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## FINANCING OF THE ENERGY POLICY BY THE COMMUNITY

(Communication by the Commission to the Council)

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C O R R I G E N D U M

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CORRIGENDUM

(English text only)

- page 4, on top : delete the sentence "In Annex 2 these figures ...  
were calculated".



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## INTRODUCTION

The objectives of the Community energy policy for 1985 adopted by the Council in its Resolution of 17 December 1974<sup>1</sup> and designed to reduce dependence on imported oil can be attained only if investment is increased: production of sources of energy offering the desired degree of security of supply, scientific and technical research, use of processes guaranteeing a more rational utilization of energy.

Generally speaking, such investment can be made only under the following two conditions:

- the expectation of a satisfactory degree of long-term economic return on investment;
- the ability of undertakings to have at their disposal at the appropriate time the amount of capital required to make investments in each branch of activity in which they are needed.

When, in its Resolution of 13 February 1975, the Council described the means to be implemented in order to attain the objectives for 1985, it stated that Community action in those fields should be considered where appropriate<sup>2</sup>.

In this memo the Commission:

- is drawing up a short inventory of the amount of investment required in the energy sector in the Community during the period 1975-1985 (Chapter I);
- recapitulates the present situation (Chapter II);
- reviews the main problems connected with the financing of the energy policy by the Community (Chapter III);
- presents the guidelines and/or options to improve financing of the energy policy by the Community (Chapter IV).

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<sup>1</sup>Doc. R/3649/74 (ENER 79).

<sup>2</sup>Doc. R/505/75 (ENER 24), paragraph i,B.

"the need to develop reliable energy resources as soon as possible under satisfactory economic conditions [ ... ] which means:

- applying Community support measures in certain cases;
- facilitating access to financing for the necessary investments in certain cases;
- making it possible for prices to cover, gradually and to the fullest possible extent, the costs of making energy available and the amortization of the necessary investments;"

The attached memorandum constitutes a global approach setting targets for the actions which could be undertaken by the Community, although it is not possible to specify the exact amount and the means to be adopted at this stage.

Should these guidelines be adopted, they should be finalized and implemented on the basis of a more detailed study of an energy situation which may change considerably; they should take into account the specific problems encountered by the Member States in their energy sectors, and perhaps even the industrial and financial structure of each of the sectors.



CHAPTER I

Recapitulation of the "objectives for 1985" adopted by the Council<sup>1</sup>  
and estimate of the amount of investment required in the Community in  
this connection

A. The "objectives for 1985"

At its meeting of 17 December 1974 the Council approved the objective of reducing the Community's dependence on imported energy in 1985 to 50% or, if possible, to 40%. It found that in order to attain these objectives the Community's supply structure should be as follows in 1985:

	Recapitulation		Objectives for 1985 (rounded up or down)	
	1973 Estimates	1985 Initial forecasts	50% dependence	40% dependence
Solid fuels	22.6	10	17	17
Oil	61.4	64	49	41
Natural gas	11.6	15	18	23
Hydroelectric power and geothermal energy	3	2	3	3
Nuclear energy	1.4	9	13	16
Total requirements	100	100	100	100

This structure implies separate objectives for each source of energy.

B. The amount of investment required in the energy sector in the Community  
during the period 1975-1985

According to the latest estimates produced by the Commission, the total amount of investment required in the energy sector in the Community during the period 1975-1985 could be approximately

- 204 000 m u.a. if dependence is reduced to 40%
- 180 000 m u.a. if dependence is reduced to 50%.

The following table contains a breakdown of these investments according to

<sup>1</sup>More precisely, between 39% and 46%.

destination. In Annex 2 these figures are explained, as are the assumptions and factors on the basis of which they were calculated.

