ADDRESS

BY MR GUIDO BRUNNER, MEMBER OF THE COMMISSION OF THE EUROPEAN COMMUNITY TO THE GENERAL ASSEMBLY OF THE EUROPEAN COUNCIL OF THE CHEMICAL MANUFACTURERS FEDERATION IN BRUSSELS ON 14 MAY 1980

The Energy Challenge and the Chemical Industry

1. A long time ago when the British fleet changed from coal to oil that was a question purely of how could it be done and how much it cost. Our problems today stem from the fact that this kind of free choice is not ours any longer. True, techniques have much advanced. But now we find we cannot afford them. Two main reasons. First, they are expensive and we are feeling the pinch of low economic performance. Second, the fuel is no longer there. That, in a nutshell is our problem over energy.

2. Now, what does that mean for industry and in particular for you chemical manufacturers? One thing is clear, without energy there is no industry. Easily said, but hard to imagine and worse to experience. Our modern way of life is inconceivable without industry. And you chemical manufacturers are so much a part of it that we tend to take you for granted. You help to clothe us, to shelter us and to feed us. You are not doing it all alone. But we would be lost without you.

   I have been looking at some of the figures for growth and employment since the end of the war. You have done much to make our economies tick and give our people jobs. Every year you have been spending 9 billion Dollars on investment in Western Europe alone. That is a big figure. But what I said is true for America as well. You have invented and you have innovated. Take all these synthetics, polystyrene, polythene, you name them. I think we ought to be grateful to the chemical manufacturers. And you have a good case to feel proud of your industry.

3. But now the energy scene has changed. Potentially there is less energy but demand is still increasing. This is a problem for our economies and it is a problem for our companies.

In any economy there are always competing claims on resources. If we try to satisfy them all we will not get even a gallon of petrole more. All we get is more inflation. We cannot use scarce resources twice over. We find energy is taking an increasing share of our resources. We have to cut down elsewhere. I can give you figures. One dollar out of ten now has to go on energy, either for investment or just to buy it. If at the same time we have no more than zero growth in the industrialized economies, as in fact we have to reckon with this year and perhaps next year, too, you do not need a knowned economist to explain why we are in trouble, why inflation is so high, employment so low and budgets under strain.

Now in industry, energy and oil represent a large share of cost. Today it is 10 % of the total input and that is probably not the end of it. For you chemical manufaturers oil is more than just a fuel to drive your machines. For you it is the very stuff with which you work. More than one barrel out of ten consumed in the Western world goes into the chemical industry and the chemical industry has to pay for it. So the present day oil prices are no good news for the cost/benefit accounts.

4. It is no surprise that people wonder how we got into this mess. At a time when you are having to pay $35 dollars a barrel the answer could make you laugh, were the problem not too serious. It is simply that for too long we paid too little. Our whole industrial system is like a vehicle built to operate on 3 Dollar oil, puffing along with an inefficient engine and with a body leaking vast amounts of energy. We behaved like some latter-day - Rip van Winkle, as Foreign Affairs put it in a recent issue. We have had our eyes shut for 150 years. So it could happen that in the last 15 years alone the world has burnt up more oil than was consumed in all previous history. The alarm clock rang in 1973. We looked around rather surprised, then turned over and passed into sweet dreams again. Iran caused a rude awakening.

It is human to blame our troubles on OPEC. But even if OPEC did not exist we could not carry on much longer that way. OPEC have simply concentrated our minds. They did it first by pushing up prices, to correct in some way the mistakes commited during a whole century. In 1973 oil stood at 2 dollars a barrel. Now it is over 30 dollars. It is not only a problem of prices. Since Iran OPEC have learnt that they can cut production while maintaining or increasing revenues. At today's prices OPEC could cut production by 60 %. and still earn as much as in 1978. I think we need no further evidence of OPEC ability to leave their oil in the ground. They have now a real choice for policies. OPEC can play on prices and on production levels. Contrary to what you would imagine that makes it rather more difficult for them. They are divided on how to make best use of their treasure. Should prices go up and production be kept stable? Or should it be the other way round? That was the issue of OPEC talks at Taif last weekend. No solution was found.

For OPEC, it is a policy choice. For us it is a matter of survival. I am not saying that oil is suddenly going to run out or stop being produced or traded.

But oil is no longer reliable. We cannot count on having it in the quantities we have been used to. We cannot trust in getting it at the times we need it and we do not know on what conditions it will be supplied.

5. There are two consequences. The first is with us already. Economic growth and trade have been halved in recent years. Productivity has slowed. The latest oil developments mean that this year growth is down to almost nothing. Inflation may be threetimes higher, the worst ever for the European Community. And we will have 7 to 8 million people out of work this summer. But if we are tempted to feel sorry for ourselves, we should look around. The worst off is always the weakest.Developing countries will have to find 50 billion dollars on the world capital markets to finance their deficits - twice as much as two years ago. The money is there, but they will not get it because they have long ago reached their overdraft limits. Since the first oil crisis of 1973 the combined debt of the Third World has grown from 77 billion dollars to 250 billion dollars today. The explosion of oil prices has pushed these countries into a bleak house of poverty. They have had their own dreams of a cheap energy society with tractors tilling the ground, with all the back breaking work done by machines. Short of a miracle they can forget it.

The second consequence is that we have to reserve oil for those purposes where it really cannot be replaced. At least not now. In this respect you chemical manufacturers can count yourselves among the favoured few. Transport is another sector. We cannot ask you or them to move out of oil just like that.
I think we can assume that about half of our present oil consumption could not be replaced right away by other fuels. But we ought to be able to make a rapid start on the other half.

6. So, it is clear what we have to do. We must learn how to run our economies with less energy. Second, we must replace oil by alternatives. Third, we must earn the money to pay for all this without causing inflation and economic upheavals. And fourth, we must do it now.

