

**Community Topics**

---

**9**

**Energy policy  
in the European  
Community**

---



***european community  
information service***

---

# Energy policy in the European Community

---

## Contents

Foreword

Introduction

The present position and the outlook for energy

Prices of crude oil and refined products

Security of supply

Coal

Nuclear energy

A common energy policy

The long-term aims

The transition period

The preparatory period

This text is an adaptation of the official English translation of the Inter-Executive Energy Committee's Memorandum on Energy Policy published by the High Authority of the European Coal and Steel Community.

---

# Foreword

---

This memorandum on energy policy was drawn up by the Inter-Executive Energy Committee in accordance with the instructions given to the High Authority of the Coal-Steel Community, the Common Market Commission and the Euratom Commission by the Council of Ministers of the Community countries, meeting in Rome on April 5, 1962. It represents the joint proposals of the three Executives of the European Communities for a common energy policy.

These proposals were adopted by the Inter-Executive Energy Committee meeting in Strasbourg on June 25, 1962, with M. Pierre-Olivier Lapie, Member of the High Authority, in the Chair. The other members of the Committee are: for the Common Market Commission Vice-Presidents Robert Marjolin and Giuseppe Caron and Commission member Hans von der Groeben; for the Euratom Commission, Paul De Groote and E. M. J. A. Sassen; for the ECSC High Authority, Pierre-Olivier Lapie (Chairman), Vice-President Albert Coppé and Fritz Hellwig.

## Introduction

---

The development of the Common Market necessitates the gradual harmonization of member countries' economic policies in various fields. Energy policy is of particular importance because:

energy plays a part in practically all economic activities, and any failure of supply to keep up with demand would have very serious consequences;

the cost of energy is one of the major factors determining a country's international competitive position and the location of its industries;<sup>1</sup>

the coal industry employs more workers than most other Community industries, and a number of densely-populated industrial areas are dependent on it for their wellbeing.

The Community countries have adopted different and often conflicting positions on energy problems: the task is therefore to define the principles of a common energy policy that will best meet the needs of the European economy. The Community's recent success in reaching agreement on a common agricultural policy showed that accord is possible between member countries on the aims and methods of common action, even in the most difficult fields. What has been done for agriculture should also be possible in the realm of energy policy.

The purpose of the Energy Committee's memorandum was to outline the general principles on which an energy policy might be based. It follows two earlier reports submitted to member Governments by the Committee: the first, in March 1960, suggested a method for coordinating national policies, and the second, in January 1961, proposed a number of preparatory steps to be taken immediately. The memorandum defines the objectives of a comprehensive common policy and the ways in which it might be implemented. This entails laying down both long-term aims and transitional rules to facilitate the gradual harmonization of national policies.

The principles which should underline a common energy policy have been subject of much debate. The European Parliament in its resolution of February 20, 1962, listed them as follows:

1. reduction of costs;
2. security of supply;
3. gradual application to avoid sudden disturbance of national economies;
4. long-term stability of supply;
5. freedom of choice for the consumer;
6. a single market.

With the same objectives, and seeking to achieve a balance between these principles, the Council of Ministers, meeting in Rome on April 5, 1962, instructed the Executives to submit proposals for a common energy policy within two months.

1. For example, energy costs account for over 25 per cent of total costs in the iron and steel industry, 20 per cent in non-ferrous metals, 10-15 per cent in chemicals, and up to 8 per cent in a manufacturing industry.

The Council specified that the proposals should take account of :

the increasing demand for energy;

the increasing proportion of imported energy;

the fact that imported energy prices are in some cases lower than those of the Community's own energy sources.

The Council also stated that the proposals should lead to a common policy covering all fields of economic activity in the Community and all sources of energy. The aim of this policy would be the progressive establishment of a common market for energy based on fair competition, the free movement of energy products and the supply of energy at the lowest possible price. As well as framing the general policy, the Executives were also asked to propose measures to put it into effect.

# **The present position and the outlook for energy**

---

The Community's energy requirements are increasing rapidly: they rose from 290 million metric tons, hard-coal equivalent, in 1950, to 470 million in 1960. If economic expansion continues at the rate expected, they will be in the region of 700 million tons by 1970 and 800 million tons by 1975. One of the common policy's main objectives will therefore be to ensure that supplies are available in these quantities.

Recent trends in comparative prices for different types of energy, particularly the relative fall in the price of oil compared with coal, make it unrealistic to envisage any increase in coal production. On the contrary, output of coal is likely to be scaled down progressively by the closure of uneconomic pits.

