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INTERNATIONAL ENERGY COOPERATION FROM A EUROPEAN COMMUNITY PERSPECTIVE

by M. CARPENTIER, Director General
of the Commission of the European Communities

INTRODUCTION

Chairman, Ladies and Gentlemen,

I was delighted to be able to accept the invitation by the organisers of this symposium to introduce today's session on the theme of international energy cooperation.

The growing interdependence of the world economy has now become something of a cliché. But this does not make it any less of a reality. And it is as much a reality in the energy sector as it is in respect of the other key elements in the development of the world economy - trade, monetary affairs and the general conduct of our macro-economic policies. Indeed, energy is bound up closely with each of them. So it is a critically important issue on which to base your discussions.

I am representing here the European Commission and, through it, the European Communities. My perspective on the question of international energy cooperation is inevitably that of a European. I intend therefore to dwell on the issues as they are seen from Europe. But let me first try to set them in a general context.

I - THE WORLD ENERGY SCENE

A good deal has happened on the world energy scene since your first symposium in October 1980 set out to define the nature of the problem.

That meeting took place a few weeks after the outbreak of hostilities between Iran and Iraq. There was a background of widespread oil prices - all that on top of the more than doubling in prices that had occurred during the previous 18 months since the Iranian revolution.

Now the world scene looks rather different. Hostilities between Iran and Iraq continue. But there is no shortage of oil. Oil prices expressed in dollars have been falling and are continuing to do so despite further cutbacks in production by some of the oil-producing countries. The markets are softer than they have been since the mid-1970s. There has been a dramatic change in the world's demand for 'liquid gold', with OECD demand falling from 41.1 mbd in 1979 to 35.4 mbd last year, a drop of 14% over two years.

The background against which our discussions are taking place is therefore rather different from October 1980. Concern about the risk of further price pressures has given way in the industrialised countries to bewilderment about the reasons for this remarkable turnaround on the oil markets and uncertainty about its implications for the future.

A review of what has happened over the last 10 years on the energy markets suggests that any tendency for over-optimism would be misplaced. We must welcome and take advantage of the softening in the oil markets and the beneficial effects on our balances of payments that follow the fall in OECD oil imports. They will help to reduce inflationary pressures and to improve the prospects for growth.

But we should be wary of concluding that the risk of longer-term energy constraints on growth have been removed just because of the changes of the past two years.

There are four main reasons for caution.

In the first place, it would be a foolhardy man who would place a bet on any particular level of total world oil supply over the decade or two ahead. There are immense uncertainties about recoverable reserves ; about production and depletion policies of the major producers; about the economics of 'difficult' fields under different oil price scenarios; about the scope for economic production of non- conventional oils. But even on relatively optimistic assumptions, total world oil supply in 1990 and 2000 is unlikely to be much above its 1980 level of 49.5 mbd*.

Secondly, it is even more difficult to forecast likely levels of total world oil demand. Even if we in the industrialised countries succeed in economising on the use of oil, the trend may be significantly different in OPEC countries themselves, and in many of the non-OPEC developing countries. Much depends on the prospects for economic growth in the developing countries and their success in mobilising resources (both financial, technicaland human) to increase domestic energy production and the efficiency of energy use. Major oil importers such as Brazil are already making significant efforts in this respect.

Thirdly, none of us involved in analysing trends in the energy economy and advising on their implications can satisfactorily explain why both energy and oil demand have fallen so much more significantly in the recent past than anyone dared predict. It is difficult to tell how much of the fa is based on durable economics and durable changes in economic and industrial structure on the one hand; and how much, on the other hand, is due quite simply to the recession.

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*excluding oil produced and consumed in Centrally-Planned Economies (CPE) but including CPE net exports.

Quite clearly there has been something of a break, over the past ten years, in the link between economic growth and the growth in energy demand. In the European Community energy consumption in 1980 was virtually the same as in 1973, but GDP (gross domestic product) grew by around 17% over the same period. In 1980 the fall in energy and oil demand occurred while GDP grew by 1.4%.

We have also witnessed a steady fall in the share of oil in total energy consumption (from 62% in the Community in 1973 to around 50% last year). There have been similar experiences elsewhere.

But no-one can be sure what will happen when growth picks up again.