We did not have to worry about the relation between energy and growth in the fifties and sixties. Now we have to. And we have begun. In 1978 consumption in Europe was about the same as in 1973. At the same time we achieved growth in real terms of 10.7 % .
It is not easy to tell exactly how much energy was saved. But we reckon that with more efficient use we saved up to 10 % between 1974 and 1979. For oil alone, consumption was one million barrels a day less. At todays prices that is a saving of over 13 billion dollars. Your industry led the effort. A clear response to a high oil input and high prices.

More can be done. In two ways. We could save another half million barrel/day within 5 years and an additional 2 million barrel/day by 1990 just by copying what the best companies and the most foresighted households are already doing.

Add to this all the new ways of using energy that are now on the drawing board, new kinds of insulation for houses, new car engines, new heat generators, new airplanes. That will take us a long way.

There is only one problem: all this costs money and that money has got to be earned. Now it may sound strange that we ought to save money by spending it. It may sound out of place when economic growth is down to almost nothing. But let us stay and think for a moment. We have to lay out a lot of cash in any case, whether we buy oil, save oil or replace it. But there is a difference. If we try to buy it we are not sure that we will get it and at what price. If we move out of oil we stand on our own feet.

7. Now what are the alternatives ? Only coal can be counted on as a safe source of supply over the next decades.
The position of our coal industry is well known. Our production in the Community is now lower than it was in 1973. We are not consuming enough either. All this in spite of oil price rises. That must be changed. We must build more power stations burning coal. More coal must be used in industry and in our houses. With coal we can produce oil and gas and petrole. But, I am sure, I need not tell you how coal can help to solve our energy problem.

The ideal solution would of course be the most rapid possible developmentof renewable energy sources, such as the sun, the waves and the wind. But they are for the future. There is nuclear power, but we are all too familiar with the concern it arouses. There again time is passing us by.

Time! - that we have not got. Another shut-down in Iranian production, political problems in the Gulf region, a refusal to sell by countries like Libya -any one of those could bring us to the brink of disaster.

8. We want to do two things at once and very quickly. Get away from oil and revitalize our economies. Helping our economies is a good thing in itself. But it is also the way to generate the resources needed for moving out of oil. Can we achieve both these aims at once? I have always believed the two can be combined. The key is investment. Independence from oil means investment. Economic growth means investment too.

We have calculated that in the European Community we will need 650 billion dollars over the next ten years to assure more reliable supplies of energy. That is a fair proportion of the GNP. Channeled into productive use - and energy investments are highly productive - it will give our economies a dynamic new impuls. There will be less for consumption. But at the end there will be more jobs, less inflation and a better looking balance of payments. The only alternative is to send the money abroad to pay for oil at ever - increasing prices.

There is a snag though. Most of these energy investments carry commercial risks. We cannot be sure whether synthetic fuels will be profitable in one year, two or three. That does not make much difference in terms of supply security. But it is of essential importance to the businessmen putting up the money and looking for a reasonable return over the year. It is risk capital and it is long-term financing. Something will have to be done to lessen the gamble and improve the odds. I think it is inevitable that some public money will be needed.

9. We have worked on this. We have made proposals how this could best be done. We have not got all the money in the world. So we have to concentrate on the essentials. How to make the most progress in the shortest time? How to develop promissing alternatives to oil? How to stop waste? How to promote a common approach to the energy problem? That is where we should direct our ambition. An ambition we hope Governments will make their own. We will help. We can raise funds. We can identify projects. We can assure the effort made is equal for everyone. We can watch out that the Common Market is maintained.

I may say here that first reactions from governments have been encouraging. The Heads of Government welcomed it. Yesterday the Energy Ministers gave it further thought and impetus. As last time, we will have a common platform ready for the debates at the economic summit in Venice at the end of June.

In concrete terms:

We are now getting down to the detail. We must examin all the investment plans of all our industries. We will identify the gaps. We will suggest what should be added, perhaps how these plans might be better directed and co ordinated.
Once that is done, we shall look to see how these plans can best be financed. Perhaps through loans, through interest rebates, through grants. If we see that this will not be enough, we shall have to look for other ways of raising the necessary funds.

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10. If our plans work the raw material will be there for you to use. Fossile fuels can be used for the production of chemicals, lubricants and other essentials which you cannot do without. So what we are putting to our heads of Government is nothing less than a vital contribution to the future success of your industry. This is something new from Brussels. No rescue plans. We are helping you before you need it, before you are really in trouble. Our new energy programme is an opportunity for you to help yourselves. It is a liberal scheme which allows the market to work. Two million highly skilled jobs are at stake in the chemical industry and investments worth many billions. So oil must remain available as raw material for the chemical industry. Using 90% of oil for energy production and reserving only 10 % for feedstock is the wrong mix. The more we succeed in our plans the more oil you will have to work on.

11. This of course does not mean that chemical manufacturers may consider themselves as being exempt from the energy scramble. If we ensure

that you are properly provided for, that you get 45 million tons of precious naphtha per year, worth 17 billion Dollars today and Heaven knows how much tomorrow, that means a special responsibility on you to make the best use of it and not to waste a single drop. It also means that you have to continue looking around for other sources of raw material, that you must participate in our efforts to work on the new techniques to get oil and gas out of coal. If we do that, you help our coal, the only reliable alternative source we have in the community.
I saw the other day a report from BASF. To cover the raw material needs of the Ludwigshafen plant they would need 1500 tons of coal per hour or 13 million tons per year. If you project that over the Community, you would get a figure running into hundreds of millions of tons.

12. The point I want to make is that we have here real grounds for working together . As we solve our energy problems , you will be among the first to benefit, and I am confident that we shall be successful.