The other traditional sources of energy in the Community (with the possible exception of natural gas) cannot be expanded sufficiently to meet the rapid increase in energy requirements. The gap will therefore be filled largely by oil and, possibly, American coal pending the advent of nuclear energy at competitive prices by about 1970.

While coal met 70 per cent of energy requirements in countries now forming the European Community in 1950, by 1960 its share had fallen to 52 per cent. By 1970 it will probably not exceed 35 per cent. Oil's share on the other hand, rose from 10 per cent of total energy consumption in 1950 to 30 per cent in 1960, and is expected to reach about 50 per cent by 1970. Substitution has been most rapid in industry: in 1950 only 12 per cent of the energy consumed by industry came from oil, in 1960 the figure was close on 40 per cent. The proportion seems certain to continue rising rapidly in the years ahead as a result of that sector's search for cheap energy supplies.

The implications of this trend are two-fold. Firstly, the price of imported energy will be the most important element in determining the cost of energy in the Community. Secondly, increasing use of oil raises the problem of security of supply. A variation of a few million tons, or even of tens of millions of tons, in the output of steam-raising coal would not appreciably affect the degree of security. There is therefore no justification in aligning the prices of petroleum products with those of coal, or restricting the expansion of oil consumption by artificially raising its price.

Intensive prospecting in Europe will probably lead to the discovery of fairly substantial oil and natural gas reserves, but these will cover only a limited proportion of requirements. A larger and increasing share of the demand will have to be met by supplies from other parts of the world. Since the end of the Second World War, the Middle East, with its huge reserves and low production costs, has become the Community's main source of imports. It will remain so for a long time to come, although the resources recently discovered in North Africa and the continuation of prospecting there are of greatest importance to the European market. Nevertheless, the problems of price and security connected with Middle East imports need special attention.

## **Prices of crude oil and refined products**

Proved Middle East reserves are calculated at 26,000 million recoverable tons, representing two-thirds of present world reserves and a hundred years' production at the present rate.

There is every indication that by 1975 they will still represent fifty years' production at the then current rate of output if proved and probable reserves are included, and if it is assumed that further large deposits will have been discovered by then. Subject to price, therefore, the Middle East contains sufficient reserves to cover a considerable proportion of the growing world demand for oil for a long time to come.

The actual prices charged for Europe-bound oil are at present well below the posted prices and it is quite common for producing companies to allow independent operators 15-20 per cent rebates. Sales by integrated companies to their subsidiaries are often made at the posted price, but the reductions which the latter are obliged to offer on products in the countries where they operate are about the same as those allowed to independents on purchases of crude. The present level of oil prices enables demand to be met in full and enables the petroleum companies to cover the whole of their costs, including prospecting and other investment.

Extraction costs will tend to rise in the future as deposits are worked out, but on the other hand, technical progress and increased production may result in substantial savings. The use of larger tankers will also produce considerable savings on transport. The two opposing trends will thus tend to cancel each other out, and oil imports may therefore continue for many years at about current price levels.

Crude prices include royalties paid to the Government of the producing country. In the Middle East, these work out at about \$5.00 a ton on posted prices of about \$12.50 a ton. The Governments concerned have in the past always opposed reduction in posted prices as these would have resulted in a drop in their revenues. There is a definite risk that in the future political pressure may be brought to bear by these countries to secure a larger share of the proceeds of their subsoil, although their revenues from this source have already increased considerably in recent years and will continue to rise steeply as a result of expanding production alone. Royalties paid annually to the four main Middle East producing countries rose from \$136 million to \$1,355 million between 1949 and 1960.

Oil price policy may assume an important rôle in the course of the next few years. The Community will increase its purchases considerably and its negotiating position *vis-à-vis* the producing countries will thus be strengthened. Therefore the Community would be well advised not to turn down any prospective supplier and to do business with all comers. The Community's bargaining position would be even stronger if energy prices were brought closer to the real level of production costs by the removal of part at any rate of the taxes payable on energy in the consumer countries. If, on the other hand, the Community were to align the price of imported energy with that of Community coal – with the object of protecting the latter – the oil-producing countries would have an excellent reason for demanding a still larger increase in royalties.

### **Consumer prices**

If this analysis is applied to consumer prices, the margin of uncertainty becomes greater. It is conceivable that the price of fuel oil – to take the only petroleum product in direct competition with coal – will fall below real long-term production costs for varying periods owing to surpluses on the world market, or to particularly keen competition in individual markets. This would seem to be the case at present in several European markets.