Finally - and this is an issue for particular reflection - the present market situation could well slow down the process of structural change. The fall in oil prices, if it continues, could have important implications for the competitiveness of coal. It may also make much less attractive the economics of some new energy technologies and investment in energy saving.

All these uncertainties make the results of this symposium more and not less important.

II - THE EUROPEAN COMMUNITY'S POSITION

The need for a 'long view' and the opaqueness of the glass through which we seek to see into the distance are felt especially keenly in the European Community.

Despite the fall in oil demand, the Community remains the largest single oil importer in the world, taking over 7 mbd in 1981 compared with less than 6 mbd in the USA and around 5 mbd in Japan. 78% of our crude oil imports came from OPEC countries in 1981 and some 60% from the Near and Middle East.

Despite the fall in oil prices expressed in dollars, the Community's oil import bill was around $ 100 billion last year, equivalent to some 4 % of our combined GNP. The equivalent figures for the US were about $ 60 billion or less than 2% of GDP.

The prospects for oil supplies and oil prices and for the transition away from oil are therefore of critical importance to us.

The nature of our transition is also conditioned by the fact that the Community does not possess indigenous energy resources (either oil or non-oil) which are either on the same scale or as easy and as cheap to exploit as those of some of our industrial partners, and notably the United States.

Much Community coal is deep-mined and less competitive than imports. The oil resources in the North Sea are large, but even on optimistic assumptions, oil from the British sector is unlikely to supply at its peak during this decade any more than 25% of total Community oil consumption. The Community's production of natural gas has probably already passed its peak.

So even if we are able to expand efficient domestic coal production, even if there is a significant contribution from nuclear power (and that is constrained ultimately by outlets for electricity use), and even if there is a substantial improvement in energy efficiency, the Community's transition away from imported oil is bound to involve an increase in imports of other fuels.

It is only natural therefore that our glass should be trained not only on the future, but also at the same time on the rest of the world.

III - COMMUNITY ENERGY STRATEGY

The Energy Ministers of the European Community meet two or three times every year in Brussels to review the energy situation in the Community and world-wide and to consider specific proposals for common action put forward by the European Commission to sustain the momentum of transition and to avoid new shocks to the system.

They met last on 16 March this year and underlined a common concern that the present oil market situation should not slow up the transition away from oil and the progress towards the realisation of common energy objectives.

These objectives and the energy strategy which embraces them have evolved in response first to the 'oil shock' of 1973-4 and then to the stimulus of the further dramatic upsurge in oil prices in 1979-80. They focus on the need for increased energy efficiency and for the diversification of energy supplies; the stimulation of adequate levels of investment in the energy sector; a more coordinated approach to energy research and development and innovation; measures to improve the stability of the energy (and particularly oil) markets; and the development of a common line in external energy relations.

It would be misleading to suggest that the interests of all the members of the Community in every aspect of our strategy are always identical. Or that common action and cooperation necessarily means organisation, direction and intervention from Brussels. The energy balances of the Member States of the Community vary widely and they will continue to do so. In energy, as in other spheres, we are a diversified group of countries, both in our resource endowments, and in the emphasis which we give to different fuels. At one extreme is the relatively "energy rich" UK, at the other Italy where indigenous hydrocarbons are unlikely to provide more than a limited share of total energy requirements.

But the pressure of external events in the past and a recognition of the risks to <u>all</u> our economies in the future if the energy transition is mishandled, have encouraged an increasing degree of communality of purpose.

Firstly, Member States have seen the dangers to each and every one of them of renewed <u>instability</u> on the oil markets. All of us suffer - including the UK - if oil supply disruptions are allowed to put unreasonable pressure on oil prices. All of us will suffer if energy is allowed once again to stymie the prospects for economic growth.

Secondly, Member States have seen the very positive advantages of cooperation in international energy matters. The Community's ability to agree in 1979 to set ceilings on net oil imports up to 1985 made it easier to secure a wider international agreement on similar lines at the Western Economic Summit in Tokyo that year. Similarly, the agreement on the programme for the energy transition agreed at the Western Economic Summit in Venice in 1980 was facilitated by a prior Community agreement on long-term energy objectives.

