

EMBARGO: 26.3., 12.00 h

THE ENERGY CRISIS

Address by
Mr. H. SIMONET
Vice-President
of the
Commission of the European Communities

at

The University of Columbia

on

26th March 1974

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The events of the last six months have been traumatic indeed for the industrialised Western World. Now it seems that our future well-being is threatened more immediately by the policies of others, with some of whom we have very limited influence or even understanding - and no longer by the iron laws of econoly, from whose grip money and scientific community stood ready and eager to deliver us.

Above all, for Western Europe and Japan. The brutal truth is that imported oil has become the very foundation of Europe's prosperity for the foreseeable future. For the next fifteen to twenty years, we may expect Europe's dependance on this or some external source (such as imported coal) to increase not diminish. Even in 1971, imported oil provided 62 % of Western Europe's energy, and 59 % of that of the Community of nine. By 1985, that figure was projected to rise to some 70 % of Community needs.

This dependance gew out of the flood of cheap and plentiful energy provided for us by the oil companies. We took the easy road they offered towards an economy built on a wasteful squandering of the world's oil resources and neglected other sources of energy that appeared more costly.

All this is now well known, but we cannot change direction easily. Severe shortages of oil will mean many difficult years

.../of adjustment,

of adjustment, with grave social and economic problems. There is no substitute for imported oil in the short term. While self-sufficiency is a possibility for the USA, but only with difficulty and at immense financial cost. For Europe such independence is inconceivable in the foreseeable future.

This means that Europe is committed to purchasing a major part of its energy needs of the World's market. It is committed to the future of international trade and its proper conduct. And it means that Europe's economic destiny is tied to the specific actions of the quite limited number of countries who determine the evolution of the world market in energy.

In the world market for oil the number of major participants is quite small. So far as Europe is concerned a small number of Arab States provide 73 % of our total oil import requirements.

But the conditions under which we obtain that oil are also determined by the actions of the two other major consumers - Japan and the USA. The USA is of special interest because her import policy is an option - at a price the USA has immense resources of oil and coal to develop - at a price, the USA could make substantial economies in her use of energy. Japan, like Europe, has far less of a margin for economies in the use of oil without severe economic and social repercussions.

The Origins of the Present Crisis

This quick review enables us to trace the origins of the present crisis quite easily. First, USA import policy and the

.../financial incentives at work

financial incentives at work for the major oil companies have resulted in a modest decline in U.S. domestic production of crude, with the growth in demand being taken up by imports from Arab States, and from Saudi Arabia in particular.

The second factor has been the growing ability of the governments of oil-producing countries to determine supply conditions themselves, something which was previously a virtually exclusive domain of the oil companies. The fact is that the Arab States are now well aware of the strength of their bargaining position and clearly possess the skills as well as the motivation to use it forcefully. For many of these countries, the revenues earned from oil are the sine qua non of their development. Well aware of their limited life, they have made it quite clear that they wish to stretch them out as long as possible while maximising their revenues by maintaining the pressure for higher prices.

We can say that the oil producers have stepped in and dealt with the world's reckless squandering of its oil resources in their own way, in the absence of any real interest or action by the governments of the consuming countries. Their initiative is here to stay and will be an essential consideration from now on in any redrawing of the balance of our energy sources.

The major oil companies have been quite unable to prevent their control over the price and quantity of oil offered in the market being eroded by the member governments of OPEC. It has become apparent that, in many ways, the companies' interests lay more in appeasing producing states - all the more since the governments of most consuming countries continued to actively avoid any direct involvement. Gradually, the companies have become, as Professor Adelman of the M.I.T. so vividly describes them, - tax collectors for the OPEC governments.

.../ Thus the politicisation

Thus the politicisation of oil proceeded apace, and the events following on the Yom Kipur war finally confronted consumer governments with a reality which was inescapable. Europe and Japan found themselves to be little more than anxious spectators in events of the greatest significance for their future.