In the long term, on the other hand, it seems likely that demand will focus more on fuel oil (this tendency is apparent even now in certain markets, where fuel oil already accounts for a high proportion of total consumption) and prices may therefore rise slightly until they cover actual production costs. But if the price of crude oil does not rise, it is unlikely that there will be any major movement in fuel-oil prices in the foreseeable future. This point is of importance in determining the competitiveness of Community coal compared with fuel-oil.

The prices of refined products are related to crude oil prices, and also, up to a point, inter-related. If their relations to one another and to the cost of crude are to be satisfactory, they will need to be harmonized throughout the Community, though with due regard to the product pattern of markets in different areas. This will entail, firstly, the introduction of free movement for all products within the Community, and secondly, thoroughgoing harmonization of the rules of competition and of legislation relating to conditions of competition. Moreover, to avoid distortion of competition among the oil consuming industries, taxes on fuel-oil will have to be harmonized. This in turn will entail the harmonization of taxes on motor fuels.

### **Security of supply**

Security of supply is a concept which is found in a variety of forms and has been interpreted in a variety of ways. It is difficult to make plans for action in the event of a general outbreak of hostilities, since presumably neither the Community coal industry nor the flow of supplies from outside would remain unaffected. For practical purposes, the only security problems are, firstly, the risk of political disturbances in oil-producing areas – which might result in the partial interruption of supplies for some time – and secondly, the risk of an artificial increase in prices.

The report of the European Parliament's Energy Committee states, that in the interests of greater security of supply it would be desirable to :

decentralize and diversify supply zones as far as geographically possible ;

accept certain price margins from which to finance reasonable stocks and to ensure access to

sources which, though not always the most economic, would serve to increase the sources of supply and thus reduce the political risks ;

avoid complete dependence on outside supplies and ensure that energy requirements are at least partly covered by internal Community resources.

The Community's coal production, particularly coking coal, is an important element in ensuring security of supply. Even though output is certain to contract to some extent in the next few years, care must be taken to ensure that the contraction is not so great as to prejudice security (bearing in mind that additional coal can be imported in the event of a shortage). For oil, the security position is improving with the discovery of new reserves in various parts of the world, aided by a surplus of both productive and transport capacity. Finally, long-term security will be further reinforced by the exploitation of natural-gas reserves recently discovered in Europe and the Sahara, and by the development of nuclear energy.

Generally speaking, diversification of supply is aided by the structure of the oil industry, whose investments are widely dispersed in the fields of both prospecting and production. Thus, high-cost production is offset by the exploitation of low-cost reserves, and the necessity of diversification is taken into account in fixing the market price of oil.

This compensation may not operate in every case, however. The Community's oil resources are meagre in comparison with its requirements, and production costs are often higher than those of imported oil. Output has only been maintained by means of national protection, which must be progressively reduced as the Common Market develops. There are also outside sources which, though their production costs are higher than those of the Middle East, might, owing to their geographical position, be worth consideration from the security standpoint. It may be that the relatively high production costs of the oil concerned serve to restrict their sales outlets, or that the oil is produced by non-integrated companies with no distribution network of their own. It might therefore be to the advantage of the Community to maintain, and even to develop, these sources in order to ensure effective diversification of supply. Various steps might be taken to stimulate production and encourage further prospecting in these areas.

At the same time stocks of imported oil should be built up. These would be used to tide the Community over any temporary interruption of supplies or until such time as alternative sources could be tapped.

The problem of security is not only one of tonnages, but perhaps even more one of price – as the European Parliament's Energy Committee emphasized. 'Bottlenecks due to temporary circumstances or to the state of the market may, of course, occur,' the Committee's report states, 'but these would certainly not persist for long provided there was willingness to pay high enough for alternative supplies. There is every prospect that Europe will not lack for energy in the future – but at what price ?'

An adequate level of stocks coupled with effective diversification of supply should enable the Community to cover its needs over a fairly long period. But this period would have to be long enough for the producer countries to realize the implications for their national economies of any interruption in shipments, and to learn to forego this method of exerting pressure on prices.

The question of imports from the Eastern bloc is closely bound up with security. The Community cannot afford to ignore the danger which a suspension of these imports would represent. The world is at present in a period of energy surplus, and the current level of imports from the Soviet countries is not sufficient to render the Community dangerously dependent. But this position might change if certain common rules are not put into practice. Member countries already consult each other regularly on the amount of oil included in their trade agreements with the Eastern European countries. Further steps should be taken under the Common Market Treaty provisions for a common commercial policy to fix an overall Community quota.

