

COMMISSION OF THE EUROPEAN COMMUNITIES

COM (78) 464 final

Brussels, 21 September 1978

THE ENERGY SITUATION IN THE COMMUNITY

PROSPECTS AND POLICY

(submitted to the Council by the Commission)

Summary of the Document

This communication is to enable the Council to have an exchange of views about the energy situation at its meeting on the 30.10.78.

The Council will wish to discuss the implementation by the Community of the conclusions about energy matters reached by the European Council at Bremen on the 6 and 7 July, against the background of the wider discussions which took place at the Western Economic Summit at Bonn on the 16 and 17 July.

The communication analyses these conclusions in terms of actions already taken and of proposals on which the Council is asked to decide.

It begins with a brief reminder of the present energy situation and its main trends.

THE ENERGY SITUATION IN THE COMMUNITYPROSPECTS AND POLICYINTRODUCTION

1. The Council will wish to discuss implementation within the Community of the conclusions reached on energy at the European Council meeting in Bremen on 6 and 7 July, against the background of the wider discussions in Bonn on 16 and 17 July. The present paper analyses these conclusions in terms of action already taken and of proposals which are awaiting Council decision. It begins with a summary of the current energy situation and prospects.

PRESENT TRENDS

2. The current softness of the energy market is misleading, and the oil glut will prove only temporary. The longer term picture for the later 1980's and beyond is one of increasing pressure on world oil supplies, with possible increases in real prices. The Community is heavily dependent on oil imports and could find itself under increasing and divisive strain in the competition for limited world energy supplies. In this competition, oil-importing developing countries would be even greater losers. The Community must continue to search for solutions to energy problems at world level; our influence will be stronger if we can show the example of a strong domestic policy.
3. There are some positive features about the Community situation:-
 - a) Energy consumption was virtually static between 1976 and 1977, while Gross Domestic Product (GDP) increased by 2 % in real terms;
 - b) In the same period, domestic energy production increased by 8,4 (largely North Sea oil), and the Community's import dependence fell from 59 % to 56 %;

c) Member States' forecasts of energy demand in 1985 (1235 m tons of oil equivalent) show a further fall below the level in the forecasts made last year (1280 m toe) partly because of energy saving and price effects.

4. But at the same time there are some disturbing features :

1985 has

- a) Coal production for which an annual production target of 250 million tons up to been set in 1974, declined further to 220 million tons, and stocks are now at an almost unmanageable level - 60 m tons. The ability of Community coal to play its necessary part in long term energy supplies is becoming increasingly questionable in the absence of a Community policy;
- b) Last year's forecast for installed nuclear capacity in 1985 of 90 GWe will have to be further reduced to around 80 GWe. The current forecast of Member States that this capacity will be nearly doubled by 1990 must be regarded as very optimistic.
- c) Although the level of surplus oil refinery distillation capacity is reducing it remains a threat to the health and stability of Community oil markets especially since in many cases reductions have been made by temporary withdrawals from service.

5. The medium and long term picture for energy supplies continues to give ground for concern. Sweeping conclusions should not be drawn from figures for the relationship between economic growth and energy demand based on satisfactory results for one year in isolation (such as those for 1977). There remains the risk that, in spite of energy saving efforts, renewed economic growth will lead to higher relative energy demand, and that the objective of an energy demand/ economic growth ratio of 0.8 : 1 set by the European Council for 1985, will not be achieved. In these circumstances, even assuming no difficulties in supply, the cost of energy imports (already over \$ 50 billions per year, or 20 % of our foreign exchange earnings) could become an obstacle to the achievement of economic and social goals.

SPECIFIC ACTION

6. The European Council of 6 and 7 July therefore reaffirmed the primary aim of the Community - to limit this risk by reducing the Community's dependence on imports to 50 %.

7. This will mean more action in the following areas :

a) Oil imports

Member States now forecast a production of 115-165 m toe in 1985, out of total oil requirements of about 635 m tons. A specific limit on oil imports of 500 m tons in that year is therefore possible and could be a useful central feature of energy policy, provided that there is enough flexibility to allow for the direct effects of economic growth above present forecasts.

b) Other action concerning hydrocarbons

Every effort should be made to achieve in 1985 objectives for oil (140 millions toe) and gas production (160 millions toe) which are based on present forecasts.

The search for oil and natural gas within the Community must be maintained and extended in order to ensure that Community resources are discovered and available for exploitation to the greatest possible extent.

The Commission's proposals for financial support for hydrocarbon exploration are designed to promote the initial evaluation of reserves on a strategic basis, so that better and more comprehensive knowledge is available about the prospects for longer term production.

As far as the problems of the refining industry are concerned, the Commission proposals aiming to achieve an appropriate balance between production capacity and demand for refined petroleum products within the Community should be adopted.

