



European Communities
Commission
Background Report

ISEC/B61/78

20 Kensington Palace Gardens
London W8 4QQ
Telephone: 01-727 8090

October 5, 1978

**ROY JENKINS ON GROWTH AND STABILITY
EXCERPTS FROM A SPEECH GIVEN AT THE
SEVENTH WORLD PLANNING CONGRESS
DORCHESTER HOTEL, LONDON 25TH SEPTEMBER, 1978**

Resources and energy

The availability of energy, and of natural resources in general, in a finite world where both the population and its material demands are constantly growing, is a major long-term reality which we all have to face. The challenge is to see how short-term political decisions can be properly framed to face these and other long-term realities in an effective and humane manner.

Already at the end of the 1960s, the industrialised world as a whole was consuming - and on a vast scale - more energy than it produced. We were already - and had been for decades - net importers of energy and, in particular, of oil. Certainly some countries or groups of countries within the industrialised world imported more than others. But the general position was already one of great dependence on external sources of supply - and in particular on supplies originating within the petroleum exporting countries of the Third World - the Arab bloc, Nigeria, Venezuela and so on.

At the end of the 1970s that pattern has not changed. It has, if anything, become even more pronounced. In 1977, within the nine countries of the EEC, over 55% of total energy consumed was imported. Even in the United States over 20% of the energy consumed was imported energy and, where the consumption of oil is concerned, that figure was over 40%.

In the European Commission we recently produced some energy projections of the future based on two sets of assumptions. One case was based on an economic growth rate of 3% per annum: the other on a growth rate of 4.2% per annum. Both assumed a continuation of the basic structures of operation of our present economy. Without going into all the details of the exercise, the conclusion was that, under the relatively "high" economic growth scenario, energy consumption, which in the Europe of the Nine was 965 million tons of oil equivalent in 1977, would increase by 1990 to 1470 million tons of oil equivalent.

*** Note: Background reports are intended as non-copyright ready-reference material on topics of current interest concerning the European Community. An index will be provided periodically so anyone receiving the reports can refer to each

number more easily.

In the "low" growth scenario, consumption would reach 1275 million tons of oil equivalent. In other words under either assumption, the Community countries would, between now and 1990, remain dependent on third countries for more than 50% of their energy supplies.

I should add that in both cases we assumed that the price of oil would fall by 10% overall over the 1976 to 1980 period, would rise by 20% during the 1981 to 1985 period, and by another 25% during the 1985 to 1990 period. We also assumed, in the high growth scenario, that conservation measures would knock 3.5%, 8.5% and 15% off effective demand in the three quinquennial periods. In the low growth scenario, we put the effect of conservation measures at 2.5%, 5.5% and 10.5%.

Thus, even if we assume further increases in the price of oil and even if we plan for a fairly radical and effective programme of conservation measures, we are still going to be in danger of being 50% dependent on imported energy in 1990 and there is no reason to suppose that that situation will change after 1990 unless we now plan what can be done to make it change.

I would like to say, parenthetically, that in these projections we assumed a maximum growth of nuclear power consistent with sound planning and respect for the environment. Nuclear power, whether it be fission or fusion, is no panacea. It has a place in the scheme of things. But we must not exaggerate that place nor build up false hopes which can only lead to disappointment.

The supply of energy is only one of the constraints which we face. I could take other examples to demonstrate the inadvisability of continuing in a blinkered way along the course on which we are presently headed. Certain of the key minerals can be ranked alongside energy resources as far as their importance for the industrial world is concerned - bauxite, for example. So can some basic food commodities. Here again, by our patterns of production and consumption, we may be giving hostages to fortune equal to any which fortune already has.

Moreover, the long-term implications of our particular pattern of society have to do not merely with the extent of our dependence on imported supplies of raw materials, strategically important though this may be. I would argue that the two evils which much beset contemporary industrial civilisations, namely unemployment and inflation, are themselves in large part the consequence of the same patterns of existence which we are currently pursuing. There is a third evil: pollution and degradation of the environment which is also intimately linked to the first two.

Try to solve inflation and balance of payments problems by reducing demand. We run head on into rising unemployment. And all the time, at almost any level of production, environmental problems become more acute. Some of these problems are localised in nature; some are national; some have transfrontier implications. There are even some, such as man's impact on the climate or the spread of certain toxic substances, which can be of global significance. Whatever their nature and scale, these environmental questions must be kept constantly in mind. They will play an increasingly important part in the decisions which have to be taken now, if the future is to look brighter than it does.

What are those decisions? If we all of us can agree on the long-term goal of a stable prosperous world which is living - if I may put it thus - on ecological income, not capital; where the opportunity for a fairer share is there for all; and where insults to the environment are to the largest possible extent avoided, how can we get there? Can we put together all the short-term decisions into a trend which is finally pointing in the right direction? And, since I speak to you as President of the European Commission, what part can the industrialised world and more particularly, the European Communities play in this process?