## **Coal**

Dependence on coal in the Community countries fell from 70 per cent of total energy requirements in 1950 to 57 per cent in 1960.

In absolute terms, coal has stood its ground better than the relative figures would suggest, since the tonnages actually produced in the Community countries in 1950 and 1960 were practically the same : about 230 million metric tons. In 1956, however, the total rose to 249 million tons.

The relative contraction is the result of the strong pressure to which coal is subject in competition with the other sources of energy. Only action on a broad front by the coalmining industry, the Governments and the High Authority has prevented the effects from being greater than they have in fact been.

Coal's decline has been caused partly by technological factors and partly by the difficulty of competing with the lower prices of other forms of energy. Nevertheless, great efforts have been made to meet this competition.

The following figures give some idea of the scale on which rationalization is being conducted, either by closing uneconomic mines and abandoning uneconomic districts and seams, or by technical improvements such as mechanization, concentration, or reorganization.

1. Between 1957 and 1961, Community coal production was reduced from 249 million to 230 million metric tons, and the labour force producing it from 1,076,000 to 830,000.
2. In the same period, 104 pits in the Community were either closed altogether or absorbed in concentration schemes. This represents a reduction of 25 per cent in the number of pits.
3. Average saleable output per day per Community pit rose as follows:  
1953 : 2,000 metric tons            1958 : 2,300 metric tons            1961 : 2,850 metric tons  
In 1961 the extraction rate was 24 per cent higher than in 1958, and 42 per cent higher than in 1953.
4. The proportion of Community coal won by fully-mechanical equipment increased as follows :  
1952 : 9.6 per cent    1956 : 19.8 per cent    1959 : 21.7 per cent    1961 : 40.0 per cent
5. The average output of coalface workers per shift rose from 1.5 tons in 1956 to 2.1 tons at the beginning of 1962 – an increase of 38 per cent.

Coal is therefore faced with two great questions :

Will the pressure of competition continue as powerfully during the next ten years ?

Can the industry continue to adjust itself as fast as it has done in the past few years ? And even if this is possible will it be enough to ensure a ready sale for the present volume of coal production in an open energy market ?

Since no long-term answer can be given to these questions, the prospects of maintaining an economically sound coalmining industry (characterized by stable employment and regional prosperity) are attended by two risks :

That the labour force and managerial personnel will drift away from the mines through doubts of the future – a trend which is already making itself felt. This factor is hampering full exploitation of the best pits, and its continuation or acceleration would jeopardize the success of rationalization by driving up costs.

That doubts about the future will also hinder the progress of rationalization schemes by affecting the supply of new capital.

In areas whose whole economic activity centres on coalmining, adjustment is beginning, and will continue to demand industrial redevelopment. For obvious social and economic reasons, contraction of the coalmining industry must be accompanied by the establishment of new industries. The initiative in this field rests, of course, with the Governments, but the Community has various means at its disposal for assisting the process. To be deployed effectively, these would need to be co-ordinated by an overall long-term policy.

In view of the risks and uncertainties, it appears – short of an unforeseen technological revolution – that nothing but assistance for European coal can prevent a drastic decline in production. Such a decline would cause intolerable social and economic tensions at both the regional and national levels.

As stated above, even the most pessimistic view of future trends in oil prices gives no prospect of a fundamental change in the competitive pressure on coal.

Foreseeable trends in production and transport costs and transatlantic freight rates also make it unlikely that American coal prices will rise much above their present level : Competitive pressure on European coal is therefore not expected to slacken in this quarter either.

The future cost position for European coal may be summed up as follows :

Miners' wages cannot be allowed to fall in relation to wages in other sectors ;

Productivity in the coalmining industry is unlikely to remain above the average level of productivity in the other industries indefinitely.



## **Aid for Coal**

Taking the most likely hypotheses on oil prices, American coal prices and the cost trend for European coal, it is unlikely that more than about 50 per cent of present total production will still be competitive by the 1970's.

Hence to opt for an open energy market necessitates the acceptance of assistance for Community coal to enable larger tonnages to be sold than would be possible on the basis of competitive capacity alone.

We must therefore now examine the factors involved in choosing the most appropriate system of assistance.

The choice must serve to reduce changes in the pattern of demand to a minimum, and cause the least possible disturbance in the relations of one type of energy to another and in the relation of the energy sector as a whole to the rest of the economy.

