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MEASURES TO MITIGATE THE EFFECTS  
OF SHORT-TERM OIL SUPPLY PROBLEMS

(Communication from the Commission to the Council)

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## Communication from the Commission to the Council

### Measures to mitigate the effects of short-term oil supply problems

#### Introduction

1. The Council, in its meeting of 20 September 1979, invited the Commission to make proposals as to how the Community should prepare itself for a possible renewed supply emergency.

The Commission had discussions with Member States, bilateral as well as multilateral, which this paper reflects.

2. The nature of the international oil supply situation is such that there could easily be developments leading to tensions of a sort that could not be equitably eliminated through the operations of normal market forces alone. At such times, certain steps need to be taken to ensure that, throughout the Community, oil supplies are handled on a similar and equitable basis. The taking of these steps is clearly the responsibility of Member State governments, but the nature and effect of such steps should be discussed between Member States and the Commission to ensure adequate co-ordination (as provided for in Directive 73/238/EEC) and to avoid counterproductive and conflicting results from divergent approaches to the same problem. It is also necessary to develop a common pragmatic approach to the evaluation of the severity and likely repercussions of supply problems.
3. The policies necessary will need to cover three specific aspects:
  - measures to reduce consumption;
  - the level and use of stocks;
  - pricing for both international purchases and end consumers.

#### Measures to reduce consumption

1. In general, measures may be divided into two categories:
  - structural and energy saving measures - aimed at reducing dependence on imported oil in the medium to long term;
  - immediate measures - to reduce consumption in the face of a supply shortage, both by allocation of supplies and by supporting measures aimed at reducing the level of demand.

In the latter category, most Member States draw a clear distinction between "crisis measures", necessary in the case of severe reduction in availability, and the measures that would be adopted under less stringent "sub-crisis" conditions. The specific nature of each measure therefore depends upon the degree of shortage, its anticipated duration and the product to which it applies, as well as on the general economic and social structure of the ./.

country, its supply structure and its "administrative attitude" (co-ordination of industry actions, governmental actions, etc.).

2. Structural oil saving measures provide the best long-term "defence" for Community countries. Since 1973 developments have taken place progressively and a lot of earlier "waste" has been eliminated (so that supply interruptions will affect social and economic life quicker). Many of these developments have been in the public sector, especially electricity generation, following reappraisal of the use of coal and nuclear power. These efforts should continue. In this connection a draft resolution regarding more structural measures is already before the Council. Thus far both restructuring and elimination of waste have tended to reduce consumption of heavy fuel oil, and it is worth recording that the refining industry has been following a parallel line of structural change, with increasing emphasis being placed on conversion capacity which will increase light product yield and reduce the output of fuel oil
3. Immediate measures are required for any sudden disruption. For their implementation the situation is as follows:

a) The Legal Situation in Member States

All Member States have established legal bases for dealing with supply difficulties. In general, the legislation does not define the degree of shortage or disruption necessary to bring it into effect. However, it appears that certain Member State governments could not use their existing legislation to impose rigid control measures for shortages of less than 7%.

b) Full Crisis Measures

For gasoil and fuel oil, mandatory reductions in deliveries are foreseen and would be implemented by governments with due regard to priorities. All Member States are studying the question of priority rating of the different categories.

While there is a general dislike of coupon rationing schemes, most governments intend to introduce coupons especially for automotive fuels, but only in very severe supply difficulties. In less severe circumstances, most governments would rely on a ban on driving on Sundays and/or one or more weekdays, and introduction of speed limits.

In addition to these measures to reduce and control supply, most Member States have packages of measures aimed at reducing the level of demand, of which some are only of a supporting nature, and which are described in c).

c) Sub-Crisis Measures

Without the political justification of an international crisis evidenced by the application of the "crisis measures", governments are, in general, not willing to introduce hard measures. In sub-crisis conditions most emphasis is placed on voluntary restraint by consumers; allocation by oil companies (also, in most countries, on a voluntary basis); and on the additional measures, some of which are only of a supporting nature. In addition to publicity, these measures include, e.g.:

- stricter limitation of temperature, in particular in public offices;
- maximum fuel-switching in power stations and industry;
- stricter enforcement of speed limits;
- prohibition of car rallies and non-business use of aeroplanes and boats;
- prohibition of jerry-can filling;

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- closure of gasoline stations;
- electricity blackouts;
- reduction in illuminated advertisements.

The major point is to develop the "scarcity awareness" of the public as well, by making it clear that if (more or less) voluntary measures do not have sufficient impact, more severe measures (carless days, etc.) will have to be implemented.