More and more it is becoming clear that the Community must speak with one voice and act jointly if it is to have the greatest impact in its relations with the energy producers - whether oil, gas, coal or nuclear fuels. And, increasingly, we are doing so.

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IV - ISSUES FOR INTERNATIONAL COOPERATION

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The emphasis of Community policy is not always identical to that of its partners in the industrialised world. Perceptions on opposite sides of the Atlantic do differ. And there are some understandable reasons why this should be so. Our degrees of external dependence differ; we have had differing approaches to the role of public authorities (although of course they vary also between our Member States); we have had differing attitudes to the regulation of the energy markets. And differences of emphasis on other questions of international policy (East-West relations, the Middle East) may spill over a little into the energy field. But it is easy to exaggerate the differences and to forget the wider communality of interests to which I have already referred and which have been reflected in the outcomes of the major Western Economic Summits.

The picture has certainly been complicated a little in the last year or so by the divergence of views between Europe and the United States about the merits and the risks in the new contracts for Soviet gas which some Community members have entered into. These are an important element in our strategy of diversification. That they carry some risks is well understood. Equally, however, those risks have to be set against the alternatives and they can and will be minimised.

At the end of the day, the success of Europe's policy of diversification is a fundamental common interest with the United States. Just as we in Europe shall be critically affected by the success of the United States in constraining its own oil consumption and sustaining its oil production; by the speed at which deregulation of natural gas price occurs and by the effect that has on both consumption and supply; by the pace of US nuclear construction and commissioning; and by the health of the US coal industry.

It is right that we should consult between us on these issues, as we do; that we should cement our understanding of each other's policies, and that we should explore the scope for bilateral cooperation as well as multilateral cooperation through the IEA and the Western Economic Summits. This we are doing not just with the United States, but with each of our major partners in the Western Alliance.

The main areas in which the scope for such cooperation is greatest are those of coal and nuclear materials, where both the main producers and the main consumers lie in the industrialised world. We shall not succeed in opening up the markets for coal in Europe if we cannot rely on growing economic and secure supplies from overseas - from the USA, from Canada, from Australia. The coal chain is a long and complex one and to make sure that all its links are closed will require the closest of cooperation among private sector operators in consuming and producing countries within a framework of increasing inter-Governmental contact.

There is also scope for greater cooperation among the industrialised countries in the development of new energy technologies - fusion, coal gasification or liquefaction, new forms of transport and energy storage and so on.

But cooperation among Western nations is not enough if we are fully to meet the energy challenge of the '80s and '90s, and to clear the glass through which we see the future so darkly at present.

We have to explore two other avenues if we are to be assured of that energy security which is at the heart of our energy policies.

The first is for a greater meeting of minds with the oil producers themselves.

There are some who may be tempted by the present situation on the oil markets to rub their hands with satisfaction about the difficulties facing OPEC and to suggest that we have no longer any interest in seeking better relations with the producing countries.

This is profoundly misguided. To sit on our hands while the wind seems to be blowing our way is to fall into the same trap as the oil producers themselves when oil prices were hard and they believed that they could call the shots. The wind can change direction all too suddenly.

Recent events have surely underlined the mutual interest of both oil producers and oil consumers in the developed and the developing worlds in greater stability and predictability of oil price movements and supply levels. We in the industrialised world need this to help plan a steady progress out of oil while avoiding severe shocks to our balances-of-payments. It would give the oil-importing developing countries a sounder basis on which to plan their own economies in the most rational long-term manner. And it would help the producers to plan more satisfactory depletion policies and the long-term financing of their development needs.

We should seize the present opportunity to encourage a recognition of this mutuality of interests. There are certainly reasons to doubt whether the time is ripe for successful formal multilateral discussions on energy of the kind we witnessed in the mid 1970s (the Paris Conference). But there is a very strong case for exploring more informal and less structured ways of improving the meeting of minds.

The second important area of international cooperation is in our relations with the <u>oil-importing developing countries</u>.

The developing countries include about 100 countries accounting for nearly half of the world's population, 25% of world economic output and 15% of world commercial energy consumption. They differ widely in levels of per capita income and in levels of industrialisation and urbanisation. They span a wide range of economic bases with different prospects for future development: some depend predominantly on subsistence agriculture while others are based on commercial and export agriculture; some are predominantly mineral exporters; others are based on light industry; a number (the newly industrialised countries) are in a category apart.