Economic and monetary stability

The first prerequisite it seems to me, if we are to achieve any structural transformations, is a period of economic and above all monetary stability much greater than we have known in the recent past. One of the problems which has beset us in the past is that we have never had the necessary period of grace, the necessary financial leeway, to carry structural reforms through because we have immediately run into the old problems of balance of payments, inflation or what used to be colourfully described, in this country at least, as the "overheating of the economy". Continuing international monetary fragility, despite adjusting efforts of the International Monetary Fund, provides neither the basis nor the climate either for sustaining a good measure of economic growth (which I do not exclude) nor for taking the longer-term substantial structural decisions which resource constraints impose.

Decisions about monetary policy are, in my view, a key ingredient of long-term political strategy. Recently, some major measures have been taken to strengthen the dollar. If President Carter's energy package can be charted safely through Congress, we may have made some significant progress in the direction of monetary stability. We will also find that the energy package itself will be an important first step along the road to the kind of transformed industrial society which I am talking about.

Europe is playing a particular part in the search for monetary stability. Last April in Copenhagen, the European Council - the Heads of State or of Government of the Nine Member States of the Community, together with me as the President of the Commission - discussed the creation of a system for closer monetary cooperation within the EEC, leading to a zone of monetary stability in Europe. In the subsequent European Council in Bremen last July we took this much further and I hope and believe that at the next European Council in Brussels in December we shall take the decisions required to establish a European monetary system.

In Europe, the European Monetary System should favour a more efficient ordering of industry and commerce. The removal or substantial reduction of exchange rate risks and inflation uncertainties should enable businessmen to take the kind of long-term investment decisions which they would otherwise eschew.

A common reserve of currencies, associated with some central disciplines, should permit governments and enterprises to carry through necessary structural reforms without the fear that their best-laid plans are suddenly going to be trumped by inflation or balance of payments difficulties.

The existence of a European Monetary System and a central reserve mechanism should, moreover, make it possible to promote better regional distribution of wealth and work in Europe through measures to accelerate the flow of public finance. We have made a beginning with the Regional Fund. But there is a long way still to go. Long-term structural transformations will require substantial funding for particular classes of programmes or projects or for projects within particular areas of regions. The new financial arrangements involved in the European Monetary System will be crucial in giving the governments and peoples of Europe a better assurance of the economic and monetary stability necessary for them to put into effect sound long-term policies. What ought these policies to be? Inevitably, we come back to energy. The fundamental need is to develop and to promote alternative energy strategies. And by alternative energy strategies I mean strategies which

- a) are the most economical in the use of non-renewable resources;
- b) have the least balance of payments impact; and
- c) are least harmful for the environment.

At the most obvious level we can, of course, promote research and development of alternative sources of supply: nuclear fusion, solar energy, geothermal energy or the recovery, re-use and re-cycling of every kind of energy and materials - all these will have their importance.

But, more fundamentally, the urgent need is to act on the demand side of the equation; to reduce the rate at which demand for energy is growing and, ultimately, to reduce the absolute level of demand itself. In short, reduction of consumption and conservation of energy should be a priority use of our own intellectual and political resources.

Energy for transport

Take the single case of transport, for example. In the United States roughly 25% of all the energy used goes to transportation. And 96% of the energy used in transportation is derived from oil. The corresponding figures in the Europe of the Nine are 14% and 95%. The carriage of people and goods by road in vehicles using the internal combustion engine is perhaps one of the most pronounced features of our western industrialised society, dictating our living patterns in a most persuasive manner. We have had certain benefits. But we have also paid a high price.

The motor vehicle has made urban sprawl possible; it has contributed to - indeed, it is perhaps the predominant contribution to - the atmospheric pollution of our cities. (I say nothing about the toll of death and injury which results from traffic accidents. In the EEC countries alone, over 60,000 people are killed on the roads each year.) Roads built for cars to perambulate scar the countryside, destroy the centres of historic towns. Oil carried in supertankers to fuel those same vehicles despoils our coastline and the marine environment. Oil is costly to produce or to buy, dangerous to transport and handle, and difficult to eliminate safely at the stage of waste.

It is still possible to break away from this dependence on oil as a means of transport. Indeed, it is not only possible. It is vital. Every drop of oil consumed in the internal combustion engine is a drop which might be better preserved for other uses. Mobility as we know it today may be an expression of consumer preference. But it is not a God-given necessity. As we look to the future, I believe that essential mobility can be maintained by developing and refining patterns of transport which do not depend on the internal combustion engine to anything like the extent to which we depend on that engine today.

Quite apart from the revitalisation of public transport, especially the railways, I believe there is a future for electric vehicles of all kinds. The technology is there. What is required is the sustained political will to realise the potential. Recent studies have shown that a maximum development of electric vehicles, combined with new concepts of transport planning, can significantly reduce the overall energy requirement for transportation and, what is even more important, the requirement in terms of oil.