

EUROPE IN SEARCH OF AN ENERGY POLICY

Address by
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Vital decisions have to be taken, or worse avoided, in the next few weeks: vital because they will throw into relief the West's ability to manage its external dependence for energy.

The supply of energy is fundamental to our modern industrial society - if that supply falters, fails to grow, or declines, almost inconceivably rapid changes in basic attitudes and in the economic and social organisation of our societies will be necessary. No one would deny the importance of what is at stake, yet we are faced with this debilitating inability to agree on a common approach towards energy-exporting countries, and on the policies to go with it.

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These questions will loom large at the forthcoming European Summit. Some accommodation between the eight member States who are members of the I.E.A. (along with the U.S.A., Japan and others) and France, who remains outside, is essential if we are to come to grips with the substantive issues behind the rhetoric.

A European Energy Policy can only have meaning in a wider context, and to the extent that the member States can progressively speak with one voice on energy matters.

Momentous decisions are in the offing elsewhere, no less. What will be the outcome of the OPEC meeting on the 12th December? How will the member States of the I.E.A. react to Dr. KISSINGER's recent proposals for energy conservation, and for the recycling of petrodollars?

Indeed Europe's family quarrels are an expensive luxury at this moment in time.

Many react with impatience within Europe and outside. Surely the international energy policy put forward by America responds to the best interests of Europe and Japan as much as to those of America: are we not all rich, western industrialised nations who stand or fall together? And if so, what value can there be in a Community policy which has an identity of its own. It is to that question which I intend to address myself this evening.

To pose the question like that is to introduce an element of confrontation between American initiatives and the Commission's proposed policy: the one is seen as the alternative to the other. That can only be wrong: there is a very large area of common interest to be built on provided each party respects the reality of the divergencies of interest which are no less present. The U.S.A.'s view of international energy policy and the Commission's proposals are complementary, yet each should have

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its proper identity by virtue of its proper concerns.

Let me explain what I mean by describing how I see the area of common interest, and where I see, at least potentially, the possibility of divergencies of interest.

The rich industrialised countries of the West face both a long term problem and a short term one. The short term problem has served to focus attention on the long term problem.

In the long term, we may face serious shortages of energy resources - at least for certain fuels. These shortages could arise because of the physical limitations of resources available to mankind, but more likely they will arise because of the need to plan a long way ahead to meet the growth of energy demand, and the difficulties of so doing because of the uncertainties involved and the division of responsibility amongst those concerned. - producing and

exporting countries, enterprises, importing and consuming countries, and because of the technical limits that exist on our ability to substitute one fuel for another.

In the short term we face shortages because of accidents or because of the political decisions of those who control a significant part of world trade in energy resources. We not only face shortages, but at present, we cannot predict with any certainty under what conditions resources will be available from those capable of exporting them: a new balance of power is in the process of being established between oil producing countries and oil consuming countries.

In the eyes of the Third World, these issues stretch right across the whole spectrum of international trade - food, raw materials, manufactured goods and services, and thus, in their views, finding

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this balance of interest requires a new code of conduct for all aspects of international economic and commercial relations.

These problems have assumed an inescapable and immediate importance for us because of the rather brutal and shocking manner in which the major oil exporters in the Third World have unilaterally imposed the "just price" - seen from their viewpoint. But no quick solutions are in sight if there is now a general acceptance that a combination of power politics and markets pressures - at least such as have been tried to date - is not sufficient to shake their resolve.

Without wishing to imply that all our present economic ills can be traced back to this one cause, let me pause here to underline the fact that crude oil prices have more than quadrupled between September 1973 and October 1974, and often the increases are applied with a retroactivity which increases even more their impact.

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For example, prices for Iran crude have evolved as follows :

<u>\$ per barrel</u>					
<u>1.9.73</u>	<u>1.11.73</u>	<u>1.1.74</u>	<u>1.4.74</u>	<u>1.7.74</u>	<u>1.10.74</u>
2.01	3.47	7.37	8.68	9.47	9.98

without taking account of retroactivity.

Thereby lies another truth of fundamental importance : the changing role of the oil companies. They no longer negotiate with producing countries as of the 16th October 1973, either on price or on quantity: they implement the decisions taken by the producing countries. Their changing role is highlighted even more by the rapid expropriation - though with compensation - of their assets in the producing countries. Even conservative Saudi Arabia is now expected to acquire 100% ownership of Aramco's assets "very soon", probably in exchange for certain guarantees of supply. The multinationals, for the most part, do not expect to own any major energy resources outside the Western world in the near future - their role, their accepted role now, is to act

as service companies in the producing areas, and distributors in the consumer areas.