	40% objective in thousand m u.a.	50% objective in thousand m u.a.
I. Solid fuels	11	11
II. Hydrocarbons	72	54
III. Nuclear energy (supply of fuels and power stations)	51	39
IV. Electricity (except for nuclear power stations)	70	76
Total	204	180

The discrepancy between certain of these figures (which could be regarded as minimum figures), and those contained in the memo "Towards a new energy policy strategy for the European Community"<sup>1</sup> can be attributed to improved assumptions and methods of calculation and prevents any direct comparison from being made between the two estimates.

These estimates do not include investments which would be made in new sources of energy (solar, geothermal, etc.).

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<sup>1</sup>COM(74)550 final.

## CHAPTER II

### Present situation

Here we shall examine trends in financing as they arise in each energy sector, restate the value of Community support and take stock of the types of Community project now in hand or which could possibly be mounted.

#### A. Sectoral aspects of the financing of the investments

Each sector employs particular aspects of investment financing. To some extent these are dictated by the characteristics of the activity of the sector and to some extent by the structure of the undertaking. At the same time, overgeneralization must be avoided since, within each sector, widely differing situations may arise.

##### 1. Hydrocarbon fuels

Methods of investment financing in the oil industry are as multinational as the companies within this industrial sector. It is therefore difficult to gain a clear insight into operations from the limited point of view of the Community countries.

Traditionally, self-financing has covered the larger proportion of investment in this industry - in particular this is the consequence of the risky nature of research investment which cannot be financed either by issuing stock or by borrowing. The system of taxation applied to the international operations of American companies has also favoured reliance on self-financing.

However, this situation has been modified with time. In 1973 the investments of the thirty largest oil companies in the world exceeded their net earnings and about one-third of this was covered by funds raised through loans<sup>1</sup>.

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<sup>1</sup> According to Chase Manhattan Bank estimates.



This tendency will probably harden so the undertakings will increasingly have to resort to borrowed capital, and this will only be possible if they are able to offer sufficient guarantees within a maximum level of indebtedness regarded as acceptable by the financial markets.

So far the technique of project financing has made it possible to raise funds for the large investments in the oil industry, for example the North Sea. By this technique the right to raise loans is granted not on the basis of the solvency of the company requesting capital but on the basis of the profitability of a given industrial operation for which the funds are required.

In practice the only investments apparently eligible for this method of financing are investments in production equipment for an oil field or natural-gas field or in means of transport intended to move the product. The best known examples here are the North Sea fields.

All other investments (refining, distribution, storage, intake of liquified natural gas, etc.), representing about nine-tenths of the sums which will have to be spent during the next ten years, will have to be financed through the traditional channels. Here it is to be expected that borrowing will play an increasing part and this in its turn will raise problems:

- of sufficient supply
- and of access to this market by undertakings.

## 2. Electricity and nuclear energy

The electricity sector is a heavy user of capital. This is due to the fact that the cost of the plant for production, transport and distribution is very high and that the installed power of these installations doubles every ten years. The construction of large nuclear capacities having very high specific costs (at least half as much again as for an oil-fired station), long construction periods (1-2 years more than an oil-fired station) and as a result very high interim rates of interest, and the building

of large power units (twice as large as conventional power stations) will all make the problem of financing more acute in the next few years.

As in the case of hydrocarbon fuels, the electricity production and distribution industry has financed a large proportion of its investments from its own funds. In 1973 the average rate of self-financing by the electricity producers was between 50 and 60% but in some cases there was a fairly large variation from these figures which can be attributed to:

- the nature of the companies (public or privately owned);
- their pricing policy;
- the constraints imposed by the public authorities on this policy<sup>1</sup>.

At all events, a sizable proportion of investment in this industry will have to be financed through loans. Now, the scope for borrowing on the capital market does not hinge solely on the purely financial guarantees which can be offered, and which, at least for the major electricity production firms, are usually sound enough and often linked with public finance via public holdings or ownership. It also depends heavily on avenues of access to a capital market which has become substantially international and whose resources are state-controlled, especially in the case of the oil-exporting countries. Obviously companies which do not by themselves possess a very wide financial base will be even harder put to it to solve this problem.