#### The Level and Use of Stocks

1. Stocks can play an important part in the management of a supply crisis or sub-crisis.
  - In cases of temporary supply interruption, a drawdown of stocks can be made to reduce effective shortages until normal supply is resumed.
  - For supply interruptions of longer or indeterminate duration, stock drawdown can be used to maintain supply on a reducing basis until measures become effective in cutting back demand. Considerable care is necessary in this approach, since in times of prolonged shortage rebuilding of stocks will be difficult.
  - When a shortage is unevenly distributed between companies marketing oil products, stocks can be used to correct the balance and avoid panic buying by those most short. This use of stocks should help to avoid the competitive bidding-up of spot market prices at such times.
  - Stocks of both crude and products can be used to level out seasonal peaks and troughs of crude oil demand, which should also help to reduce the bidding-up of crude oil prices at times of traditionally seasonal high demand.
2. The extent to which the above use of stocks can be brought into play will depend upon the absolute level of stocks held.

In particular, the question of seasonal variation of stocks needs to be considered. Present 90-day stock requirements based on a yearly average could not supply 90 days of consumption at winter peak demand levels. It is for this reason that, in France, gasoil stock obligations are calculated on a monthly basis relative to historical consumption in the month in question.

It is for consideration whether a policy for stock management should be introduced at Community level based on specific guidelines agreed in co-operation with other industrialised countries.

#### Pricing for both international purchases and end consumers

1. Pricing poses problems that are central to the proper handling of supply interruptions or uncertainty. In 1973 and in 1979 the world has witnessed the effects of uncontrolled counterproductive competition for limited volumes. It was agreed at the Tokyo Summit that, at times of rising tension in the international oil market, governments should recommend buyers to abstain from paying unreasonable prices. The registry of crude oil and product imports already established was envisaged primarily as a control to allow identification of those that choose to ignore such recommendations. A Quick Response System or other mechanism to reinforce this is still under consideration.
2. Abstinence from high-price purchases may reduce supply for a short time, so that further emphasis must be placed on the need for effective measures to

reduce consumption. However, provided all governments follow the same policy, the end result should be a return to normal supply levels at acceptable prices. If governments do not follow the same policy, product supply may be drawn towards countries where the highest prices can be obtained.

3. In parallel with the foregoing, a common approach to consumer prices is also necessary. Price harmonisation at national and Community level needs to accommodate two divergent aims:

- the imposition of sufficiently high consumer prices to generate public awareness of the need to minimise consumption without, at the same time, providing for producers a demonstrable justification for further crude oil price increases; and
- the establishment of a price regime that will contribute to the avoidance of excessive price pressures if imbalances should occur in world oil markets, and moderate spot market transactions.

The second aim is important, since past experience has shown that high consumer prices alone have only a limited effect on consumption levels. Price policies that do not allow companies to recoup the costs of their highest-price purchases represent effective backing to the recommendation that such purchases should not be made.

### Conclusions

1. In the interests of Community solidarity, it is important that measures taken should be comparable from Member State to Member State. In a full crisis situation co-ordination at Community level (as provided for in Directive 73/238/EEC) is necessary, especially for automotive fuels in the context of cross-border commercial and tourist traffic.

In a sub-crisis situation comparability is equally important. If, for example, the Community has to face a prolonged shortage of say 5%, it is questionable whether market forces and voluntary measures will be adequate; failing some stronger measures, spot market prices might be driven to damagingly high levels. Specific government action may also prove necessary if the shortage is very unevenly distributed between the oil companies. In either case, co-ordination at Community level would be desirable.

2. Against this background, the aim should be to ensure that:

- the method used for assessing the situation as well as the conclusions are similar in all Member States and other industrialised countries;
- the supporting measures - taking into account the different supply and demand structures in the various Member States - are of an equivalent nature;
- allocation systems (whether adopted on a mandatory or voluntary basis) should be co-ordinated at Community level;
- recommendations or other measures to encourage companies to abstain from high-price purchases need, if they are to be fully effective, to come into force at the same time and reflect similar limits;

- the decision to reduce market tension through reducing international demand by a drawdown of stock should be taken only after discussion at Community level, so that, if the circumstances warrant, similar and simultaneous action may be taken by all Member States.

3. Discussion is considered necessary on the following points:

- measures for sub-crisis conditions that should be co-ordinated at Community level;
- the relationship between price policies and administrative measures and incentives in times of crisis; and
- stock management policy.

In the light of the Council's discussion the Commission will continue to examine and consult on the situation and will submit proposals in this field.