As a result, it is clear that their self-interest is more closely aligned to the energy exporters than the energy consumers because of the realities of commercial life. And in so far as their objective is to stay in the energy business as integrated companies with the advantages that can offer, they must rapidly diversify into other energy sources, and in particular, nuclear energy.

Imported oil will remain a very important source of energy in the Western world for a long time to come. Equally, new sources of energy and the rapid development of indigenous sources of supply are henceforth matters of vital concern to consumer governments. They have no choice but to step in and accept the responsibility implied by the changing role of the multinational oil companies.

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Finally, the tension imposed on the world energy market endanger our future prosperity because :

- the insecurity of future supply conditions, particularly disturbing for those countries most dependent on external sources, risks leading to privileged bilateral trading relationships contrary to the letter and spirit of the G.A.T.T. agreements;
- the social and economic tensions resulting from balance of payments difficulties equally encourage protectionist tendencies amongst governments least able to manage the consequences.

It is no secret that the U.S.A., Japan, France and West Germany for example, are all actively seeking, or have achieved, bilateral agreements with oil producers, or that Italy, France and the U.K. just to take three examples, will be confronted with painful political decisions if they are to re-establish their external equilibrium in the foreseeable future without recourse to protection.

Obviously, the dimensions of the problem set against the limited capacities of the nation States, seen in isolation, requires co-operation amongst the major energy consumers and importers, and for the following reasons :

- (i) the need to co-operate during periods of extreme tension on the oil market to avoid mutually ruinous overbidding for whatever supplies are available;
- (ii) the need to accelerate the development of energy resources outside the sovereignty of traditional exporters of oil, and to accelerate the development of alternative sources of energy;
- (iii) the need to redefine the role of the multinationals and their future relationship with the public interest ;
- (iv) the need to co-operate in resolving the immediate problems in international trade and in international finance, and to head off the threat of an international recession;

- (v) the need to co-operate in working out a new balance of shared interest with the major energy exporters, on the basis of which a new stability of supply can be assured.

The programmes proposed in the IEA and by the Commission both respond to these interests. True different aspects are developed to different degrees, different priorities are evident, but there is no disagreement about the broad thrust of what needs to be done.

Thus the elements of common interest are evident and recognised : it is clear that co-operation amongst consumers in times of crisis must be linked to a longer term programme to reduce dependence on oil in advanced industrialised societies and to accelerate the development of alternative sources, while conserving energy and ensuring its more efficient use. Thus the U.S.A. proposes an immediate conservation target for 1975 of a reduction of 3 million barrels a day, and a longer term action programme for the

rational use of energy. The Commission proposed much the same while emphasizing the longer term approach, eliminating waste rather than restricting demand.

Secondly, there are grave risks in tackling all these problems in isolation even for economies of a size and importance like that of the United States. Those who are embarking upon expensive programmes to substitute alternative fuels and develop new resources where possible need mutual assurance that oil and gas will henceforth be treated as noble resources. For of course, there are still vast reserves of oil and gas which are technically available to us from the Middle East and elsewhere at a very low cost. A certain collective assurance against the consequences of an eventual return to cheap oil is required, even if such an event seems unlikely at present.

The U.S.A. proposed that the IEA address this problem: the Commission's policies propose guarantees for the fuel most at risk in Europe - coal.

Thirdly, an effort on the appropriate scale amongst all the major consequences requires a certain consistency between national objectives to create the climate of co-operation necessary for the relatively free movement of knowledge, capital, equipment and skilled management and manpower between countries, and the removal of barriers to trade - especially in energy resources - which is the concomitant of that. No disagreement there.

Fourthly, as I mentioned before, the future role of the oil companies is not an issue the individual State can tackle very easily. Such initiatives are most likely to be successful as part of an international framework laying down guidelines and mutual obligations of information, consultation and co-operation both between Governments and between Governments and the oil companies.

Then again, it is self-evident that co-operation between consumers in times of severe tension in the market can only be really effective if all the major oil importers co-operate in mutual obligations for conservation, stocks or stand-by production, and in the management of an agreed

equitable allocation of available supplies: otherwise the temptation to break ranks for the temporary benefits of being one of the renegades may become irresistible.

The IEA provides a system of crisis management which is essential to building up the mutual confidence necessary for long-term co-operation.