Plans for new oil-fired power-stations for which construction has not yet started should be reviewed and cut back to the extent possible in favour of coal or nuclear power generation.

c) Coal

Community and world coal reserves are abundant and coal will have to play a more important long-term role in Community energy supplies. However, at the moment, coal-burn is too low, due in part to the high cost of Community coal, and to inadequate investment in coal-burning plant; in addition, the Community coal industry is suffering from the recession in the steel industry. Coal burn and Community coal production must not be allowed to decline further if coal is to make the important contribution which will be necessary in the coming decade. The Commission proposals already on the table will be supplemented by proposals for further measures in aid of ^{intra-Community} coal trade and coking coal. The Council has adopted a framework regulation providing financial support for the exploitation of new techniques for coal gasification and liquefaction.

d) Nuclear

A steady expansion of nuclear capacity is one of the major ways of preventing further unacceptable rises in oil imports and of ensuring electricity supplies. Efforts in order to recover the slippage in nuclear programmes must be made. Furthermore, the Council will need to decide on existing Commission proposals on the future of the fast breeder reactor, the reprocessing of nuclear fuel, and the disposal of radioactive waste.

In all these activities due regard should be given to the problems of local acceptability and safeguarding the environment.

At the same time, Community work on further improvement of the high standard of nuclear safety yet achieved must be pursued and intensified.

e) New sources

The Community will need to give every encouragement to the development of viable new energy sources in the coming years if they are to be able to make the forecast contribution of 5 % of total supplies by 2000 and a growing share thereafter.

A framework regulation for financial aid to demonstration projects for the exploitation of new sources has already been agreed by the Council.

f) Energy saving

Measures so far implemented at both Community and national level represent good progress, but much remains to be done. The Community and member states governments should encourage, by financial and other incentives, all energy saving investment which is ^{no} less economic than the investment required to produce energy in the Community; the evolution of energy price in real terms should aim to reinforce the energy savings effort, notably at consumers' level. Further specific savings measures (modernisation of existing buildings; labelling of domestic appliances) are before the Council for decision this year.

The study launched by the Commission into possibilities of reducing growth in energy demand in relation to economic growth will help to establish the

g) Research and development / framework for action in the longer term.

The Community must devote more resources to research and development in various energy fields, e.g. new sources, production techniques, energy saving, nuclear safety, etc. and it must insure coherence between national research programmes and Community direct and indirect action. The Commission will be presenting to the Council its new four year energy research programme (1979 - 1983), involving expenditure of 125 m u.a. on several hundred shared-cost contracts which will be agreed with industry, universities and national research institutes. This four year programme will be in addition to continuing R & D work on nuclear safety including waste disposal and reactor standards.

h) Investment

There will be a continuing need for high investment in energy production and saving, and the Community must be able to help solve financing problems through the appropriate financial instruments, including the EIB and the Community's new loan facility. More generally, the Community must ensure that a climate favourable to energy investment is created, by strengthening the common market, by reducing uncertainty as to future policies, and by ensuring the profitability of well founded energy ventures. The review of energy programs of member states, which is currently undertaken by the Commission, will enable to take a more precise view of the importance of investments required in the energy sector.

i) Energy and the developing countries

Cooperation with developing countries in the field of energy is an important and vital subject, both in the energy field and in the relations between industrialized and developing countries. The Council will discuss a separate Commission paper (*) on this subject.

j) Public understanding

Public awareness of the whole complex of energy problems, and of their seriousness for future society, is vital to understanding and acceptance. As this problem goes well beyond the limits of member states alone, the Community has a major role to play in it.

k) Coordination of Member States' programmes

The European Council at Bremen stressed the need for joint appraisal and coordination at Community level of the individual Member States' energy programmes. This continuous process should aim to increase the internal consistency of national programmes taken together, to reinforce the common market in energy, and to ensure equality of effort between Member States. Implementation of such a policy involves the drawing up of quantitative joint objectives representing guide-lines for national policies and serving as a significant guide for energy producers and consumers in the Community. The Council in its resolution of 17th December 1974 has adopted such Community energy policy objectives for 1985 and has asked the Commission to submit regular reports on their realisation. The Council has been seized with two such reports which have led to intensive debates on actualisation of Community objectives for 1985 and on additional measures at Community and national level.

The Commission will by the end of this year, put to the Council a communication on the programmes of Member States which will report on the realisation of Community objectives 1985 and will serve as a basis for the formulation of new objectives for 1990. ./.

(*) COM(78)355

Coordination of Member States energy policies in the light of Community objectives should be intensified and could be considerably facilitated by prior discussion of major new initiatives of Member States which might have an impact on agreed Community objectives. The Energy Committee should play a more active role in this respect.

CONCLUSIONS

While the target of 50 % dependence on imported energy is not out of reach, efforts need to be intensified as a possible failure would involve very heavy costs. Our scope for action as a Community is not being fully exploited.

The new impetus given by the European Council should therefore be implemented

- by endorsing the policy outlines of this communication,
- by taking decisions on the Commission proposals as soon as possible.

This means in particular :

- . a limitation of Community oil imports in 1985 to 500 millions toe;
- . rapid action on the Commission proposals for hydrocarbon exploration and for refining;
- . to take steps against a further decline of coal burn and Community coal production by decisions on relevant Commission proposals;
- . to make every possible effort to recover the slippage in nuclear programmes;
- . to provide for financial and other incentives for energy saving

- . to encourage the development of new energy sources;
- . to intensify the coordination of Member States' energy policies in the light of approved Community objectives;
- . to ensure a favourable climate for the energy investment necessary.