Three systems are possible – protection, subsidies, or a combination of the two.

To continue to produce coal above the level at which it ceases to be truly competitive places a burden on the whole economy. The burden itself is the same whatever the system of assistance adopted: it is the result of producing coal at, say, \$15 a ton when it could be imported and paid for by the export of other goods to the value of, say \$13. Protection and subsidies are two ways of spreading the burden.

Protection consists of imposing an additional charge on cheaper fuels. It may be carried out at the frontier, by means of a duty, or in the market, by means of consumption taxes. Its effect is to increase the price payable by the consumer.

Subsidies entail lowering the price of dearer fuels. They can be either direct or indirect subsidies. Indirect subsidies may be applied at any point in the production or marketing process, by reducing fiscal or social charges, wage or transport costs, the terms on which consumers can raise loans for equipment, and so on.

At the same time, owing to their particular characteristics, both systems – protection and subsidies – are liable to produce side-effects beyond the original aim of spreading the burden caused by the maintenance of uncompetitive production. Moreover, the practicability of the two systems varies.

Tariff protection, by pushing up prices for all internally produced energy, gives not only assistance to uncompetitive coal but a guaranteed extra profit to all other energy produced internally. In theory, this drawback can be reduced, if not eliminated altogether, by applying protection in the form of consumption taxes on fuels of outside origin only.

Subsidies do not involve making a present of extra profits to producers of other forms of energy. Where the subsidy is payable at a flat rate per ton produced, however, it has to be so fixed at a level which ensures the sale of the highest-cost ton produced and therefore affords a guaranteed profit to other coal producers in a better competitive position. Where it is selective – that is, designed purely to make up the difference between each producer's actual competitive position and what his position would need to be to enable him to market his output in competition with the other sources of energy – guaranteed extra profits for competitive producers are eliminated. Thus selective subsidies, while spreading the burden of maintaining production above the competitive level, reduce the risk of unwanted side-effects.

Tariff protection has the advantage of simplicity in practice. Furthermore, if properly coordinated, it need not interfere with competition among the Community collieries themselves. Protection by means of consumption taxes is rather more complicated since it presupposes that products of outside origin should be readily identifiable. Accordingly, while feasible for oil products, it would be more difficult to apply for coal.

Flat-rate subsidies are also fairly simple to operate, and not likely to cause any serious distortion in competition between Community collieries. This is not necessarily so in the case of selective subsidies, however. If they are not to impair competition, and more particularly to hamper rationalization and reorganization, either intricate financial arrangements have to be instituted, or the market organization must be such as to enable control to be exerted over the relationship between subsidies and the implementation of reorganization programs. In more concrete terms, if subsidies are to stand in the correct relationship to a reorganization program, administrative arrangements must be centralized to some extent by such means as nationalization, co-operative rationalization schemes or selling agencies.

From this it can be seen that subsidies, direct or indirect, are the most appropriate system for an open market aimed at ensuring cheap energy. These might be accompanied by moderate consumption taxes on fuel oil, as suggested later.

## **Nuclear energy**

Nuclear energy as a source of electric power has now advanced beyond the experimental stage. Industrial power-stations of various types with installed capacities of 150 MW or more are in service or being built in a number of countries.

As the result of unceasing research, nuclear power will become competitive with other forms of energy in a few years' time. Moreover, its cost per kWh will continue to fall thereafter further and further below that of electricity generated by conventional means.

Nuclear energy, as it becomes available more and more cheaply, will be a major factor – though perhaps not the complete answer – in the question of security of supply. Fissionable materials not normally found in the Community may of course be stockpiled. Nuclear energy's rôle in lowering prices and ensuring security of supply will be all the more important in view of the fact that it will be used to produce electricity – consumption of which will continue to soar for a long time to come.

The Euratom Commission, in accordance with the Euratom Treaty, has already established a common market for nuclear products and equipment, and removed restrictions on the free movement of nuclear technicians within the Community. In addition, it is encouraging the development of nuclear energy by a variety of means, with the object of making it competitive with conventional energy. Research and technical development are being integrated with policies designed to encourage the development of nuclear industries in the Community, and the training of sufficient nuclear technicians.

# A common energy policy

---

In the light of the preceding analysis, the following suggestions are put forward as the basis for a common energy policy to be established progressively during the Common Market's transition period.

## The long-term aims

The long-term objective is to make energy as cheap as possible and to safeguard supplies. This calls for different methods for oil and for coal.