Consequences

The economic and political consequences of this upheaval in the oil market are already visible. From the economic point of view the crisis was viewed in the beginning as a case of shortages. However, as the situation became more stabilized, it was the financial and monetary aspects, the questions of price and of balances of payments which came to the forefront. The exporting countries had in fact at their disposal enormous amounts of currencies of which only a proportion can be used at home, but of which the greater part will, for instance, have to be mobilized for productive purposes for other countries, and in particular for the developing countries.

The risk is indeed great that this additional volume of capital will further aggravate international monetary disorder and lead us into a truly catastrophic situation.

This prospect, which is alarming and might become further aggravated if individual States or groups of States were to engage in an effort of outbidding one another in protectionism, partitioning-off privileged trading areas or economic hegemonies.

Without being unduly pessimistic, the Commission forecasts that the year 1974 will be a difficult year for European economies :

- There will be a definite slowdown of economic growth with

.../serious structural

serious structural employment if we do not take adequate measures in the near future.

- Finally, there will be serious problems for Member States in coping with the additional balance of payment burdens.

The political repercussions of the oil crisis can likewise be discerned. We are witnessing a shift of responsibility in the field of oil supplies since States must to some extent take the place of oil companies in negotiations with the producer countries.

Now the loss of bargaining power by the major oil companies has left a vacuum which governments are obliged to fill. This new responsibility has become unavoidable, and from now on it will be normal for governments to be closely concerned in these matters.

Certainly for Europe as a whole to establish its presence and potential contribution more effectively, in the course of these negotiations with oil-producers, can only be desirable. If indeed Europe's friendship were to become as valued amongst oil-producers as theirs is amongst us, a better equilibrium would be achieved.

However, all the measures that the States are taking at present, though they are characteristic of the disarray in which we find ourselves, can only be palliatives, and do not in fact present anything more than partial solutions.

I think it is now clear to all that while bilateral deals have their place and may provide temporary advantages, all the evidence is that the overall character of the market will quickly reimpose itself if there is any substantial divergence - at least, that is, divergence in favour of one or another consuming country.

.../In principle then,

In principle then, all are agreed that such bilateral deals as are made should be in the context of a framework of rules for the conduct of international trade relations applicable to all. The present framework is obviously inadequate, another must be created.

Otherwise we are faced with the risk of overbidding, and overbidding, not only in terms of consumer or capital goods, but also in terms of weapons of war, and in terms of political influence. And if preferential agreements and bilateral trade deals result in the gradual breakdown of the international trade structure, as each country takes measures to protect itself from the implications of the ensuing scramble for oil, it is Europe as the largest trading entity in the world which stands to suffer most.

What is energy policy about ?

I have reviewed the economic and political consequences but omitted perhaps one of the most important. The energy crisis has completely transformed the political conception of what energy policy is about.

Now that energy policy has moved to the forefront of "high" diplomacy, many of us would be forgiven a growing confusion. At that level of sophistication it seems, everything is linked to everything else and consequently nothing is resolvable this side of Utopia.

I do not propose to spend the rest of this evening talking about the future of the Atlantic alliance and the American forces stationed in Europe. But I think it more generally agreed that energy policy is a necessary focal point as of now for the

.../ following

following issues even if they are much wider than traditional energy policy :

- (i) The need is for a fundamental revision of the rules governing the conduct of international trade, to include not only tariff and other barriers to imports, but also nationally imposed restrictions and regulations on the right to export from domestic markets, whether applied to nationally owned or foreign owned companies. Equally it must re-establish the limits to which privileged relationships between two or more countries or groups of countries can go without seriously affecting the interests of Third Parties ;
- (ii) A separate but related issue is the distribution of the wealth created between the purchasers of raw materials, predominantly but not exclusively advanced western industrial States, and suppliers of raw materials, the Third World ;
- (iii) Finally, there is the need to rethink an effective code of conduct governing the activities of private and, dare I say it, public concerns whose activities vitally affect the national interest.