In this connection, recent ECSC experience has shown that the Communities could play a major part, through both their financial and political credit, in raising resources which even very big companies could not directly obtain on advantageous terms.

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<sup>1</sup>The following estimates give an indication of the scale of the problem (in millions of u.a.):

- income of producers/distributors in 1973	14 317
- annual rate of investments made in 1973/74	7 332

An increase of 0.7% in income would therefore mean an extra 100 million u.a. available for investment purposes.

### 3. Coal

It is not possible to isolate the methods of financing the investment specific to coal extraction from total investments in the coal-mining industry (which, in addition to the mines themselves, includes equipment for upgrading or marketing coal or even for connected activities).

Besides, there is still not yet enough information available on the way in which the present situation on the energy market influences the investment policy of the undertakings and their use of the various sources of capital available:

- self-financing. For several years this has generally been at a low level because of insufficient income;
- private borrowings;
- ECSC loan. Here it will be noted that the 62.18 million u.a. lent to the coal industry of the six original Community countries represents roughly 20% of the industry's actual investment expenditure in the same year. The proportion is expected to be a good deal higher in 1975<sup>1</sup>.
- EIB loans (as an addition to ECSC loans);
- capital endowments for nationalized industries.

The prospects for the coal-mining industry support the belief that a large part of its investments will continue to be financed by external capital and that, in this capital, ECSC loans will continue to play an important part.

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<sup>1</sup>The figures for the last few years are:

	Investment in coal extraction	ECSC loans	%
1973	147	45.19	37.0%
1974	324	62.18	19.3%
1975	514 (forecast)	95 (Jan.-May)	? (probably over 40%)



B. Present Community support

Community intervention in 1974 amounted to some 570 million u.a. per year, approximately % of Community energy investments. This took the form of:

- Marketing Guarantee = 5 million u.a. (ECSC Budget: marketing aid for coking coal in accordance with Decision 73/287/ECSC) (1)
- Investment loans: 480 million u.a.: 407 million u.a. from the EIB (135 for hydrocarbons, 149 for conventional electricity and 129 for nuclear energy) and 62 million u.a. from the Commission to the coal-mining industry under Article 54 of the ECSC Treaty and 11 million u.a. for conventional power stations.
- Financing research: 55 million u.a.  
47 million u.a. for R&D research  
8 million u.a. for coal research (Article 54/ECSC) (1)
- Miscellaneous subsidies: 29 million u.a.  
25 million u.a. for development projects in the hydrocarbons sector  
4 million u.a. for subsidising loans to the coal-mining industry (1)

These 570 million u.a. could also be broken down into:

- 480 million u.a. non-budget subsidies (EIB and ECSC loans)
- 72 million u.a. from the General Budget (energy R&D programme and financial support for projects in the hydrocarbons sector)
- 17 million u.a. from the ECSC Budget (interest subsidies, marketing guarantee, coking coal, coal research).

A more detailed breakdown of these amounts can be found in Annex 3.

C. Existing or possible types of Community action

Under each of the headings below we give:

- (A) the existing or proposed systems and
- (B) the new mechanisms for which provision is to be made.

(i) Financing scientific and technical research

(A) the usual methods, Article 55, ECSC Treaty, research contracts, JRC's own programmes, etc. under Article 7 of the EAEC Treaty;

(B) See the proposals for energy R&D programme.

(ii) Subsidies in the wider sense, repayable or not, for the purpose of developing projects involving special risks, and likely to bring about improvements in:

the security of energy supplies;

the structure of energy consumption.

(A) - Subsidizing loans (Article 54, ECSC Treaty)

- Financial support to joint projects in the field of hydrocarbons in the form of subsidies that are repayable under certain circumstances (cf first application of Regulation (EEC) 3056/73)

- Financial support for joint prospecting programmes for hydrocarbons repayable if the project is successful (proposal for a Regulation now before the Council).

