

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 583 final

Brussels, 15 october 1980

ENERGY AND ECONOMIC POLICY

(Communication from the Commission to the Council)

COM(80) 583 final

ENERGY AND ECONOMIC POLICY

INTRODUCTION

1. The burden of the energy constraint on the short- and medium-term management of our economies - in the form of a major transfer of resources and strong inflationary pressures - prompted the Council, at its meeting on 9 June 1980, to place on the agenda for its October meeting a discussion of the links between energy problems and economic policy.

The purpose of this Communication is to serve as a basis for that discussion and enable the Council to adopt its guidelines.

THE INTERNATIONAL DIMENSION OF THE PROBLEM

2. This paper does not touch on the wider economic aspects of the second energy crisis, which are discussed in the annual report to the Council.

The emphasis here is on:

- (a) identifying and putting into practice the right solutions to the problems arising from balance-of-payments deficits;
- (b) reducing the Community's dependence on external energy supply, and primarily its dependence on oil imports, by means of structural adjustments geared notably to conserving energy and to fostering the production and use of alternative energy sources.

3. As emphasized by the European Council, concerted action is needed by all the consuming countries, particularly in view of the implications for competitiveness. In our highly integrated economy, isolated (or worse, contradictory) measures would together be detrimental to general growth potential.

It would be just as hazardous to accept a marked inequality of structural adjustment effort in the energy sector. The costs of adjustment - in resource allocation or losses of competitiveness - would be borne solely by the countries that embarked on the course of action needed, while all consumer countries would benefit.

4. Accordingly, by virtue of its responsibilities, both within the Community and outside, the Community has a special role to play in formulating and implementing an appropriate economic and energy strategy.

The Community has already set itself three objectives:

- (i) to lay the foundations of genuine solidarity among consuming countries by contributing, as it did at the Tokyo Summit, to the joint definition of targets for reducing its dependence on external energy sources;
- (ii) to place the supply of energy on a sounder basis by entering into a dialogue with the producing countries aimed at achieving smoother reconciliation of the interests of the countries involved;
- (iii) to play an active role in the areas of development or financing which will make it possible to ease the situation in the developing countries hardest hit by the crisis, in particular by helping to exploit their energy potential and mineral resources.

BALANCE-OF-PAYMENTS FINANCING

5. Balance-of-payments deficits, which are larger and more permanently entrenched than after the first oil crisis, raise a problem of general economic policy, that of reconciling the steady reduction of the deficits with a continued general level of activity and employment that is as high as possible. That problem is discussed in the annual economic report.

They also give rise to a problem of financing, now being debated by the Council on the basis of guidelines which need to be confirmed and given practical shape.

6. The first of these guidelines, following up the conclusions of the European Council and of the Venice summit meeting of the major industrialized countries, is to step up the activity of the international organizations (IMF, World Bank and the regional Banks) in recycling oil capital, with particular consideration for the problems of non-oil developing countries. It would be appropriate also to assess the help which could be given to support their efforts to bring about the structural changes necessitated by the state of their external payments. Noting and taking into account the decisions taken at the annual meetings of the Fund and the Bank in Washington, the Council should, before the next meeting of the Interim Committee, consider whether actual progress so far matches up to the targets advocated.

7. The Community is already directly involved in transferring capital to the non-oil developing countries under the Lomé Convention, under its arrangements for assisting non-associated developing countries and under various financial protocols. Under the further studies on this matter which the Council called for on 9 June, an effort must be made to identify the areas in which joint action can be undertaken with the oil-producing countries whereby the resources available can be mobilized faster, on a wider scale and more effectively. The Commission and the EIB already participate in co-financing schemes with a number of development funds and are already concerned to expand the scope of such participation. The bringing together of these objectives, together with the normal operations of the banking system must be examined in depth.

8. The third guideline is to strengthen the Community's own financing mechanisms. More active solidarity will be to the advantage of all, by helping to ease the financial constraint where it might otherwise lead to unduly restrictive measures, with adverse effects on growth and employment. The first essential here is the prompt completion of the work spelt out by the Council on 9 June 1980 :

- (a) towards raising the ceiling on Community borrowings and improving the conditions for using this instrument;
- (b) towards enabling the Community to use the ECU as the numéraire for the loans it floats on the international capital markets, as advocated in the opinion of the Monetary Committee, and so providing lenders with additional facilities for diversification.

The expanding role of the Community's financial instruments (EIB, NCI, ECSC and Euratom) helps to alleviate balance of payments problems when the corresponding loans are raised on the international capital markets.

REDUCING DEPENDENCE ON IMPORTED ENERGY AND DIVERSIFYING SOURCES OF SUPPLY

9. Under its broad thrust of restoring equilibrium as well as in its specific aspects, economic policy must serve the objectives - paramount for our economies - of reducing energy demand and diversifying sources of energy. The investment required for this purpose will also actively help to sustain economic activity. Action is needed at two levels:

- (a) a coherent energy pricing policy;
- (b) proper planning of investment and of the financial resources needed.

A. The role of prices

10. Demand adjustment and investment depend to a large extent on the prices of energy products on the domestic market. To speed up adjustments in the energy field, two conditions must be met: the general price trend (particularly for petroleum products) must serve the aims of both conservation and diversification, must move smoothly and must admit of reliable forecasting; and there must be an appropriate hierarchy of prices for the different sources of energy.

(i) The trend in the general level of domestic prices

11. Energy users must be in a position to base their decisions on forward assumptions regarding prices that are sufficiently reliable and consistent with the general direction of energy policy. This condition is essential if market forces are to ensure the most efficient allocation of resources.

12. Looking ahead to the medium term, and leaving aside cyclical fluctuations in the economy, the general situation regarding oil supply and demand means at the very least that any policy incorporating a fall in oil prices in real terms must be ruled out.