None of these are very new problems as even the most cursory knowledge of history tells us, but the energy crisis has served to bring them all into the forefront of international diplomacy at one and the same time.

Traditional influences and relations are fluctuating, new links of power are becoming established between States, concepts which, previously did not count on the international scene are becoming powerful, even overbearing.

.../ European public opinion

European public opinion is fully conscious, I believe, of these upheavals and of the absence of Europe as an effective actor in the new drama which is now being played out.

I believe that the European Community must react against this and make heard the voice of a 250-million strong community.

A European Energy Policy - how is it evolving ?

Let us begin by setting out the types of policy available at the broadest level - a policy response may be expected to have two basic aims :

- (a) Managing purposefully our dependance on different sources of energy ;
- (b) Attempting to change the external conditions of supply.

Let me deal first with our external conditions of supply. Policies must include :

- the search for a new modus vivendi with the oil-producing countries and with our important competitive rivals amongst the consuming countries ;
- a re-evaluation of the future role of the oil majors and the feasibility and effectiveness of national alternatives ;
- a review of the developed world's future relationships with those countries in the developing world not fortunate enough to possess oil ;
- a review of the opportunities for the further geographical diversification of Europe's dependance, perhaps by the increased use of alternative sources of energy such as coal.

.../ Outside energy policy

Outside energy policy as⁹ such, but closely related, is the need to find suitable mechanisms for the orderly absorption of revenues generated by the OPEC states in world trade.

The Commission had already proposed co-operation with the oil-consuming countries, and between them and the oil-producers and major oil companies, back in October 1972.

For the Commission, this co-operation should be based upon the following four principles :

- (a) the existence of a European Community of interest whose specific character should be respected, as Europe will respect the interests of others ; here, let me just remind you how different the trading circumstances of Western Europe, above all in the world oil market, are from those of the U.S. ;
- (b) a recognition of the likely effects of national policies on other countries. There must be a public recognition that all public policy in energy does, and will in future, take account of the essential interests of other consuming countries. Here let me remind you of the part U.S. import policy and the U.S. taxation policy for oil majors have played in the origins of the present crisis.
- (c) A commitment to the future of the third world and to the need to ensure that their development is not further obstructed but rather enhanced by the actions of the major industrial consuming nations ;
- (d) no opposition to the legitimate interests and aspirations of the oil-exporting countries.

.../Obviously, as this

Obviously, as this statement of principles makes clear, there will be differences in emphasis, occasionally even of attitude. It must be our hope and expectation that all concerned will make a major effort to concentrate on developing those areas where interest is held in common, while respecting the position of others where interests seem to diverge.

These divergencies exist within the Community, as well as between the Community and other major consuming nations such as the U.S.A. and Japan - the Washington Conference made that clear for all to see.

But these divergencies should not be overdramatised. They concern essentially questions of procedure and the political impact of the style of doing things. On such fundamental issues as the exchange of information between consumers, co-ordinating their research into alternative energy sources to oil, harmonising attitudes towards the mix of fuels in the energy balance, even on the reallocation of oil in times of crisis, consensus is not too far away.

Differences over the style of doing things went beyond energy policy as such and included the conduct of Atlantic Alliance : that became immediately obvious. Less obvious, but already present, were differences between the U.S. and the Community over the conduct of Community's relationships with the Arab States, on whom she is so dependant. Now these two problems are out in the open.

I think it is both unwise and indeed wrong to oppose Atlantic solidarity and Community solidarity as alternatives to chose between, even if immediately after the Washington Conference, many thought that way. For it is becoming apparent

.../that there is no necessary

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that there is no necessary conflict between the work of the co-ordinating group set up by that Conference and the work of the Nine themselves. The action of the co-ordinating group in referring such important issues to the OECD as :

- (i) energy conservation and demand restraint ;
- (ii) accelerating the development of alternative energy sources to oil ;
- (iii) re-allocation of oil in times of crisis,

has greatly reduced the potential area of conflict. We may hope that in the next few months other topics, such as energy R & D and the future role of the oil companies, may also find their way there.