**For oil**, the following measures have already been introduced, or are in the process of being introduced, in accordance with the Rome Treaty :

1. free movement of crude oil and oil products within the Community ;
2. unrestricted import of crude oil and oil products from non-member countries (except the Eastern bloc – see below) ;
3. Community quotas for imports from the Eastern bloc ;
4. nil external tariffs on crude oil ;
5. low external tariffs on oil products ;
6. uniform consumption taxes on fuel oil throughout the Community, fixed at the lowest level compatible with budgetary consideration (probably about \$2 per metric ton) ;
7. harmonization of consumption taxes on motor spirits to avoid distortion of the refining pattern in the Community ;
8. possible preferential treatment for crude oil of Community origin and from other specified areas to promote diversification of supply ;
9. a Community stockpiling policy, and harmonization of national regulations in this field ;
10. price publicity for oil products, and application of the Rome Treaty's rules of competition to the oil-product market ;
11. regular consultation between member Governments and the Common Market Commission on trends in the oil market ;
12. regular consultation between Governments and the Commission on oil industry investment to ensure balanced development in the refining, transport and distribution sectors.

Where practicable, similar arrangements should be made for natural gas.

**Coal** policy in the final Community energy market should be based on the following factors :

the ultimate advantage to all of an open energy market, resulting from the increasing importance of imported energy ;

assistance for the Community coal industry.

Prior agreement by Governments on the eventual upper and lower limits of assistance for the coal industry does not commit them to guaranteeing markets for coal. All they will be doing is to define the market conditions under which producers will have to operate and attempt to sell their coal.

On the other hand, prior agreement on the upper and lower limits of assistance will provide :

- a basis for producers' investment and personnel policies ;
  - an indication of the extent to which member countries, particularly those without coal industries of their own, are committing themselves by agreeing in advance to a policy of assistance for Community collieries ;
  - a basis for area redevelopment plans in producing countries ;
  - a firm set of objectives for rationalization and adjustment to help member countries and the Coal-Steel Community High Authority in framing an overall policy for coal.

By prior agreement on the main outlines of the coal policy, the Governments and the High Authority would be providing themselves with common criteria on which to harmonize the previous national regulations in this field.

These are the suggested final arrangements for the Community coal market :

1. a system of Community assistance for internal production – based on direct or indirect subsidies to preserve an open market for energy generally ;

2. free movement for coal within the Community ;
3. imports of coal from non-member countries to be free of tariff or quota restrictions (except from the Eastern bloc) ;
4. a Community quota system for coal from the Eastern bloc ;
5. relaxation of the methods of application of article 60 of the ECSC Treaty concerning price publicity and conditions of sale, to ensure fair competition with oil ;
6. regular consultation between the Governments and the High Authority on trends in the coal market ;
7. the establishment of General Objectives for coal to provide a guide for investment – as required under articles 46 and 54 of the Paris Treaty.

## **The transition period**

Having defined the ultimate aims, we must now describe the measures which will be needed in the transition period – during which national policies will be either harmonized or superseded by Community arrangements. Care will be necessary to ensure a smooth transition from one system to the other, and to avoid side-effects which might be prejudicial to the industries concerned, the labour force or the regional economies of Community countries.

## **Oil**

In the first place, member countries should refrain from taking new measures, or strengthening existing measures, which run counter to the proposed common policy or its implementing regulations. No action should be taken in this field without prior consultation with the other Governments and the Commission.

The following stages are envisaged for the realization of the objectives listed above :

### **1. Free movement of crude oil and oil products within the Community**

Restrictions on the free movement of oil within the Community are already being removed according to the precise timetable laid down in the Rome Treaty for the elimination of customs duties. By the end of the Common Market's transition period, member countries must have abolished all discriminatory trade practices based on nationality.

### **2. Elimination of restrictions on imports from non-member countries**

Most imports of crude oil and oil products from non-member countries (except the Eastern bloc) are already free of restrictions. Remaining restrictions on crude oil should be abolished by the end of the Common Market's second stage at the latest, and by the end of the transition period for oil products.

### **3. Community quotas for Communist oil**

A Council of Ministers decision of July, 1961, already provides for prior consultation between Community countries on trade agreements. What is now required is an annual Community quota – fixed by the Council on a proposal by the Common Market Commission – for oil products from the Eastern bloc. This would be determined in accordance with current needs. The machinery for deciding the size of the quota should be set up during 1963, to enable the Council to fix the first quota for 1964.

