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ENERGY

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ENERGY

Current situation

The halting of oil production by Iran earlier this year caused steep rises in the basic price of crude oil, and even steeper rises on 'spot' markets. By the end of May, the world average crude oil price was 30% above the level at the end of 1978. This means that already in advance of the June OPEC meeting, the Community's bill for oil imports for 1979 will be some \$ 54 billions, an increase of \$ 6 billions over 1978, in spite of an estimated fall in volume by 14%.

2. Spot markets in Europe have shown rises of over 100% for certain oil products. Though less than 5% of supplies normally comes through these markets, it is dangerous to let them get out of control, particularly because of their influence on OPEC thinkin about future basic price levels.

3. OPEC countries are now producing more oil than a year ago, and the Community seems to be getting its share. The continuing difficulties are caused by the fact that world oil demand goes on increasing, by fears of renewed insecurity, and by re-stocking after the winter shortages. A major factor continues to be the U.S. demand for oil - especially light products such as gas and heating oil.

4. The main policy issues are these:

(a) short term - the need to reduce oil demand in 1979/80 and to bring order into the oil market.

(b) longer term - the need to recognize that, assuming normal economic growth, world oil supplies will continue to be tight. There can now be no other sound basis for energy planning.

Short term

5. Decisions to reduce oil demand to 500 million tons in 1979 (a cut of about 5%) were taken by the European Council at its March meeting. The Council of Energy Ministers has already reviewed national saving measures and has concluded that this target should be met; but they agreed that stringent monitoring will be necessary, and that additional measures must be examined in case the situation deteriorates. But two major and related problems remain - there are now very wide differences of price level between Community countries (50% for gasoline and 55% for heating oil, before taxes); this causes danger of uneven distribution of supplies. And there are differences of view between Governments about the need for controls, or whether the whole situation can be left to market forces.

6. It is clear that, if the situation were to worsen appreciably, the full oil allocation machinery under the International Energy Agency Agreement would be brought into play, involving eight Community countries, the US and Japan; parallel measures would be applied in the Community.

7. The difficulty is that we may well continue in a state of sub-crisis. The main priority in this situation must be to prevent a renewed scramble for oil (in which the Community - and still more the developing world - might well be on the losing side). The Community should therefore give a lead at the Industrial Summit in Tokyo, and propose three actions:

- firstly, that Governments should advise oil companies not to buy oil at excessive prices and should monitor their purchases. While such an "advice" would not in most countries have legal force, the monitoring could be a strong deterrent and allow Governments to implement stronger controls as necessary. Oil companies would be required - by Regulation approved by the Council, so far as the Community is concerned - to notify all purchases of crude oil above the official (OPEC) price level and all purchases of the main oil products above a corresponding level. Quantities and dates of purchase would also be reported. As a reinforcing measure, Governments could decide that purchases above the prescribed level might not be allowed for company tax assessment purposes;

secondly, that more direct measures should be examined urgently for control of demand, to be brought into effect before the end of 1979 if the situation does not improve. The principal measure could be a voluntary oil allocation scheme run on a national basis, with common monitoring as far as the EC is concerned. Companies would be invited to reduce deliveries of the main oil products by an agreed percentage of last year's delivery (say, 5%), with suitable administrative arrangements for exceptions for social reasons and essential industry;

thirdly, that any Government measures which might work as an incentive for companies to buy on the spot market should be avoided.

8. Such measures could have a quick public impact in all the main consuming countries. It is likely that they would have to be continued into 1980. In parallel, the need for responsible price policies on the part of the oil producers can be emphasized.

Longer term

9. At its Paris meeting, against the background of the desire to achieve sustained economic growth, the European Council agreed that the Community would limit its 1985 oil imports to the level reached in 1978, reflecting the view that more oil may not be available on world markets at reasonable prices. The Commission has now proposed to the Council that this target

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should also be adopted for the year 1990. This will mean imperatively that targets for energy saving, coal and nuclear energy must be held. Too wide a divergence now between energy policy achievement in the member countries, with some countries remaining heavily dependent on imported oil at increasing cost, will undermine all possibility of economic convergence for the Community.

10. Research, development and introduction of alternative sources must be speeded up (the Commission has already made proposals to the Council for the Community R&D programme). This will mean higher priority for energy investment, as well as energy saving investment, at a time of perhaps lower economic growth. The incentives available for private industry and individuals should be reviewed, and where necessary strengthened. At Community and national level as a specific and immediate measure, the European Council could invite the Council and Commission to examine proposals for a substantial increase in funds available for the introduction of new uses of coal (liquefaction, gasification etc.) and for energy saving.

11. Public and Parliaments must be made aware that:-

(a) economic and social goals require increasing quantities of energy and stricter saving;

(b) oil will be insecure, expensive, and in limited supply;

(c) there is, for the Community as a whole, no option for or against nuclear, for or against coal - the Community needs steadily increasing quantities of both in the energy mix for the medium term.

(d) any measures resulting in artificial reduction of energy prices would be counterproductive.

12. This will be a major and immediate concern for the new European Parliament.

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Conclusions

13. With strong action on these lines by the Community and other major industrial countries, the energy problem can be solved. Without such action, economic and social policies may be damaged, and the industrial countries will come under increasing criticism from the developing world - including the oil producers - for using too much oil.

14. The European Council is invited to endorse the above assessment of the energy situation and to agree:-

(a) that the Community should take the initiative at the Tokyo Industrial Summit in proposing measures to reduce present disorder in the oil market;

(b) that new priority must be given to the agreement of coherent policies at Community level to reduce dependence on oil, and to the acceptance of those policies by Parliaments and public;

(c) that research, development and introduction of alternative sources of energy must be speeded up, and that in particular Commission proposals for increased spending on new uses of coal and on energy saving should be urgently examined and approved.