Last and not least, let us remember that Europe and Japan must inevitably remain heavily dependent upon external sources of energy resources. Therefore, Western Europe and Japan have a special interest in co-operation with the U.S.A. if only because the presence of the U.S.A. in international energy is after all so decisive. In the longer term, American domestic exploration efforts for new reserves, the accelerated development of conventional resources, the introduction of new resources, and measures to reduce consumption, could have a truly significant impact on the world market, a market to which the Community and Japan must inevitably be substantially committed for the foreseeable future, even if to a reduced degree.

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The sum of the contributions which the Community's member States can make towards resolving these problems (with the exception of the last) can be much greater if policies are pursued consistently and coherently at a Community level, than would be the case if European policies were the simple sum of nationally-derived and nationally-based policies. If we act as a unit, we can contemplate a much greater degree of ambition, and firm commitments at a regional level will call for a corresponding response on a world scale. They will ensure the credibility of Europe both in concert with the consumers, and in any forthcoming dialogue with the producers.

This is the first reason for a European energy policy, a reason completely in harmony with the objectives and programme of the I.E.A.

But now let me look at some of the potential conflicts of interest as the second reason for a European energy policy. The Community's member States sometimes have a common interest which is not exactly synonymous

with all the other major consumers, and where it is important to preserve a balance of interest acceptable to all.

The U.S.A. could profit from the energy crisis and its financial consequences to consolidate its leadership over the Western World.

Now that the OPEC cartel has demonstrated a certain cohesion, high prices seem here to stay for at least a while to come. Thomas Enders, Assistant Secretary of State for Economic and Business Affairs, and generally believed to be chief architect of Mr. KISSINGER's energy policy, set out in a recent speech at Yale University how the United States interests as a major producing country, and as a super-power anxious to avoid the debilitating effects of growing external dependence, might now begin to coincide with the interests of producers elsewhere.

Let me explain what I mean by this:

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Projet Independence Studies suggest that at the \$7 price per barrel for oil, US dependancy on imported oil would continue to grow, widening to 13 million barrels a day, almost half of all the US petroleum needs. On the other hand, at a price of \$11 a barrel, the need for imported oil could have been substantially eliminated by 1985.

In so far as the U.S. is leaning more and more towards independence, their interests and those of the OPEC oil producers begin to coincide, to the exclusion of the consumer interest. For Europe and Japan, in price terms, there will be little or nothing to choose between paying the bill for development in OPEC countries, and paying the bill for US energy independence, and a restoration of the United States traditional political and economic freedom of manoeuvre.

Thus when the U.S. proposes an oil price floor to member States of the IEA to protect high cost domestic production, the question immediately arises just how far should Europe and Japan go in supporting U.S.

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production efforts - given the costs as well as the benefits this entails. Europe needs to define a position on this difficult question.

Secondly, the producing countries may well be willing to consider some reduction in present price levels in return for reforms in international trading relationships.

Here it is a fact that the European Community has been more ready to envisage reforms in the existing international trading order than has the U.S. - the system of generalised preferences has been taken much further by the Community, and the idea of a guaranteed minimum income to regular suppliers of raw materials was admitted in the recent round of negotiations with the associated and associable countries at Jamaica. Europe is more willing to discuss politically determined "just" prices for raw materials and is less anxious to impose the discipline of the free market on her suppliers. This ambivalence is reflected in the uncomfortable position the eight states who are members

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both of the IEA and of the European Community find themselves in. They accept the need for an early dialogue with the producing countries and with the Third World : therefore, they welcome the Tripartite conference proposed by President Giscard d'Estaing in principle. All the same, they feel that the consumers and importers need more time to prepare this conference.

Thus there is an interest in conciliating the French position which calls for an early conference and plays down the need for a large degree of co-ordination between consumers beforehand, and the American position which emphasises the need for a united consumer program as the negotiating counter in any eventual dialogue: a dialogue which could not be fruitful until the proper balance of power has been established. Europe needs to find a policy which conciliates these positions, for, in reality, there are elements of truth in both approaches, and neither expressed in its extreme form conforms to our best interests.

Finally, there are nervous reactions to the way Dr. KISSINGER and the U.S. administration link the recycling of petrodollars, in

which the U.S. intends to play a major role, and the good behaviour of recipient countries as defined from the U.S. point of view. The U.S. approach to energy planning not unaturally reflects their domestic viewpoint. For example:

- the proposal for a 3-million barrels per day reduction in oil demand by IEA member states in 1975 reflects the American structure of consumption, and the current recession which pulls down demand by itself. Applying such reductions in the European and Japanese context could have much more serious economic and social effects.