(B) Grants or repayable financial support are particularly suited to the kind of action intended to promote projects, and tend to favour the development of projects of common interest involving special risks or those on the threshold of viability.

They should therefore be extended to the following fields:

- investments designed to ensure a more rational use of energy (new processes or products)

- development of new forms of energy and advanced production techniques (geothermal and solar energy)

- uranium prospecting projects

- technological development in nuclear electricity production and nuclear fuel cycles.

By contrast, grants for the purpose of subsidizing loans do not seem to be sufficiently effective to allow this method to be extended beyond its present use, since it is an expensive method and relatively difficult to control.

(iii) Loans. Granted in theory to undertakings regarded as solvent and for operations which are judged to be profitable. The main effect of Community intervention is to give access to the world market to companies which would not normally have direct contact and to enable them to obtain better

conditions and to borrow larger amounts.

(A) ECSC loans: under Article 54 these loans are designed in the first instance to "facilitate the carrying-out of investment programmes" of the undertakings (first subsection); but the Community may also "by the same means assist the financing of works and installations which contribute directly and primarily to increasing production, reducing production costs or facilitating marketing" (second subsection).

- Possibility of granting financial support, in the form of loans, of the type granted to Community projects in the hydrocarbons sector (Regulation (EEC) 3056/73, Article 4(1)).
- Proposal concerning Euratom loans now before the Council.
- EIB loans granted under Article 130 of the EEC Treaty\*.

(B) The creation of a lending system under EEC auspices, on the basis of Article 235, would supplement the range of possibilities offered by existing or proposed ECSC or Euratom provisions. This would make it possible to finance investment in the hydrocarbons sector which is not eligible under "Community projects", investment in the electricity sector which is not provided for in the EAEC and ECSC Treaties, and in the field of new forms - and rational use - of energy.

There are two possible variants; they have the advantage of not being mutually exclusive:

- direct loans by the Community to the undertakings concerned;
- indirect operations whereby the Community lends to intermediary bodies which redistribute the funds to the undertakings. This method would be particularly appropriate for investments concerned with the rational use of energy

(iv) Loan guarantees:

(A) - Possibility of guaranteeing loans in the cases referred to above under Article 54, ECSC Treaty.

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\*EIB loans: Under the terms of Article 130 of the Treaty of Rome the EIB shall grant loans to projects for developing less developed regions or to converting undertakings in the Community and for projects of common interest to several Member States. It may finance projects of a regional nature in the energy sector. Besides granting loans for investments which directly concern two or more Member States (joint power stations or interconnected networks, for instance), the EIB may also finance any general project which contributes to the realization of a common policy. It finances, for instance, investments which ensure a better supply to the Community or which are used to finance new techniques because they help to realize the objectives of the Community energy policy (nuclear and hydroelectric power stations, exploitation of hydrocarbon deposits, gas pipelines, etc.)



- Authorizing the EIB to "guarantee loans contracted by public or private undertakings or other bodies for the purpose of carrying out projects provided for in Article 130 of this Treaty" (Article 18(4) Protocol on the Statute of the EIB).
- The possibility of granting financial support in the form of loan guarantees to Community projects in the hydrocarbons sector (Regulation (EEC) 3056/73, Article 4(1)). However the possibility of using this provision raises the question of creating the corresponding guarantee funds.

(B) Instituting a Community guarantees mechanism which would enable undertakings not normally in a position to do so, to obtain access under favourable conditions to the capital market.

In the field of nuclear energy, Article 2(c) of the ECSC Treaty provides a basis for creating such a mechanism but its legal foundation would have to be carefully examined. The EEC would probably have to act under Article 235.