### **4. A common external tariff for oil products**

The common external tariff for refined products should be set up as soon as possible, and certainly not later than January 1, 1964, when the Protocol on mineral oils expires. The Commission has already submitted proposals in this field to the member Governments.

### **5. Consumption taxes**

Consumption taxes on fuel oil should be reduced by stages down to the level fixed for the end of the transition period. If that level were \$2 per metric ton, the upper limit at the end of the second stage should not be more than \$4 per metric ton. Taxes on motor spirits should also be progressively harmonized.

### **6. Diversification of supply**

Products derived from crude oil of Community origin should receive preferential treatment. This system might also be applied, in full or in part, to products from other areas whose oil production the Community might wish to encourage.

## 7. Oil stocks

The Commission is to submit proposals for a common policy on crude oil and product stocks to the Council of Ministers before the end of the second stage. These would include proposals for the minimum level of stocks to be held (4-6 months' current consumption, for example) and for methods by which the Community would finance them.

## 8. Competition

The Commission is required under articles 85 and 86 of the Rome Treaty to examine all "practices . . . which have as their object or result, the prevention, restriction or distortion of competition within the Common Market." These articles already apply in their entirety to oil firms. A system of *ex post facto* price publicity for the oil market would be an effective check of whether the rules were being observed.

## 9. Regular consultation on market trends

A standing committee of Government and Commission representatives should be appointed to follow developments in the oil market, with particular reference to prices and security of supply.

## 10. Regular consultation on investment

A Community system of consultation on refinery, transport and distribution investment in the oil industry is already in operation. Under this system, the Commission would submit recommendations to the Governments if it found that investment was likely to be duplicated.

# Coal

The more quickly the main features of the proposed energy market (particularly those relating to the removal of restrictions, oil supplies and coal subsidies) can be agreed and defined, the greater will be each individual country's freedom of action in adapting its own national system to the agreed common policy during the preparation period. Unless the basic principles are agreed, the coordination of national policies needed to set up a common market for energy cannot be planned, either in terms of its general outline, the speed with which it is to take place, or the practical steps by which it is to be achieved.

In addition, the more clearly the practical details of the coal policy to be pursued in each member country can be defined, the greater will be the degree of coordination possible between oil and coal. The following suggestions are made in relation to those listed above for oil during the transition period :

### 1. Subsidies for Community production

The existing systems of assistance for coal production in Community countries are protective (comprising duties, quotas, taxes on competing fuels, etc.). The aim should be to replace these highly divergent systems by a more homogeneous system based on subsidies.

During the transition period, therefore, the systems might be combined to offer both protection and subsidies in various forms. The timetable for oil products stipulates that consumption taxes on fuel oil from non-member countries must be reduced to a maximum of \$4 per metric ton by 1966. This might therefore be a suitable date on which to take stock of the energy market as a whole, and to make a thorough and comprehensive examination of progress to date, the effectiveness of measures then in force, the outlook for the energy market, and the possible means of attaining the objectives of the common energy policy.

It will be necessary to decide, before the start of the transition period, whether the coal subsidies should be direct or indirect, and whether they should be payable on every ton produced or on a differential basis to avoid guaranteed extra profits for competitive producers. (The relative costs of the two systems would also need to be considered.) It will also be necessary to ensure that the subsidies operate effectively in relation to the various marketing organizations already in existence or those which may have to be established during the transition period.

The Inter-Executive Energy Committee recommends that :

- present readaptation and redevelopment assistance should be supplemented by direct grants for pit closures, payable in a single lump sum ;
- during the transition period the Community should progressively assume responsibility for the payment of sales subsidies. The fact that the Community would be providing this additional aid would enable its institutions to ensure that it was being properly and usefully employed. This

Community supervision, which should be systematic and thorough, would be adapted to the regional structure of the coal industry before the beginning of the transition period. The amount of the subsidies and the tonnages to which they would apply should be fixed annually by the Council of Ministers.

funds for closure grants should be provided in equal proportions by the Government concerned and by the Community. (This is already the practice for readaptation and redevelopment aid.) a European Energy Support and Redevelopment Fund should be set up to be responsible, *inter alia*, for Community financing of coal sales subsidies and pit closure grants, and for promoting oil exploration to increase security of supply. The Fund's operations should begin during the transition period and continue after it ;

at the earliest practicable date each Government should submit details of the measures it thinks appropriate for dealing with its energy problems to the Community Executives and the Council of Ministers.

measures and implementing methods proposed by Governments should be coordinated by the Executives and the Council prior to the beginning of the transition period. This would enable the Community to organize such matters as additional subsidies, supervision, etc.

