Towards a European energy policy

European File

Electricity, petrol, gas, solid fuel, liquid fuel, whatever the form it takes in today's society, energy is essential in industry, farming and commerce as well as being necessary for home comfort and many leisure activities:

- ☐ energy consumption per head is generally speaking greater in those countries with the highest standard of living and the best working conditions;
- ☐ energy consumption has risen at a steady rate except during periods of economic recession.

But energy, indispensable though it may be, is no longer ours for the taking. In 1979 the increase in oil prices could reduce from 3.5% to 2.8% the average rate of economic growth in the European Community countries. Faced with this situation, the European council meeting in March 1979, decided on an immediate 5% reduction in the Nine's annual petrol consumption.

The challenge

Maintaining our high standard of living and, a fortiori, ensuring further progress, demands reliable energy supplies in sufficient quantities, at reasonable prices and of the type most suited to our needs. Especially so when, while most people rightly want to see further improvements in the quality of life, few are prepared to reduce the quantity of goods and services available to them.

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From the end of the Second World War up to 1973, Community countries and their 260 million inhabitants — whose standard of living is one of the highest in the world — have benefited from reliable and stable energy supplies.

Important changes took place in this period however. In contrast to the pre-war situation, all Community countries came to depend heavily on external energy supplies to an extent that they now constitute 54% of total energy consumption.

At first, regular supplies and low-cost imported energy stimulated economic development and social progress. After 1969, however, the world energy market began to cause concern. Demand for energy rose faster than supply and oil exporting countries began to coordinate their trade policies. At the end of 1973, under the impact of politico-military events in the Near East, the situation deteriorated abruptly leading to what is now known as the "energy crisis".

This was marked by:

- ☐ oil supply difficulties at the beginning and, for some countries, supply embargoes. The situation subsequently stabilized, but the threat continued to hang over oil trade; witness recent events in Iran;

- ☐ abrupt price increases: oil costs rose threefold at the end of 1973; successive increases have raised the price to four times that at the beginning of 1973. Further price rises — more moderate and staggered — have been unilaterally agreed since then, e.g. those agreed at the end of 1978. Already in 1979 events in Iran have occasioned a further increase in prices.

The energy crisis which struck in 1973 and now lies dormant was certainly not the only cause of the world economic recession which set in at about the same time. But it is one of the fundamental elements.

Community approach to the energy problem

The first efforts by European institutions to coordinate action by Community Member States in the energy field date back to 1962, well before the crisis. Such action in the midst of the euphoria of economic growth was justified by:

- ☐ the ECSC and Euratom Treaties. The European Coal and Steel Community was formed in 1951; Euratom, the European Community for Atomic Energy was created in 1957. The problems in the coal industry caused by rising oil imports and the development of peaceful applications of nuclear energy, demanded a global European approach to energy problems;

- ☐ the Treaty founding the European Economic Community. Solidarity is an obligation for the Nine; they have to increase the security of energy supplies and ensure that no distortions or imbalances which could compromise the realization of the Common Market and of economic union arise from their energy import policies. The degree of dependence on imports is not, in fact, the same every-

where, certain Member States being more endowed than others with indigenous resources.

The energy crisis has made the need for a common policy in this sector more urgent and more vital. In reality:

- western Europe has been shown to be very vulnerable. Supply boycotts and restrictions together with sharp price rises have caused innumerable economic problems in European countries;

- isolated and uncoordinated national actions have proven to be ineffective; when dealing with the oil producing countries, consumer countries must react with solidarity;

- research into ways of reducing dependence on external supplies has become indispensable. Reduced dependence cannot be brought about solely by the play of economic forces on the market. It involves by contrast, a collection of measures covering a multiplicity of factors. A global energy policy, which is in tune with longterm economic and social policy is required.

The unity of the Common Market and the progressive realization of the economic and monetary union of our countries call for a common energy policy. A joint policy can also raise efficiency. It will:

- help avoid isolated or uncoordinated national efforts and the duplication of effort which this often implies, particularly in the field of scientific research;

- enable us to draw benefit from the economic and political weight of the entire 260 million population of the Community when dealing with other energy importing countries, with oil producing countries and with the multinational companies which dominate the marketing side.