The chief elements of the mechanism would be:

- the possibility of guaranteeing
  - loans by the financial institutions of the Community;
  - loans by banks and other financial institutions;
  - issues or investments in capital markets;
- using the type of guarantee open in theory to private undertakings, but without excluding public undertakings;
- establishing an intervention fund which could be mobilized should the guarantee have to be used;
- levying a guarantee charge to be paid by the borrower:
  - either to cover administrative costs only;
  - or, again, to establish a reserve fund. This would reduce the cost of the guarantee to the Community.

### CHAPTER III

#### Financing of energy investments in the Community

##### A. Importance of increasing the Community's role

The Council Decision of 17 December 1974<sup>1</sup> approving the objective of reducing the Community's dependence on imported energy to 50%, or even 40% if possible, by 1985 is undeniably an important step in the progressive elaboration of a Community energy policy, the need for which is not disputed. In practice however, it is proving difficult to establish.

This Decision has been effectively supplemented by the Decision of 13 February 1975<sup>2</sup> in which the Council laid down the guidelines which should inspire the implementation of the common energy policy as a whole and in each individual industry.

During the discussions which preceded, coincided with or followed these Decisions the question of financing energy investments was often justifiably put forward as a basic issue both by the Community and by the Member States. Without sufficient energy investments properly distributed among the different industries, attainment of the objectives of the new strategy would clearly be compromised. This problem is faced by firms in the energy industry and also by the Member States, whose efforts in this field must continue.

The same problem faces the Community which is already participating in the financing of the Community energy policy (Chapter IIB).

The Commission considers that action should be increased for a number of fundamental reasons:

- to underline the Community's political desire to have a common energy policy and to attain the objectives it has set and will set itself in this field;

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<sup>1</sup>R/3649/74 (ENER 79).

<sup>2</sup>R/505/75 (ENER 24).

- to show the Community's de facto solidarity in this field and its conviction that Community action should be more effective than all the action taken by the Member States. This would be a way of giving due and proper attention to the problems of attaining the ambitious Community objective of reducing its dependence on imported energy to 40% by 1985;
- to make it possible to supplement the requisite actions taken by the Member States and integrate them into an overall plan at a time when considerably more investment will be needed;
- to help to overcome the economic or structural obstacles which could, in certain industries or certain Member States, prevent the achievement of common objectives relating to energy production and the adaptation of demand.
- finally, if necessary to facilitate the contribution - and increase the importance thereof - which the Community intends to make to international cooperation with the energy-exporting and -importing countries, which must be strengthened in order to further the harmonized development of energy resources at world level.

B. Guaranteeing an economic return on the investments

In view of the present and foreseeable situation on the world market energy sources which offer a satisfactory long-term degree of security should be developed. This development must be guaranteed even if the competitiveness of these sources were to be compromised by a fall in the price of those imported energy sources which do not offer the requisite measure of security.

The Commission<sup>1</sup> considers that the Community's policy for the development of energy resources should be based on:

- the adoption of specific measures to promote or back up energy production, which are regarded as necessary to ensure security of supplies;
- in addition, the possibility of establishing a safety net for such forms of energy against a sudden or excessive fall in the price of imported oil.

On this basis the policy would be adapted to the Community's supply structure and be to the long-term advantage of the consumers.

The Commission believes, however, that, in view of the present situation, stress should be laid on the specific measures rather than on the safety net.

This does not exclude the possibility of planning the details of such a mechanism at this stage. Several methods are possible:

- a mutual guarantee system between energy producers;
- a Community guarantee mechanism, either on its own or combined with the mutual guarantee system.
- fixing a price below which the Community would protect its energy market. The Commission is also examining the conditions under which this system could be used<sup>1</sup>;

Under a mutual guarantee system<sup>2</sup> whereby a premium is paid, the investor whose scheme is in line with the objectives of the common energy policy will be guaranteed either a minimum income or reimbursement of sums

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<sup>1</sup>See "Main foci of a policy for the development of energy resources in the Community".