The Commission considers that, to keep the trend of petroleum product prices as constantly consistent as possible with the general direction of energy policy, the line of conduct of the Member States, insofar as they have an influence on the formation of prices, should be to prevent a trend for the final consumer which discourages energy saving and diversification.

13. This principle would be applied as follows:

- (a) in line with the principle already accepted by the Council, increases in the representative import price of crude oil must be passed on to the final consumer within a reasonable period of time;
- (b) the Commission proposes that the Council should establish the guideline that, as a general rule, but without accentuating inflationary tendencies, the level of taxation of petroleum products should be periodically adjusted in the light of the requirements of energy policy,

- (c) the Commission stresses - and the Council has already acknowledged - that the secondary inflationary effects of oil price rises must be contained to the utmost extent possible.

Although these guidelines and measures must be put into operation by the Member States, with reference to their individual situations, the guidelines themselves must be common, and their implementation must be monitored regularly: the Commission suggests that, after adopting them, the Council should review the results annually.

14. These measures may not be enough if there is a sharp downward trend in the import price of oil. Other instruments should then be used.

The Commission is continuing to examine this point, and will inform the Council, for a later meeting, of its findings and conclusions.

15. The proposed decisions could bring about an increase in public revenue; it would be essential to contain the inflationary consequences and to obviate any deflationary effects. Appropriate countervailing measures might take the following forms:

- (a) a reduction in charges, which would at the same time prevent a decline in the competitiveness of Community firms and exert a favourable influence on investment and employment;

- (b) a reduction in indirect taxation, which would help to ease inflationary pressures;
- (c) an increase in budgetary funds for incentives to adaptation in the energy field.

(ii) Hierarchy of domestic prices of energy sources

16. The hierarchy of prices for the different energy products, which government influences through a range of interventions, mainly taxation and budgetary, must serve the aims of reducing dependence on external energy sources, particularly by cutting oil imports and by developing alternative energy sources. Price differentials must act both as a deterrent (oil) and as an incentive (other sources of energy). This is not always the case: in some Member States at least, the domestic price for certain products (heavy fuel oil is an example) does not encourage a diversification of sources or give any urgency to investment in, say, energy conservation. Such distortions can be traced back, to a large extent, to the way in which different energy products are taxed.

Further, the structure of prices, i.e. including taxation, as between the Member States is a potential and a present source of distortion of competition and the cause of a poor allocation of resources.

17. The Commission asks the Council to approve the following two aims:

- (a) to arrive at a hierarchy of prices which is consistent with overall energy policy;
- (b) to prevent excessive differences in the price structures as between Member States which are not justified either by a similarity of situations or by the fact of belonging to the same market.

At a later date the Commission will put up proposals defining the bases, including harmonization of taxation, for attaining these objectives.

B. Planning of investments and of the resources required

18. Prices have a pivotal role to play as an incentive to the adjustment of demand. But, government has a direct and crucial role in carrying out investment, much of which depends on decisions by government and without which the goal of self-sufficiency, for which government is responsible, will not be attained. The consequences are two-fold: (a) the principle of planned programmes which define not only the investments needed to reach the Community's targets, but also the resources for carrying them out; (b) taking account of energy requirements proper and the requirements of the economy as a whole, this programme-planning, in the Commission's view, should amplify and speed up the entire effort.

19. In its Resolution of 9 June 1980, the Council decided to make an annual assessment of national energy programmes at Community level -- the Community being a meeting-point for comparing targets, defining and monitoring priorities, identifying shortcomings and appraising results.

The Community's acknowledged position therefore answers a very clear requirement. It is the best forum in which to define forcefully -- and present to the public -- policies which are necessarily comparable and analogous and which, in the Commission's view, must:

- (a) give the greatest possible boost to energy investment;
- (b) contribute to the development of nuclear energy and help to remove the obstacles hampering its expansion;
- (c) pursue a consistent internal and external coal policy as regards research, availabilities and costs, with the aim of self-sufficiency;
- (d) stimulate the investment required in energy conservation and develop new energy sources.

The Ministers for Financial Affairs cannot remain indifferent to the action in these fields taken by the Ministers for Energy. The general economy is directly concerned: by balance-of-payments and price constraints, but also by the impetus to growth and employment offered by the new "industrial energy economy" and by the expansion of energy investment.

20. Consideration of the matching of resources to goals is also of direct interest to the Economic and Financial Affairs Ministers meeting in Council. Particular attention will have to be given to budgetary, economic and financial mechanisms, and to both national and Community legislation introduced to encourage the investments which are immediately necessary and to facilitate their funding. The only way to make sure this is done is by the systematic and critical monitoring of the state of progress of the programmes.

21. In addition, the Community contributes to the investment effort through its financial instruments (funds under the Budget and loans). Its contribution is substantial: in 1979, 1 580 million EUA in loans granted, or 6% of Community energy production investment (considerably more if self-financing is deducted). The Community's action should help the Member States to pursue a vigorous energy policy. It should be primarily directed to supporting coherent programmes which serve the common objectives and are integrated into an overall policy by the recipient Member States. Community financing should not take the place of national financing, but should speed up and amplify certain measures which could not be carried out without an external financial contribution.

22. It is in that context that the Commission asks the Council:

- (a) to approve the guidelines set out in this Communication;
- (b) to decide to convene every year a Council meeting of the Economic and Financial Affairs Ministers with appropriate participation to examine how the legislative means and the financial resources match up to the real targets of the Member States' energy programmes;
- (c) to take note that every year the Commission will present on that occasion a report on the possible contribution from Community resources to the overall investment effort, and will suggest how they should be used to serve priority aims.