms. We all know what that has meant in terms of our standards of living, in terms of unemployment and balance of payments problems. It put an end to international monetary system of fixed exchange rates with the dollar losing 40 % of its value in five years.

We in Europe have had to take careful stock of our energy situation. The facts are quite simple. The Community is vulnerable to external events affecting its imported supplies. It is relatively poor in indigenous resources. In 1977 we imported 56 % of our requirements. Our oil imports alone cost the Community about 50 billion dollars last year. Most of our imported oil comes from troubled areas.

Any analysis of the future shows that oil supply is bound to become more scarce sooner or later - five years either way is neither here nor there. Estimates vary, but by the end of the century world demand for all fuels could reach about 20 billion tons per year, compared with about 7 billion tons now. The non-oil producing developing countries alone could be consuming up to 2 billion tons, about 5 times their present consumption.

I quote these estimates to show the magnitude of the task we face. Where are these supplies to come from ? For whom ? At what price ? Shall we surrender to a competitive scramble for supplies, in which the weakest will lose most ? Or shall we try for a common approach to these problems of demand and supply ?

The common approach is the only reasonable course. Energy supplies are global commodities. Therefore a global solution must be sought. But time is short. We must act now. Because of the long lead times involved, it means acting in advance of market signals.

Sometimes we even have to act against what the market seems to tell us in the short run. At the moment the signals are deceptive. There is an abundance of oil on world markets, refineries are running at half capacity. In addition reports are circulating about allegedly rich reserves in, say, Canada or Mexico, as if a turn of the tap will bring them into production. This is a thoroughly dangerous attitude. Recent events in Iran - only one of the producers, but one which supplies us with 17 % of our oil - have shown us how fragile these assumptions could be.

I believe we in the Community must have four objectives. We must reduce our overall consumption. We must reduce our dependence on overseas supplies. We must diversify our sources of supply. And we must increase our domestic production.

To achieve these aims we need a proper strategy. For this we seek agreement on basic policy guidelines and on specific Community objectives. We have done this regularly and only a couple of weeks ago we reported on how we saw the picture in 1990 and what has to be done.

It is on this basis that we judge and coordinate the policies and programmes of Member States. This is more than an arid exercise. The aim is to point to conflicts between Member State's policies, to iron out the differences and to make sure that we are moving in the right direction.

Let me say yet again that there is no Brussels master plan which we are about to impose on Member States when they are not looking. Such ambition would be neither practicable nor effective. But there are areas not covered by national programmes. There are fields where Community action is obviously essential and more effective than scattered national measures - for example oil stocks, emergency measures, conservation standards. However, our overall energy budget for 1978 is only about £ 160 million. This is only 2,5 % of the global Community budget and less than 4 % of the total energy investment. This is an imbalance of priorities which I aim to correct.

I realise that an audience in the United Kingdom may well say that this is all very well, but what has it got to do with the Commission? What has it got to do with the United Kingdom, since the United Kingdom will be self sufficient in energy very soon? My answer is this: The UK's self sufficiency will not last for ever. But even during self sufficiency, the UK has a direct interest in the energy situation of its partners. If they are in a weak energy position, their economic position will be enfeebled too - and that will not be to the UK's advantage. You cannot do much business with a country that cannot pay its way and is getting on the defensive. So in spite of your oil, coal and natural gas, you cannot sensibly turn your back on the energy problems of the Community as a whole.

7. Euratom

It is perhaps in the context of the Euratom Treaty that advantages of Community action in a highly sensitive area of energy policy can best be judged. Of course, it is well known that the Euratom Treaty has had its ups and downs. There have been a number of reasons for this and I do not need to dwell on them here. But do not forget that we have over the years built-up in Euratom an experienced and tested team of inspectors who guarantee that

nuclear power in the Community is safe and used for peaceful purposes. It is the oldest corps of inspectors in the world.

We have twice as many staff to cover our nine countries as the IEAE ⁺⁾ has for the whole world. And we have entered into a cooperation agreement with the Vienna Agency. Through this the Euratom security controls are being verified by the world body. We can say that in the nuclear field the Community is the best inspected area of the world.

But there have been problems over Euratom competence in securing and safeguarding supplies of fissile material. Some Member States tend increasingly to challenge the right of the Community as such to negotiate agreements on their behalf. They claim that nuclear affairs have become too "political" to be treated on a Community basis. I must say, I cannot understand that line of reasoning. Quite to the contrary, I say that the more political the problem the greater the role for the Community. Let us not forget that we are dealing here with the heavy-weights of this world such as the United States.