What is the European Community doing?

The diversity of situations in Community countries and the prerogatives guarded by Community Member States have so far prevented the once and for all implementation of a common energy policy. Any such policy, however, could never take such a strict form, since it must be flexible and adaptable to changes which — as the past has shown — can be brutal and unpredictable.

A common energy policy is emerging little by little both by means of convergent actions undertaken by the Member States and through decisions being taken by the Community institutions. This process is of course slow and may appear less than spectacular.

a) **General principles**

Community action is based on a body of fundamental guidelines which can be summarized as follows:

- the solution to the Community's energy supply problem cannot in the foreseeable future be found by reducing the quantities of useful energy used by agricultural, industrial, commercial or domestic users. Energy supplies have to be assured whilst maintaining a high standard of living, economic expansion and social progress;

- it is necessary to save energy — a rare and expensive resource — by using it more rationally. Sustained economic growth should be combined with a less than proportional increase in primary energy consumption;

- supply security and reliability, both in quantity and price, are better assured on the whole by indigenous supplies than by imports. A high level of autonomy must therefore be sought at an acceptable cost;

- diversifying energy sources is also a way of achieving the object of supply security and stability. It is dangerous to depend greatly on one sole energy source such as oil, for example, coming from one region of the world such as the Middle East. But to take another example, massive dependence on nuclear energy could also pose serious difficulties. The risks of supply interruptions and price rises would be less if more use were made of natural sources from a variety of geographical regions;

- the safe resources which we are trying to mobilize and the new energy sources which we are trying to develop should present the least possible risk for workers, the public and the environment. Exploiting them should also take account of the limited nature of the material resources available to humanity;

- increased autonomy which is being sought should not imply self-sufficiency. With the sources and energy reserves available to it, Europe cannot hope to be self-sufficient. To be so would require such an effort in research and investment that the ultimate cost of energy would be too high. Energy must also maintain its position in international trade. Certain products, oil for example, are often almost the sole resources and the principal means of subsistence and development for certain exporting countries.

With these general principles in mind the European Commission has mapped out a framework of directions for action and drawn up numerous proposals. A certain number of these have been adopted by the Nine's Council of Ministers and have already been translated into action.

b) **The information problem**

Before drawing up any policy, the situation needs to be fully understood. By way of the Treaties or subsequent decisions, the European Commission has been able

to obtain good access to information about the energy market and its development. The Commission consequently has a great deal of information available to it:

- ☐ on investment projects in the coal and nuclear sector, as well as oil, natural gas and electricity;

- ☐ on the general energy market: hydrocarbon exports (oil, oil derivatives and natural gas), imports and import forecasts for crude oil and oil products, coal imports from third countries, trade in nuclear fuel;

- ☐ on the price of crude oil and its derivatives as well as coal products.

This collection of information on facts and trends is not an end in itself; it enables the Commission to follow market developments, respond with the appropriate measures and to develop — in full knowledge of what's required — cooperation between Community institutions, national authorities, and industrial and labour organizations.

c) Rational use of energy

To improve energy supply conditions in the Community, one of the first things to be done is to use available energy more rationally. It is a question of reducing as much as possible the margin — currently very large — between the quantities of primary energy produced or imported, and the quantities of usable energy which are available to the end consumer. Wastage and losses should be eliminated or reduced and the conversion yield (of oil or coal into electricity, for example) should be improved.

A Community action programme was established in this area in 1974. It aims to reduce the anticipated demand for primary energy in 1985 by 15%.

Various more specific measures have been taken or recommended in consequence. These deal with:

- ☐ the heating of buildings: improving the operation of heating installations, improving insulation and reducing thermal losses in both old and new buildings;

- ☐ better use of energy in industry;

- ☐ the operation of household appliances;

- ☐ encouraging energy-conscious driving behaviour;

- ☐ promotion of public transport.

Parallel to this, it has recently been decided to grant financial aid to 53 projects which help reduce uncertainty about the economic viability of certain new energy savings techniques, and to projects which have a useful demonstration value.

d) **Securing resources**

Another area of action is to develop our secure resources and above all those under the Community's soil or under the Community's territorial waters.