- the emphasis on the right price level for energy basically reflects the free enterprise approach - creating the right conditions for the private sector to get on with the job. Many European countries prefer to subsidise high cost energy sources and to control much more closely the profits and activities of private enterprise.

A facility for \$25 billion in 1975 is a very important persuader of countries deeply in debt: Europe needs to ensure that the associated pressures to conform in terms of basic economic policies and the actions being taken to reduce dependence on oil (as set out in Secretary SIMON's speech on November 19) are compatible with her interests. Here again, the Community needs to express an identity of interest in the IEA, which the existence of a European energy policy will permit.

Finally, at the risk of introducing ideas known to be unpopular in many circles here in Britain, there is a purely "European" reason for having a European energy policy. The pressures imposed by the energy crisis and its aftermath are tending to undermine mutual confidence between member states and confidence in the relevance of the Community as a reliable vehicle for problem-solving. What is at stake is whether the Community can ever be anything more than a "fair-weather" Community. Without the confidence

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coming from progress in the energy field, progress in foreign policy and in the economic, monetary, social and regional fields involving real compromises of national interest is hard to envisage.

The risk is not solely of a check in the forward progress of the Community, but of a gradual erosion of all that has been achieved to date, particularly in trade and agricultural policy, and a growing bitterness between the "Atlantic" group and France. The consequences would clearly be very profound: the strains which might bring them about are already amply evident.

Thus a certain amount of progress towards a European energy policy is essential in the next months. The European Summit must conciliate the differences between France and her partners over the IEA. The Energy Council on December 17th must adopt precise quantitative objectives to diversify the supply of energy and reduce demand, as the foundation for a common programme between now and 1985.

The essential elements of this program, in the Commission's opinion, should be as follows :

- reduce growth in energy consumption for 5 % p.a. to 3.5% p.a. by the rational use of energy.
- reduce external dependence for oil from 63% to 45%.
- accelerate the introduction of nuclear such that about half our electricity needs are met from nuclear sources by 1985.
- stabilise Community production of coal, and open up the Community market progressively to coal imports.

The Commission has proposed guidelines for a Community action programme in each of the major decision areas - the rational use of energy, coal, oil and gas, electricity, nuclear fuels - and a series of proposed instruments of policy whether positive in character - financial aid and guarantees -

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or negative - directives and regulations. As much progress as possible needs to be made in adopting these during the next few months, at the very least, we expect progress in the field of the rational use of energy in December.

Equally an immediate necessity are community measures for crisis management, to prevent any conflict in the event of a crisis between the obligations of the eight member states who are members of the IEA and their obligations under the Treaty of Rome.

Britain, as a potential major European producer and even exporter of energy, has a specially creative role to play in formulating this European Energy Policy. And what is demanded from her is by no means a pure act of charity. There is much in the proposed Community energy policy of direct interest to her, quite apart from the indirect benefits which may be derived from consequent progress in other areas of policy. For example :

- the British coal industry will benefit from the political and financial guarantees

it could obtain by being associated with a long-term community energy policy.

- a further acceleration of the British nuclear effort would reduce the overall cost of energy to the British consumer and further relax pressure on the balance of payments. This could be achieved without a substantially increased resource cost in difficult times by access to Community finance.
- Community finance could relieve the resource cost of the development of North Sea Oil and reduce dependence on private sources of finance, thus giving the Government more room for manoeuvre in its relationships with the multinational oil companies.

The rapid development of the North Sea resources in the early eighties is in the interest both of the U.K. and of the Community: no conflict of interest arises for the Community will pay the world price for what it buys, and there need be no doubt that the U.K. always retains full sovereign rights to determine the rate of exploration and of

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production, should it, at some later date, decide to introduce stricter conservation policies.

The concept of partnership with producers - to establish a more equitable distribution of wealth between the owners and users of resources - has been one of the key elements of the Community's approach to international energy policy from the earliest days. This applies just as much to producers inside the Community as to those without. The desire of the United Kingdom, and of Scotland in particular, to build a new industrial base as the foundation for its future prosperity will be understood and will be supported by the Community, just as we understand and support the aspirations of the OPEC countries outside the Community. The existence of the common market means that the difficult obstacles to the diffusion of technology and to the sharing of industrial capacity and markets which will have to be overcome in the latter case, do not exist for the United Kingdom.