<sup>2</sup>This idea is contained in a Danish proposal presented to the IEA's Standing Working Party on Long-term Cooperation in February 1975.

invested if the scheme were unsuccessful. The compensation system provided for in Article 62 of the ECSC Treaty is an example of the form which similar guarantee systems could take.

This system which has been worked out at Community level where solidarity clearly exists and the risks are similar, could be incorporated into a guarantee mechanism covering all the industrialized countries.

In particular, it has the advantage that it could finance itself by means of premiums paid by the firms using the guarantee, and this would avoid continuous use of budgetary resources. The resources could, however, be used in exceptional cases as a last resort to offset certain risks by means of subsidies.



### C. Rational utilization of energy

The importance of Community action on a rational use of energy has been emphasized by the Council<sup>1</sup>. It is at least as necessary as the efforts to expand the production of energy sources which can be substituted for imported oil. Increasingly it seems that these efforts - in order to have a substantial effect - must extend beyond the level of information and an exchange of experience, and must in fact modify the consumption patterns.

This raises the question of making the investments needed to bring about a relative reduction in energy consumption: a quantitative or qualitative improvement in the energy balance of an undertaking, the manufacture of products with a lower energy content, the production of machines which are more efficient or which use little energy. There is a danger that initiatives of this kind which might bring about large reductions in consumption may not come to anything if there is uncertainty as to the returns they yield, if they might cause the firm which takes them to be in an unfavourable competitive situation or if they call for structural changes (e.g. in consumption habits) over which the producer has no control. Community policy on the rational use of energy should therefore lean towards actions in favour of investments which would bring about energy savings.

This Community action to encourage investment leading to rational use - which cannot be quantified accurately at present - could take different forms:

- ensuring that financial support for investments, granted by the Community through existing channels (IEB, EAGGF, Social Fund, construction of ECSC dwellings, ECSC loans to the iron and steel industry) takes account of the conditions for the rational use of energy. The bodies concerned will try from now on to examine the requests submitted to them for the various interventions from this point of view.
- including national operations which have the advantage of being able to adjust to special situations, such as tax exemptions, preferential tariffs and other aids according to the criteria set up at Community level so as to prevent distortions of competition. The Commission would take action on this when making interventions to apply the provisions of the Treaties on these various points.

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<sup>1</sup> See Resolutions of 17 September 1974 on the new energy policy strategy (R/2391/74), and of 17 December 1974 on a Community action programme on the rational use of energy (R/18/75).

- additional action through loans taken out by the Community to lend out to national credit organizations which finance the investments designed to bring about rational use. In this way the financial risk taken by these organizations, whether they are public or private, will spread more evenly. These loans could be taken out under Article 235 EEC. At present it is impossible to assess the amounts required.

CHAPTER IV

Proposals on the financing of the energy policy by the Community

It is necessary both to estimate the possible contribution to be made by the Community towards financing the energy policy and to try to include this measure in a consistent and global energy policy.

A. Amount of investments to be financed by the Community

It is difficult to estimate the contribution to be made by the Community towards the financing of investments in the energy sector:

- as indicated above, the estimates of the total investments are approximate;
- it is not possible to estimate the proportion of those investments which will be provided by self-financing or that which will have to be obtained from the capital market;
- the future trend as regards the supply of capital is very uncertain;
- there will be differences between the methods used to finance each energy sector and probably even between the ways in which different Member States finance one particular sector.

The method adopted is based on an analysis of the requirements in the case of each type of investment. The figure obtained is some 3 000 m u.a. (330 m u.a. in the form of budget resources and 2 550 - 2 800 m u.a. in the form of conventional loans) which would appear to be a reasonable minimum amount to ensure effective intervention by the Community.

