

THE ENERGY STRATEGY OF THE EUROPEAN COMMUNITY

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Ladies and Gentlemen,

This conference provides an ideal opportunity to help to dispel misunderstandings that may exist about the nature of policies in energy and other key areas on opposite sides of the Atlantic.

I am delighted therefore to outline for you the approach of the European Community on energy and to set this in the context of the particular energy problems which we face in Europe.

Those of you on the American side will forgive me, however, if I trespass a little on your territory by drawing some comparisons with the concerns about energy and the approach to their solution as they appear to us to be seen on this side of the Atlantic.

In doing so, however, my aim will be to identify the essential elements of common interest which must encourage continuing and intensified cooperation between us.

During the past two years there has been a dramatic fall in energy and oil demand throughout the industrialised world. This has been even more marked in the Community than in the OECD as a whole. Gross primary energy demand in the Community fell by over 4% in 1980 and by a similar percentage in 1981. Oil demand by 8% in 1980 and by about the same last year.

Thanks to growing oil output from the North Sea and the fall in domestic demand, our net imports of oil fell to a little over 7 mbd last year. This compares with 12 mbd in 1973 (before the first "oil shock") and over 9 mbd only two years ago. For the first time since 1965, moreover, the Community was able last year to produce at home over 50% of its own primary energy requirements.

These developments give grounds for some satisfaction. But certainly there are no grounds for complacency. I say this for a number of reasons.

Firstly, none of us can explain satisfactorily why energy and oil demand have fallen so much more significantly in the recent past than anyone dared to predict. We in the Community are not alone in our uncertainty. Observers throughout the OECD area have found it impossible for the moment to decide how much of the fall is based on durable economies in energy use 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.

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. Between 1973 and 1980 the Community's gross domestic product (GDP) grew by around 17% while energy demand remained virtually static. In 1980 the fall in energy and oil demand occurred while GDP grew by 1.4%.

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

Secondly, despite the fall in our dependence on imported oil, the Community remains exposed to developments on the world oil markets to an uncomfortable degree. We are still the largest single oil importer in the world (7 mbd) followed by the USA (less than 6mbd) and Japan (5mbd); our supplies of oil come predominantly from the Middle East, North Africa and the Gulf, with some 45% from Saudi Arabia alone in recent months; oil imports cost us around \$100 billion in 1981, equivalent to 4% of our combined GDP.

Thirdly, when we look towards the future, we must be struck by the practical limits to the reduction which we can make in our dependence on the outside world for energy supplies.

Much Community coal, which is largely deep-mined, is less competitive than imports, many of which are strip-mined. There are therefore severe financial and practical limits to the expansion of the Community coal industry. The oil resources of the North Sea are large, but even on the most optimistic assumptions oil from the British and Danish sectors of the North Sea will supply at its peak no more than the equivalent of 25% of total Community consumption. The Community's production of natural gas moreover has probably already passed its peak.

As a Community we can therefore only dream of energy self-sufficiency. We shall succeed in reducing our dependence on imported oil. But however vigorous the efforts by our Member States to substitute domestic supplies, our overall dependence on imported energy is likely to remain significant for the foreseeable future.

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## COMMUNITY ENERGY STRATEGY

That is the background to Community energy strategy which has evolved in response first to the "oil shock" of 1973-74 and then to the stimulus of the further dramatic surge in oil prices in 1979-80. Its two overriding aims are steady improvement in the efficiency with which energy is used and the kind of energy we use (what we now call "rational use of energy") and diversification of supplies both in terms of fuel source and, where imports are concerned, supplier countries.

These twin objectives are much the same as those pursued in other OECD countries.

But the priorities for action which they embrace may be somewhat different in their emphasis from those of our partners, reflecting the Community's particular energy situation.

The European Commission has drawn attention to five key issues which will determine the success of our transition away from oil.

The first is to ensure an adequate level of investment in domestic energy supplies, in the conversion of energy-using equipment from oil to other fuels and in the application of more energy-efficient technology.

The rate of energy investment will be perhaps the single most important factor determining the success of Community energy strategy over the coming years.

It will also have a vital role to play as one of the motors of economic expansion, industrial change and the creation of new employment opportunities.

Yet energy investment in the Community has been stagnating. In 1980 it was down to around 1.6% of GDP. It may have been even lower last year. Member States last year forecast a rise to 2.2% over the decade. Even if this is achieved (and that is an open question) - we would be way below the figures forecast for the USA (over 4%) and Japan (3-3.5%). Making plenty of allowance for different national circumstances, the gap remains striking.

