

ADDRESS BY MR. GUIDO BRUNNER, MEMBER OF THE
COMMISSION OF THE EUROPEAN COMMUNITY, IN
NEW YORK ON 25 MARCH, 1980

UNITED STATES AND EUROPE:
PARTNERS IN HANDLING THE ENERGY CRISIS

25 March 1980

We have been getting energy and oil on the cheap for 150 years. Why are we suddenly so worried about it? Haven't we got other more urgent and difficult social and economic problems? Double digit inflation is haunting the Western World. In our European Community we will have 7 million people out of work this summer. And I understand, it is no better here. Why so much emphasis on energy then?

It is very simple. Our modern way of life is based on our industry. Industry cannot function without energy. Its share in total costs has been increasing ever since James Watt lit the fire under his first steam engine. It is now 10% and it is going up. Industry will become more and more sensitive to efficient energy usage, for this if for no other reason.

The fact is, industrial activity is the major factor in overall energy demand. In any economy there are always competing claims on resources. If we try to satisfy them all, we won't get even a gallon of gas more. All we'll 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 industrialised economies, as in fact we have to reckon with this year and perhaps next year too, you do not need a Harvard economist to explain why we are in trouble, why inflation is so high, employment so low and the budget under strain.

And that is not the end of it. We are not using energy properly. In fact, we are wasting it. America has been much criticized for its lavish oil consumption. Every American burns 30 barrels of oil per year. That is twice as much as your cousins in Sweden or West Germany for example. If we all carried on like that, within 15 years all the oil we know about and even that we hope for would be gone.

Of course, we cannot let that happen. But we cannot change it overnight either. The powerful industrial machine we all so much admire in America was not built up by dreamers. It was constructed by imaginative entrepreneurs with their feet firmly on the ground. They knew how to judge costs and prices. What has been right up to now may no longer hold true. But it would be senseless to throw it out of the window all at once. It would be impossible just to scrap all the houses, all the cars, all the factories which were conceived and built at a time when energy was cheap and abundant. Even to contemplate that would not help at all. It would lead only to economic upheaval, disruption and social revolt.

We must go step by step. And I would like to stress here something which is often overlooked. You in the United States have already taken some steps forward to cope with the new realities. I say frankly you have done better than we have in Germany or in Europe as a whole.

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 percent and still earn as much as in 1978. I think we need no further evidence of OPEC's ability to leave their oil in the ground. In addition interruption of supply for political or other reasons is a continuous hazard.

It is obvious that this is bound to have a major effect on the ability of our governments to promote growth, control inflation, and reduce unemployment. The energy price increases of the six months mean we in Europe will have to pay 50 billion dollars extra this year. This represents a loss of resources equal to nearly half of what the US, the most powerful nation in the world, spends on defense.

Just to show you how much we have suffered already, take our last four year economic forecast. Our experts said we would have to have 4 % real growth and keep inflation down to no more than 4,5 % just to allow our economies to adapt themselves to the new realities and prevent any further increases in unemployment. Now we find that even this is out of reach. Indeed, the latest oil developments mean that this year growth is down to almost nothing. Inflation may be three times higher, the worst ever for our Community.

If we look around, things are not any better elsewhere. The worst off are, as 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. 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. Today one American uses as much energy as nine Mexicans, 16 Chinese or 1.072 Nepalese. And tomorrow oil is going to run out.

We know where we stand. Oil is scarce. It is getting scarcer. And more people want more of it. We should not be surprised. In the last 15 years alone, mankind burned up more oil than was consumed in all previous history. So we can boil down the policy issue to two questions:

First, what can we put in place of oil (and gas)?

Second, how can we find the time to do it?

We have got a lot of coal and there is plenty more in the ground. We can use the power of nuclear fission and perhaps later of nuclear fusion. Very much later we shall be able to tap more of the power of the sun and of the winds and of the earth itself.

The most immediate response is, of course, saving energy instead of wasting it. The evidence is encouraging. 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%. The degree of energy saving is not easy to assess. 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 today's prices that's a saving of over 13 billion dollars. But we are still left with the question: Will we have enough time to change over to the alternatives I have mentioned. It may sound unpleasant, but high prices have at least had one advantage. They forced us to conserve energy and brought in new sources of supply. In a word, they bought us time.

We have had some problem in making good use of that time. Take nuclear power. It is the only energy source which will prevent us from running out of oil and gas before we have switched our transport, industry and households to the alternatives. Within the next ten years, we in Europe plan to produce three quarters of our electricity from coal and nuclear.