☐ *Coal:* has been a major source of Europe's energy for a long time but over the last twenty years output has fallen both relatively and in absolute terms. To stop cutbacks in extraction, to ensure coal an appreciable share in energy consumption and to guarantee the European steel industry a relatively independent supply, concrete measures have already been taken. In particular:

- a major effort in technical research;
- Community surveillance of financial aid accorded by Member States to the coal industry;
- a mechanism enabling the Community's steel industries to have access to coal and coke produced in Member States at prices comparable to world market levels;
- monitoring of imports from third countries.

In addition, the European Commission has proposed promoting the use of coal in power stations through financial support for investments in coal fired power stations and in steam-coal trade within the Nine. It seems increasingly difficult today, however, for Member States to reach agreement on Community measures to help indigenous coal mines.

☐ *Nuclear energy:* is not, strictly speaking, a new source of energy since electricity production from nuclear plants in the Community already accounts for a little over 3% of total energy supplies. The development of nuclear energy has, however, not matched up to the ambitious expectations of the past. Carrying out large programmes is expensive and requires a very considerable volume of capital. The European Community helps to lessen this problem by using its borrowing credit to help finance installations.

The Community is also giving financial support for uranium prospection in its territory. It is trying to discover solutions to the various problems posed by the transport and processing of irradiated fuel, disposal of radioactive waste and the decommissioning of nuclear power stations at the end of their economic life. This work, combined with that carried out since 1958 on health protection, aims to guarantee greater safety for workers in the nuclear industry, for the general public and for the environment.

Despite this effort, reticence and sometimes determined opposition have been evident amongst the public towards the multiplication of nuclear power stations. Faced with such obstacles to the optimal use of the nuclear contribution, the

Community's role is both to prevent any possible dangers, reduce risks and better inform the public about the real implications.

□ *Hydrocarbons:* in this sector, Community action covers:

- the exploitation of the large oil and natural gas resources on Community territory and in its territorial waters. The European Commission has been granting aid for several years to Community development projects covering new techniques for the prospection and exploitation of hydrocarbons in the difficult conditions encountered in areas such as the North Sea. The European Investment Bank provides finance for oil and gas production installations as well as the construction of transportation infrastructure (oil and gas pipelines);

- improving relations with external energy producing and exporting countries;

- surveillance of the energy market which is dominated by very large companies amongst whom competition must be maintained;

- maintaining the viability of the European oil refinery industry which is currently faced with surplus capacity. The Community is trying to resolve this problem in cooperation with governments and with the companies concerned.

To provide better supply security for oil and oil derivatives, the European Community has introduced a compulsory storage arrangement corresponding to 90 days consumption. Stocks must also be kept at electricity power stations to ensure at least one month's operation. Finally, during supply shortages, the Community can make intra-Community trade in oil and oil products subject to a special surveillance. An arrangement has also been drawn up to reduce the consumption of oil products during the first stage, and reduce consumption of all types of energy by 10% during the second stage.

e) **Extensive research programme**

The European Community is currently conducting an extensive energy research programme either directly at its Joint Research Centre or indirectly by placing contracts with scientific and technical institutions in Member States.

In addition to action already underway in the coal sector for a long time now and work in the field of nuclear fission and fusion, research is being undertaken in areas such as energy savings, the production and use of hydrogen, the use of solar and geothermal energy.

This research and development effort is completed by financial support to demonstration projects on alternative energy sources: solar energy, geothermal energy, liquefaction and gasification of solid fuels.

△

Despite the briefness of this necessarily incomplete sketch of actions taken or proposed to implement a Community energy policy, one cannot help but be struck by the complexity, diversity and depth of the questions to be tackled, and their close link with numerous other socio-political problems — scientific research, technological development, economic growth, social progress, environment, international relations, etc.

It is not surprising that progress is slow and laborious, but it is clear that in this very basic sector the objectives are unanimously agreed and have, to a large extent, been translated into policies in the Member States. A coherent body of common regulations and actions already exists, and our progress towards a common policy is based on clearly defined guidelines. These were once again reaffirmed at the European Council held on March 12/13, 1979. It is hoped that the warning spelt out by events at the end of 1978 and the beginning of 1979 will have an effect and that concrete decisions will be taken to underpin the solidarity of the Nine ◘

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