The second issue is the need to develop and apply energy pricing policies consistent with our energy policy objectives. This means that there should be no price subsidies, that internal prices should reflect world market levels and that they should taken into account the costs of replacement of existing supplies.

This is fundamental if we are to give clear and consistent signals to consumers and investors.

It is also an important issue in respect of intra-Community trade where distortions to competition can arise if different pricing principles are applied in different Member States. By the same token the Community has an evident interest in the pricing policies pursued by its major trading partners. Hence our welcome for US oil price deregulations and our interest in the acceleration of deregulation of natural gas prices.

Thirdly, we must concert our efforts in the field of energy research and development and in support for projects to demonstrate the commercial viability of new methods and technologies of energy supply and use.

Our concern about the pace of Community R,D&D in the energy sector is naturally allied to a more general concern about Europe's failure in the past to innovate as rapidly as some of its trading partners. We have to ensure more effectively than in the past the coordination of our efforts and to encourage the pooling of resources - both financial, physical and human - so as to make up for the natural benefits of size and common language enjoyed most noticeably by the USA.

The fourth area for Community activity is in the development of a more coordinated and effective role in our external energy relations.

Given the limits to the development of our own resources it is only natural that we should focus particular attention on cooperation in energy and the further development of energy relations with our fellow members of the OECD;

with oil-producing countries; and with the remainder of the developing world.

Finally, we must protect ourselves against the risk of renewed tension on the oil markets. In present circumstances pressure on oil supplies and oil prices may appear to be remote. Certainly the picture is far more rosy than it has been for some time. But we have witnessed in the past how quickly the oil market can turn from a buyers' to a sellers' market. And unpleasant scenarios for the future are all too easy to invent.

Given the continuing importance of oil and of imported oil to the Community economy despite the recent reductions in consumption; given also the impact throughout the Community economy of upward pressure on oil prices, the Community must continue to turn its attention to minimising the risks and mitigating the effects of oil shortages, should they occur. In particular we must seek ways of avoiding a repetition of the events of 1979-80 when a very limited shortfall in supplies over a brief period had a disproportionate effect on oil price movements.

This is why we have spent so much time in recent months discussing appropriate procedures for handling limited shortfalls in supply and considering in particular the role for oil stocks in such a situation.

And as we in Europe turn to imports of other fuels we must also be increasingly concerned about the questions of security and price which the prospect of growing dependence on them inevitably poses.

The United States is in a more enviable position.

Just as in Europe, there has been a significant fall in oil consumption and in oil imports over the past two years on this side of the Atlantic. Both oil consumption and net oil imports are now below their 1973 level. Net oil imports continue to fall as a percentage of gross primary energy demand - down to 15% or so in 1981 compared with over 38% in the Community.

And on the face of it at least there remains major scope for energy saving. In 1980 per capita energy consumption in the United States was 2.3 times that of Europe; and the ratio between energy use and gross domestic product was nearly 1.7 times above the European figure. Moreover the use of oil was nearly 70% above that of the Community despite the fact that the US population is some 50 million smaller (220 million as against 270 million).

In addition you have the major advantage of abundant natural energy resources. In 1980 the United States was able to meet over 85% of its primary energy needs from its own resources. This figure could be even higher by the end of the decade.\* And in its annual report to Congress last year the Energy Information Administration suggested that the United States could become totally self-sufficient by 2020 with no imports of energy from outside whatsoever. That could follow increased coal production and consumption, a continuing (though falling) high level of domestic production of oil and gas and a substantial increase in the output of nuclear power.

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\* Nearly 90% according to the projections in this year's IEA Country Review.



Whether self-sufficiency will be achieved is of course impossible to say.

There are many question-marks:

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- about the likely effects on demand and on supply of natural gas when prices are finally deregulated;
  - about the pace of oil production and particularly the economics of "unconventional" production (enhanced recovery, tar sands, shale) in the light of developments in crude oil prices and the rate of technological advance;
  - about the success of the present Administration in reversing past trends in the nuclear sector;
  - and about the prospects for conservation, renewables and commercialisation of synthetic fuels given the reduction in financial support by the present Administration.

I do not intend to dwell on these points which will no doubt be taken up in our further discussions today.7

But the fact that a scenario of total self-sufficiency was judged plausible on the basis of the production and consumption of fuels already commercialised marks a major difference between the USA and Europe.

The European Community has therefore good reasons to envy the United States for its domestic energy potential.