The problem with nuclear is that people are afraid of it. That is understandable and I must admit that we have not properly dealt with that fear. It is no use telling them the concrete shell is 20 feet thick and the safety factor is 90.9 percent. What we have to do is to explain that nuclear power is a chance of survival, not a threat. It seems that message is now getting through. You may be aware of the outcome of the referendum on nuclear energy in Sweden just this week-end. Almost two thirds of the population voted pro-nuclear. A few years ago, anti-nuclear sentiment provoked a profound political change in that country.

Setting our energy supply on new foundations will not be a cheap enterprise. Up to now we thought we would be spending in the next ten years about 600 billion dollars on energy investment. To promote energy saving, the substitution of oil, and the development of synthetic fuels and other renewable sources. We now see that is not enough. The additional investment needed could be as much as another 150 billion dollars. We will have to find the money from within our own resources and apply most of it quickly if we are going to get results by 1990. Most of the expenditure

will go on advanced technologies. That is risk capital, and something will have to be done to lessen the risk, improve profitability and shorten payback periods. It is inevitable that public money will be needed. That is why we in Europe think a tax on oil imports might be a good idea. I therefore very much welcome President Carter's initiative in imposing such a fee on imported oil. It is farsighted and courageous.

Money from the oil import fee will narrow the budget gap and bring inflation down. It will do more. It will make people think twice before using imported oil. And industry will be encouraged to look around for more oil here at home.

And in fact the President is doing nothing with prices that would not have happened anyway. I do not intend to quarrel with the oil exporting countries. But does anyone here recall anything we have ever done or failed to do that has had the slightest influence on OPEC when it came to prices and production levels?

We have now reached a stage where we have become painfully aware that energy is not a problem of its own. It is part and parcel of what is happening to prices, to wages, to

employment, to trade and to politics in general. And it is no longer possible for any country, not even for the greatest nation on earth, to fight these problems alone.

There are two major dangers in such a situation. The first is that if we fail to recognize this and to act together, we will ruin the world economy. We must admit we have not done all too well there so far. By and large it has been each man for himself. Take inflation. Our interest rate policies were not exactly the best example of coordinated world wide action. The result of escalating interest rates was economic slow-down and monetary uncertainty. I quite frankly tell you, we are running there a great risk. Our great strength in the west for the last thirty years has been a powerful free economy. It has given us an ever improving standard of life, political stability and social progress. Economic success and military strength made the free world secure. Together they were enough to contain Soviet expansionism. We must not now get ourselves into a situation where we will move to rely on military strength alone. That could be the case if we failed to revitalise our economies.

The second danger we run, is that we withdraw within our four walls and raise the barriers of protectionism. This danger is, of course, linked to the first. We must face it: the temptation is there to use trade barriers not only in the energy field. But energy is at the heart of it all. If we fall out over energy, problems will spread like an epidemic. If we do not agree on import targets, consumption levels and oil substitution quotas, then we will soon drive one another into the kind of beggar-thy-neighbor policies which already once, in the thirties, ruined the world. That would, of course, go right to the basis of the Western alliance. Therefore we must develop a coordinated policy and stick to it. The questions we are dealing with, burning coal rather than ore in power stations, encouraging the use of electricity, increasing car mileage rates, may appear purely technical. They are not. They are the keys to our survival.

Such a policy must lead us away from oil. But it must do it in a way that interferes as little as possible with the free play of market forces. That takes account of the different social and economic conditions in our countries. And we must do it together.

I am well aware that this is not the complete picture.
I am afraid nobody can provide a comprehensive answer.
The essential thing is to push ahead. We must bring home
to our people that we are determined to restore world-
wide economic stability. It is the only way to reestablish
a reasonable balance of power which I am afraid we look
like losing. We need peace to prepare for our future.
And a condition for peace is mutual trust.

We have already agreed on limiting our oil imports and our consumption. That is a first and very valuable step. But it occurs to me sometimes to be a somewhat blunt instrument. I wonder perhaps whether we would not be able to build on this with a more flexible approach. Could we not establish a system that I would like to call an oil substitution ratio. That would mean, we would each agree on replacing a given percentage of oil by alternatives, and it would be up to each country according to its resources and its particular conditions how to do this. I see many advantages for such a system. It would broaden the basis for compromise. It would interfere as little as possible with domestic decision making. And it would achieve what we are all aiming for; reduced dependence, less oil in our economies.

In doing this we will be helping ourselves and we will be helping the poor countries of the developing world.

It is simply no longer acceptable that one quarter of mankind enjoys four-fifths of the world's income. That 800 million people exist in desperate poverty. That more than 90 percent of the total manufacturing capacity is located in wealthy developed countries. To help the poor and eventually ourselves, we cannot simply buy up all the oil and raw materials on the world market.