Two weeks ago this position has been thoroughly vindicated. The European Court of Justice has delivered a powerful and historic judgement. The Court ruled that Member States could not enter into international agreements without Community participation. It upheld the Community's exclusive and wide-ranging responsibilities for supply and safeguards including physical protection. It confirmed that the Community was also the legal owner of all relevant fissile materials in their area. What this means is, that responsibilities for nuclear materials including those of ownership must be exercised by the Community. Member States cannot enter into agreements unilaterally.

There I must emphasize a further point. In its judgement the Court underlined that the Treaty has resulted in a great transfer of powers from the Member States to the Community. These

+) International Atomic Energy Agency

powers, it said, could not be recovered by Member States unilaterally.

An International Evaluation of the Nuclear Fuel Cycle (INFCE) is now under way. The Court's ruling maintains the Community's crucial role in this exercise. It is in INFCE that the next steps in the peaceful use of nuclear energy must be taken. It will be against the background of INFCE results that the Community will in the future negotiate its supply agreements with the major suppliers - the USA, Canada and Australia, for example.

We have always insisted on this in our supply negotiations. This was how we successfully concluded the updating of our agreement with Canada at the beginning of the year. And we have emphasized the Community's competence in our talks with the US government about the effects of their non proliferation act.

It is here that we can see the practical importance of the Community's power. The Community can, as an entity, best give the political suppliers the necessary guarantees as to safeguards. In return, the Community can best ensure the development of its own nuclear industry.

In these past years of plentiful nuclear supplies we have maintained the frame of a common nuclear market and guaranteed the respect for the fundamental principles of the Treaty. Now that the supply of nuclear materials threatens to become more difficult, I can assure you that we will not hesitate to use our powers to the full for the benefit of the Community as a whole. Indeed, it may well be that the successful application of the Euratom Treaty could prove an inspiration for the further development of a Community policy in other fields of energy.

Let me now describe what we have already achieved here. We have reduced energy consumption. The consumption forecasts for 1985 are down from 1700 million tons to 1240 million tons.

8. On supplies, the picture is mixed.

Coal is a fuel of interest to the UK, and to Scotland in particular. Britain is the largest Community producer, and has an impressive long term investment programme. The new projects at Selby and Belvoir are well known. I was impressed to read the other day that the NCB* is going to start a feasibility study on the development of the Hirst Seam next to the Longannet field. There are difficulties though in the Community. We must act now to maintain our coal industry and our burning capacity. Otherwise, we shall find that both will have declined seriously by the 1980s and 1990s when oil will be scarcer, and coal should be coming into its own again.

Concerning oil there is probably not much news I can tell a Scottish audience. UK oil supplies have already made a great contribution to the Community. But even at peak production, UK oil will not be more than 20-25% of total Community needs. Everyone very much hopes that the UK will continue its brilliant record in finding oil, and that other member states with promising sedimentary basins will also be successful.

The picture for nuclear is frankly disturbing. We shall now probably only reach half our target capacity for 1985 - less than 80 gigawatts compared with 160 gigawatts. This slippage will carry through and affect the 1990 objectives of member states. Nuclear power is not a technological luxury. We need it. On the assumptions of strong energy saving policies and of the modified forecasts in the growth of demand for electricity, we shall need electricity production equivalent to almost 500 million tons of oil. Of this, almost 200 million could come from nuclear. If this input is not achieved, the only alternatives are oil and gas. Coal is finding it hard to meet its share. Yet any additional call on oil or gas for electricity

* National Coal Board

generation would be wasteful, and dangerous. We cannot afford to put extra pressures on the oil market in the later 1980s. The extra oil may just not be there. It is on these sober appreciations that the Commission's nuclear case rests.

We are taking a hard look at new sources - wind, waves, solar, tidal and geothermal energy. This means a great deal of work and heavy investment over a long time. We do not know therefore when we can begin to rely more heavily upon them. But it is clear that this will not happen before the start of the next century.

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9. My conclusions from all this is ^{rather}an optimistic one. It is true that these are times of challenge. There are fainthearts about. But I believe that we as a Community are now measuring up to what is at stake. We shall soon elect a European Parliament, we have opened the doors towards the new democracies in southern Europe, and we are moving towards a better economic and monetary stability. Energy is part and parcel of it all.