The existence of this potential inevitably colours the approach to energy policy priorities, accounting in part at least for differences of perception on the issues of external dependence, on relations with the oil producers and so on. These differences are heightened by historically different approaches to the role of public authorities and to the regulation of the energy markets. Moreover, differences of emphasis on other questions of international policy (East-West relations, the Middle East) may spill over a little into the energy field.

#### IV - US - COMMUNITY RELATIONS IN THE ENERGY FIELD

To dwell too much on the possible differences in perspective between Europeans and Americans however is to obscure our common interests.

The first common interest is in the health of the world economy. The United States is less affected by the growth of world trade than the European Community. But it cannot divorce itself in trade or monetary affairs from what happens in the rest of the world. It is not in the political interests of the United States to see the European economy exposed to a continuing risk of energy constraints on growth.

Secondly, in any case, the United States economy itself will continue to be adversely affected if there is a renewed and substantial upward pressure on oil prices in future years. The more it can reduce its dependence on imported oil the greater the temptations there could be perhaps to return to regulated oil prices, which could break the link between developments on

the world market and developments in the USA. But the disadvantages of such an approach - its effects on consumption and on production - have already been seen quite vividly in previous years. Turning the clock back would not be an easy option to defend. In present circumstances the interest of the USA in constraining unpredictable and violent swings in oil prices must be very close to that of Europe.

Thirdly, the United States shares a common interest with Europe in helping to optimise the development of the world's energy balance, through the encouragement of indigenous energy resources in developing countries and support for their programmes of conservation.

It is true of course that there may be different views about the best way to do this.

The present US Administration underlines the role of the private sector and appears sceptical of the usefulness of too much involvement by Government and by international institutions.

It would be foolish to pretend that there is a unanimity of view in Europe itself about where to strike the balance between the public and the private sectors. But there is, I believe, unanimity of view about the importance of energy development in the developing countries, not only to improve the overall picture of world energy supply and demand but to reduce the risk that growing dependence on imported energy, especially oil, may bring further balance-of-payments constraints to growth in the developing world.

Finally, and to bring the issues much closer to home, Europe and the United States have a direct common interest in the exploitation of US energy resources.

The United States is the European Community's largest external supplier of coal. It will almost certainly remain so.

The United States could be in a position to export to the rest of the world some 85 mtoe by the end of this decade. The Community will be a major customer as we come increasingly to depend on coal from outside.

We have already collaborated closely on this point, both at governmental level and at the level of the utilities and companies that are involved in the coal trade. Discussion of the constraints on expanding the coal trade between us is already a regular feature of the official consultations between the US Administration and the European Commission. There are obvious problems and uncertainties, notably about the transport facilities and arrangements both at the exporting and the importing ends. We must find ways round them and I am confident that we shall do so. Already the prospects look brighter than two years ago when the loading arrangements then in force in the East Coast ports caused a hiccup in the smooth conduct of the coal trade.

Close ties between us are also important in the nuclear field, and especially in the supply of nuclear materials. We must ensure that there is no misunderstanding between us about supply policies and attitudes to non-proliferation.

Looking to the future there is also scope for much greater collaboration between both sides of the Atlantic, and between us and other partners in

the OECD in the development of more advanced technologies. I have already drawn attention to the importance which we in Europe attach to R,D&D as a key facet of our energy strategy. Our pursuit of advanced technology need not always be made in competition with our partners in the industrialised world. We must explore the opportunities for better collaboration in specific areas such as nuclear fusion, coal gasification and liquefaction, transport and so on - without prejudice of course to commercial confidentiality and without damage to our respective industrial strategies.

#### CONCLUDING REMARKS

You will have noted that this presentation has turned from an outline of Community strategy to the links between Europe and America in the energy field. In my view that is inevitable, given the nature of our common interests in the energy sector.

These far outweigh our differences. Of course, that may not always seem the case. Our differences of views about the benefit and the risks of increased dependence on Soviet gas have dominated the public debate in the recent year or two. And they have been compounded by differences of judgement about the way to approach the issue of limited shortfalls in oil supply and about the urgency of progress on this issue.

But these areas of difficulty between us should not obscure the fundamental interest of the United States in a successful energy transition in Europe through increased diversification; nor of the European interest in the continuing progress in the USA in constraining the growth in energy and oil

consumption and in stimulating new energy supplies.

It must be an essential element of European energy strategy to continue to encourage cooperation between the two sides of the Atlantic, both through multilateral organisations such as the IEA, in further Western Economic Summits (where our leaders can speak frankly to one another about how to improve our collective approach to energy security) and also of course bilaterally.