## **2. Free movement**

Free movement for coal throughout the Community should be established during the transition period; the greater the harmonization between individual countries' aid systems for production and between their coal import arrangements, the easier this will be.

## **3. Imports from non-member countries in the free world**

If an open energy market is to be established, coal imports, like oil imports, should be freed from quantitative restrictions. The latter will be progressively liberalized until, in 1966, all such restrictions have been removed.

## **4. Imports from the Eastern bloc**

From the beginning of the transition period, oil imports from the Communist countries should be subject to an overall quota, fixed each year by the Council of Ministers.

## **5. Harmonizing the rules of competition**

Rules of competition should be so harmonized as to permit equitable competition between individual firms and between the various forms of energy from the start of the transition period.

# **Nuclear energy**

In the field of nuclear energy, member Governments should :

support the Euratom Commission in stepping up its research activities and its drive to promote the industrial development of nuclear energy in the Community. The latter can be achieved by improving existing industrial techniques and by developing more advanced techniques for the economic exploitation of nuclear energy. The second five-year research program recently approved by the Council of Ministers (see Community Topics 7) is a major step towards equipping the nuclear industries of the Community for the vital part they will be called upon to assume when nuclear energy becomes competitive with other conventional forms of energy ;

facilitate the free movement of nuclear products and personnel employed in nuclear industries or research within the Community, and ensure that the freedom of nuclear industries to set up anywhere in the Community is not unnecessarily hampered ;

maintain the Euratom Commission's liberal import policies for nuclear plant and products, particularly special fissionable materials coming from non-member countries. Nil-tariffs for reactors and nuclear fuels should be reintroduced, firstly to ensure that Community industries enjoy the greatest possible freedom of supply, and secondly, to ensure the widest possible choice among the various types of installation under development ;

refrain from introducing administrative or fiscal measures designed to prevent or delay the fall in energy prices which will certainly occur as nuclear energy becomes increasingly competitive ;

play a positive rôle in the development of nuclear energy.

## **The preparatory period**

To sum up, the Council of Ministers is being asked to agree to the progressive establishment of a common market for energy, accompanied by assistance for internal production. The establishment of this open market would have to be carried out in three stages :

- a preparatory period to end on January 1, 1964.
- a transition period from January 1, 1964 to January 1, 1970.
- a final period to begin on January 1, 1970.

The main objectives of the transition and final periods have been outlined above. The preparatory period would be devoted to hammering out the instruments and procedures needed to implement the proposals.

A start should therefore be made on seeking agreement between member Governments and the Community Executives on :

1. the principles on which the common market for energy are to be based ;
2. the principles on which assistance for internal production are to be based, and the maximum levels of such assistance ;
3. supply policy ;
4. special measures which may be necessary during the transition period (possibly on a country-by-country basis) ;
5. a timetable for the stages by which the common policies for oil and coal will be introduced, dovetailed with other aspects of the Community's development. (Voting procedures should be based on those laid down in the Rome Treaty.)

The preparatory period should end not later than January 1, 1964. By that date, the principal arrangements for the transition period (the support fund, special measures, and a detailed timetable) would have to be complete.

## **Community Topics**

An occasional series of documents on the current work of the three European Communities.

- 1. The Common Market 1960–1 (July 1961)** *out of print*
- 2. Economic integration and political unity in Europe by Walter Hallstein** (August 1961)
- 3. A guide to the study of the European Communities** (November 1961) *out of print*
- 4. The Common Market and the Law by Michel Gaudet** (November 1961) *out of print*
- 5. French Industry and the Common Market** (December 1962)
- 6. The right of establishment and the supply of services** (November 1962)
- 7. Euratom's second five-year research program 1963–7** (January 1963)
- 8. Ten years of ECSC 1952–1962** (January 1963)

Enquiries about these and other publications of the Information Service should be made to :

### **European Community Information Service**

London : 23 Chesham Street, SW1.

Washington : Farragut Building, Farragut Square, Washington D.C.

A copy of this material is filed with the Department of Justice where, under the Foreign Agents Registration Act of 1938, as amended, the required registration statement of the Information Office, European Community, Farragut Building, Farragut Square, Washington, D.C., as an agent of the European Economic Community, Brussels, the European Atomic Energy Community, Brussels, and the European Coal and Steel Community, Luxembourg, is available for public inspection. Registration does not indicate approval of the contents of this material by the United States Government.