(I) Specific intervention in the form of subsidies entered in the budget and possibly repayable (in m u.a./year)

		Charged to
1. Research and development		
- energy	120	General budget
2. Coal research		
Extraction	15	ECSC budget
Gasification/Liquefaction	15	General budget
3. Support of technological projects		
in the hydrocarbons sector		
(Regulation No 3056/73)	50	General budget <sup>1</sup>
4. Support of prospection projects		
in the hydrocarbons sector (draft		
before the Council)	100	General budget <sup>2</sup>
5. Support of uranium prospection		
projects (planned)	30	General budget <sup>2</sup>
Total	330	315 - General budget 15 - ECSC budget

<sup>1</sup> See doc. COM(74)2018.

<sup>2</sup> Indicative figure.

(2) Conventional loans

(a) existing possibilities: EIB

Article 54, ECSC Treaty

Article 172, EAEC Treaty

Article 235, EEC Treaty

(b) their value: to facilitate access by undertakings to the international capital market

to diversify financial sources

(c) amount proposed:

It is assumed that such loans will generally represent approximately 15% of the total investments in this connection, and that 55-60% will be provided by self-financing and 25-30% will take the form of private loans.

Obviously this is an arbitrary assumption. The proportion of investments subsidized could be higher in the case of solid fuels and nuclear fuel.

Nevertheless, the following table indicates an acceptable scale.

	<u>40% assumption</u>	<u>50% assumption</u>	<u>Charged to</u>
1. Solid fuels	150	150	Article 54 ECSC
2. Hydrocarbons	1 000	750	EIB - Article 235 EEC
3. Nuclear fuel	750	600	Article 172 EAEC-EIB
4. Electricity	900	1 050	EIB - Article 54 ECSC Article 235 EEC
5. Total	2 800	2 550	

(3) Other possible means of intervention which could be substituted for or used in addition to loans (at least in part), but which cannot be quantified

Interest subsidies

Guarantee funds for borrowers.

(4) Other forms of intervention which are required but cannot yet be quantified

Guarantee of returns or sales: specific means for each energy sector, the amount of which will depend on the energy costs to be subsidized on developments on the market and on the reference level chosen.

Subsidies to enable the demand for energy to be restructured and large-scale industrial processes designed to reduce and improve energy consumption (e.g. European network for the two-way transport of goods by pipeline, transmission of electric current over very-high-tension wires, improvement of industrial processes to be applied.



Possibly aid to investments after 1980 to facilitate the construction of nuclear and electric power stations designed to enter into service after 1985.

- (5) Finally, it must be remembered that any voluntarist policy designed to enable the target of as low as 40% dependence by the Community to be approached or achieved by 1985 will require additional investments amounting to some 24 000 million u.a. (i.e. an average of 2 400 million u.a. per year), part of which should undoubtedly be provided by the public authorities at national or Community level.

B. The search for consistency

The solution which will be adopted to put an end to the current difficulties involves concrete guidelines.

1. The choice of a consistency formula

A Community policy to finance energy must form part of a consistent and homogeneous framework possessing the following characteristics:

- it must permit intervention of various types;
- it must cover all energy sectors where Community intervention could be necessary;
- it must have sufficient resources at its disposal;
- it must have flexible administrative procedure;
- it must be capable of being implemented within a relatively short period;
- it must take account of basic budgetary principles.

These demands lead to a more pragmatic than dogmatic approach.

- (a) The approach of setting up a single financially autonomous body to possess all the relevant powers can be ruled out as the provisions on the subject now stand

By the terms of these it is not possible to delegate to an outside body the powers vested in the institutions and agencies established by the Treaties (the Commission, Council, EIB &c.)

- (b) The classical solution of a budgetary framework is interesting but incomplete

This solution would be based on the provisions of the EEC and EAEC Treaties and on the system of own resources established by the Decision of 21 April 1970. Examples of a solution of this type are the creation of the Social Fund, the EAGGF or the Regional Fund which, while benefiting from certain special regulations, are an integral part of the Communities' Budget and are financed by the system of own resources established by the Decision of 21 April 1970. This solution is interesting but it appears incomplete.