It is therefore unreasonable to generalise too much about the nature of their energy problems. But they do share certain characteristics:

- rapidly expanding populations engaged in a process of urbanisation and industrialisation;
- a shift from non-commercial to commercial fuels in their energy balances;
- a very high degree of dependence on oil as the key commercial energy source. Oil provides nearly 65% of commercial energy supplies in developing countries as a whole, while coal is used to a considerable extent only in India and Korea which have indigenous supplies.

In many regions of the developing world, the energy problem is compounded by the growing scarcity of firewood, the increasingly acute problem of deforestation, and the scarcity of fertilisers because farm wastes are used as fuel. Potential shortages of both fuel wood and oil interact upon each other.

It is in the interests of the whole of the world to ensure that the potential energy constraint on growth in developing countries can be removed. Developing countries are likely to be an increasingly important element in world trade in the years to come and our own economic prosperity will depend heavily on their growth and development.

Our first duty toward these countries must be to leave more room on the oil markets for them by continuing to constrain our own consumption. They will find it less easy than we do to shift to other fuels and to increase the efficiency of their energy use.

But the balance-of-payments difficulties of many developing countries and the evident need to ensure greater self-sufficiency in energy and to maximise the world availability of energy at economic cost means that we must go beyond that. We must consolidate and increase our efforts to stimulate domestic energy production in the developing countries and to encourage greater energy efficiency without however constraining their prospects for growth.

The Community and its Member States have a good track record in the field of energy aid. Together they are the largest source of total aid for energy investment in the developing countries, after the World Bank, committing in 1980 some $ 1000 million, and they are the single largest source of aid in the form of grants. In 1980 the European Investment Bank alone committed close to $ 300 million for energy investment in developing countries, helping to finance purchases of equipment, construction of energy supply facilities and so on; while the European Commission itself has been heavily involved in critical areas of technical aid, especially in the field of energy programming (helping to develop supply and demand balances and thereby to identify rational policy options).

We have already done a good deal. But we can do a great deal more. And we can do it better as a Community by coordinating more closely amongst ourselves the help that we give; by ensuring closer cooperation with the financial institutions of the oil-producing states; by liaising closely with the mulit-lateral institutions - notably the World Bank and the UNDP (United Nations Development Programme); and by greater bilateral and multilateral cooperation with our industrial partners.

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Ensuring the availability of finance from the public sector budgets in the West and from international institutions is however not all that is require Sufficient resources will not be mobilised without an increased private sector effort. The developing countries have their own responsibilities in this respect in ensuring that the conditions are right for the encouragement of both public and private investment from outside. And at the end of the day it is they who must control their own destinies through sensible energy planning and management.

There is, I believe, a wide measure of agreement about the gravity of the developing world's problems in the energy sector and a wide measure of agreement on the need for a greater cooperative effort. This consensus was evident enough at last year's United Nations Conference on New and Renewable Energies in Nairobi.

That Conference was important both in itself and also as the only international forum for the moment for discussion of energy issues. It provided an opportunity to range beyond the specific issues of new and renewable sources of energy into the wider problems of world energy supply and demand. It culminated in an agreed Action Programme. Next month in Rome we shall be having a follow-up meeting on the progress made with the Programme. We in the European Commission are determined to build upon what has been agreed so far.

CONCLUDING REMARKS

Let me say two things in conclusion.

Firstly, to the energy forecaster and to the energy policy planner there are very many uncertainties in the decade ahead. We may turn out to be guilty of excessive gloom and concern about the pace of change and the risks of a renewed energy constraint on growth. Equally, however, there are many dark scenarios which are perfectly plausible. Nobody likes to think too hard about what an economist might describe as exogenous political factors – a new Middle East war, a new Iranian upset, for example.

Secondly, while those of us involved in energy cannot presume to prevent the emergence of such exogenous political factors, we can try to ensure that their macro-economic effects are minimised by rigorous pursuit of the goals that each of our countries has set itself for more diversified energy supply and more efficient energy use.

These goals will not be successfully achieved without extended cooperation amongst those of us in the developed world and between us and the oil-importing countries, and the oil producers.

It would help us all if this Symposium could contribute to identify appropriate guidelines for our common action.