And I firmly believe that the areas of agreement between Europe and the U.S.A. greatly outweigh the areas of disagreement which certain observers have chosen to highlight. We do not forget that the Americans should find it easier to escape from this energy crisis than us. They have their own important reserves of energy resources, whether actually or potentially in use, and the great advantage of having the power to take decisions reflecting their enormous economic and political capabilities.

Thus Europe has every interest in good relationships with America, whose presence on the international oil scene is after all so decisive, if only one thinks of the exploration effort for new reserves, or of measures to reduce consumption, which, for a country of America's importance, could be truly significant.

.../ But we Europeans

But we Europeans may also hope for a growing understanding of the differences in the interests of consumer nations, because of their varying economic and historical circumstances. For obvious reasons the Community feels that steps towards an effective dialogue with the Arab producers of oil, who supply some 75 % of our oil imports, are both right and essential. The Community's interests dictate that there should be such a dialogue and at an early date.

Let me turn away now from these muddy waters, to an area more traditionally the concern of energy policy, than of managing purposefully our dependance on different sources of energy. What kind of policies is the European Community developing here ?

It is clear that the strategy proposed must stress security more than ever ; both in terms of the volume of supply and the price at which it can be made available. At the same time, it must not compromise the long term objective of making available to our economies once again cheap and abundant supplies of energy, in acceptable environmental conditions. It must be flexible enough to reflect changing circumstances in the world energy markets and compatible with internal economic objectives and external relations.

Because of the rigidity of the energy supply structure, any policy to effectively manage the fuels used, which is more than tinkering with the margins of trends, must have a long term outlook. We see for Europe, by the year 2000, an energy structure based essentially on two elements - nuclear energy for electricity generation, gas generation, and direct industrial applications, and gas - whether natural or manufactured. By the year 2000, our dependance on coal and oil could be reduced

.../to 20% of our energy

to 20 % of our energy needs, compared to some 82 % at present.

To achieve this objective, the first steps must be taken between now and 1985 to restructure supply and to adapt demand, so that the energies produced can be absorbed readily in the form in which they are made available.

But these steps must be consistent with the security objective in this period. Those proposed are designed to reduce from 61 % to some 43 % the total of imported energy in consumption. And by diversification geographically and between fossil fuels, greater security still may be obtainable than the above reduction suggests, taken at face value.

An essential element of this policy must be the restraint of demand by encouraging the more efficient use of energy, since, at the margin, increased energy consumption will almost certainly mean increased oil imports.

Secondly, we must ensure the speedy but effective exploitation of such economic reserves of hydrocarbons as the Community itself possesses. In particular, care must be taken to direct national gas into its premium uses.

Thirdly, we intend to diversify our sources of imported fuels, principally by exploring the possibility of greater recourse to imported coal.

To implement this policy, the Commission proposed a wide-ranging redefinition of the relationships between the public authorities and the energy industry, in particular those concerned with the transport, refining and distribution of oil and oil products.

The objective is to establish a code of conduct for the industry. The public authorities will monitor the behaviour of the industry and will have the means of intervention when necessary.

.../The Council of the European

The Council of the European Communities has already adopted a rule requiring oil companies to notify the member States and Commission of their import programmes one year in advance. This must ultimately be reconciled with any eventual supply plan established by the Community.

Similarly, investment programmes are already notified and will have to be related to the strategy adopted.

Rules to redefine the information a company must supply and to establish a price regime are also under active consideration.

So it can be seen that what is being proposed is a very active energy policy, whose implementation will require the public sector to involve itself in every aspect of the balance of supply and demand to ensure its success. In the process we may hope that progress will also be made on those much wider, and more long-standing issues which the energy crisis made so pressing.