It is interesting and could function in the following way:

On the expenditure side, a new ad hoc section of the general budget would set the maximum of Community financial operations to be financed by this budget.

Without amending the Treaties, it would be sufficient to institute a basic budgetary regulation and an ad hoc financial regulation, including the special provisions to be incorporated in the financial regulation to cover the particular problems posed by the nature of these credits (multiannual arrangements, budgetary commitments, payment authorizations, time limits, etc.). This expenditure should cover the maximum of subsidies anticipated and could represent an annual sum of about 315 million u.a.<sup>1</sup>.

On the revenue side, the establishment of a special section in the General Budget would not involve any amendment of the Decision of 21 April 1970 which assigns total resources to total expenditure.

This solution is incomplete. Taking into account the particular provisions of the EAEC Treaty and the EIB's financial autonomy, a large proportion of the Community support anticipated would not appear in this improved budgetary framework.

- (c) A more satisfactory solution could be the Community Target Financing Programme for the energy policy, referred to below as the "Target Financing Programme"

The factors outlined in the previous pages of this memorandum demonstrate the economic, legal and institutional difficulties of operating in a single framework. Nevertheless, in order to enter upon a more consistent course of action, both the Commission and the Member States must be able to make regular use of an overall instrument combining all operations of joint financial support in the energy sector: that would be the aim of the "Financing Programme" which would depend on the improved budgetary framework described above but which would supplement it by taking into consideration the ECSC's financial activities and the non-budgetary support operations, including EIB subsidies.

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<sup>1</sup>See Chapter IV,(1). (excluding the ECSC budget).

## II. Guidelines for the Target Financing Programme

Considering the financial needs estimated in the first part of this chapter, it is important to make the best use of the many different ways and means provided by the Treaties and to aim for optimum consistency in presenting, approving and carrying out the Target Financing Programme.

### (a) Using all the resources for action in the Treaties

Action by the Commission to assure the financing of the Community energy policy should first bear on:

#### (i) Developing what we now have

By maintaining or developing the resources provided by the ECSC Treaty, either by loans from the Commission to the coal industry and for coal-fired power stations (Article 54) or by those forms of action specific to the ECSC Budget (interest subsidies and coal research);

(ii) By stepping up expenditure on energy R & D as part of the General Budget;

(iii) By continuing the current endeavours in the hydrocarbons sector (Regulation 3056/73);

(iv) By providing better guidance for the EIB's operations in the energy sector, within the Community energy policy.

(v) By promoting, through any available indirect means, investments which would help to make better use of energy<sup>1</sup>.

Using specific provisions of the Treaties, which have been unused or very much underused. This applies chiefly to the Euratom Treaty, i.e., the financial provisions of Articles 46, 70, 72 and 172.

Using Articles 235 of the EEC and 203 of the ECSC Treaties for standard budgetary operations (prospecting for hydrocarbons and uranium - possible availability of interest-rate subsidies), for Community loans and borrowing or for new actions such as the formation of a Guarantee Fund.

### (b) Consistency in presenting the Target Financing Programme

Consistency in the planned Community projects for financing the energy policy implies, from these new vantage points that procedures will be

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<sup>1</sup>See Chapter III, C.

adopted to ensure that they conform with the guidelines of energy policy adopted in an overall approach.

Each year on a set date, the Commission would prepare a Community Target Financing Programme for the energy policy.

This paper would:

- summarize the projects conducted during the previous year;
- offer estimates for the coming year;
- progressively establish a multiannual (3-5 years) target programme, which would be modifiable.

The paper would be homogeneous in layout and would itemize projects

- by energy source
- by means of operation (General Budget, ECSC Budget, extrabudgetary operation)
- by type of action.

This "Policy" document would go to the Council, the European Parliament and Economic and Social Committee, the ECSC Consultative Committee and the EIB.

The Council would be asked to take note that the Target Financing Programme represented the Commission's action approach to Community financing of the energy policy.