

COMMISSION OF THE EUROPEAN COMMUNITIES

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MAIN FOCI OF A POLICY FOR THE DEVELOPMENT OF
ENERGY RESOURCES IN THE COMMUNITY AND WITHIN
THE/LARGER FRAMEWORK OF INTERNATIONAL COOPERATION

(Communication by the Commission to the Council)

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Main foci of a policy for the development of energy resources in the Community and within the larger framework of international cooperation

I. INTRODUCTION

1. The policy for the development of energy sources in the Community should be based on the main objective of the energy policy as laid down in the Council Resolution of 17 December 1974¹: to reduce to 50% at most, or if possible to 40%, the degree to which the Community will be dependent on imported energy in 1985.

This objective, which is of a political nature, implies the need to make considerable investments, estimated at approximately 180 000 or 204 000 m u.a., during the next ten years, depending on whether the degree of dependence to be attained is 50% or 40%.

Investments in the energy sector 1975-1985

	"40%" target in 1 000 m u.a.	"50%" target in 1 000 m u.a.
I. Solid fuels	11	11
II. Hydrocarbons	72	54
III. Nuclear energy (fuel supplies and power stations)	51	39
IV. Electricity (except for nuclear power stations)	70	76
Total	204	180

2. The prospects of satisfactory returns is one of the necessary preconditions for making investments. In the current situation on the energy market the high level of oil prices acts as a stimulus, as indicated in the following table:

¹Resolution on Community energy policy objectives for 1985, doc. R/3649/74 (ENER 79).

Estimate of the costs of Community energy production¹

(\$/ per toe)

	1974	1985
Natural gas	8	4.5 - 52 ¹
Oil	11	30 - 60 ¹
Brown coal	24	30
Nuclear fuel	25	25 - 57 ¹
Hydroelectric power	50	50 - 55 ¹
Hard coal	35 - 110 ¹	48 - 110 ¹
Imported oil	80 ²	

¹These figures represent the minimum and the maximum levels between which the costs will vary depending on the provenance or quality of the fuel or on the time taken to construct the plants.

²Cost cif as at 31 December 1974.

It is clear, however, that the current price of imported oil is unrelated to its production costs: a large proportion of the cost (more than nine-tenths, in the case of Middle East oil) is made up of taxes imposed by the producing countries.

The future price trend is very uncertain: a policy must therefore be drawn up to cope with any eventuality, especially a considerable or sudden drop in prices.

Most of the investments must be made by the undertakings responsible for bearing the technical and commercial risks, on the basis of their usual profitability criteria.

However, to the extent that they are in line with the target objectives laid down by the Community, it would be quite normal to expect the Community to bear the responsibility for at least some of the exceptional risks resulting from the uncertainties mentioned above, which are liable to affect

the readiness to invest.

The industry and the public authorities in the Community should hold joint discussions in order to assess the seriousness of such risks and the conditions for the development of each source of energy.

Thus a policy must be drawn up designed partly to encourage investments in substitute energy resources and partly to protect such investments in view of the fact that they are contributing to the security of supplies.

In the Commission's opinion, the policy for the development of energy resources should:

- (a) be based on an overall view of the situation in order to ensure the necessary consistency of the measures which must differ if they are to be suitable for applying to each source of energy to be developed;
- (b) ensure a balance between the interests of the countries which assume responsibility for developing certain resources, and those of countries which derive benefits from the fact that those sources are made available to them.

The Commission would point out in this connection that the Council has adopted the following five principles as a guideline for its action at international level:

the consumer countries shall acknowledge the fact that access to the energy resources to be developed should be free;

they shall undertake not to discriminate in any way against other consuming countries with regard to prices and conditions of access to energy resources;

they shall lay down jointly a number of targets for the production and conservation of energy, designed to serve as a guideline for their national policies;

they shall introduce a procedure for regular examination of the progress made and the obstacles encountered in the application of these principles and in the pursuit of these objectives.

within the framework of cooperation in the development of alternative energy resources, the countries concerned will share the burdens depending on the size of

the advantage which they will gain¹.

(c) be adapted to the supply structure of the countries concerned. In the Community's case this structure will in any case to a large extent continue to rely on imported energy and will have to allow for an economy with a strong bias towards exporting manufactured products;

(d) not give rise to distortions in the exploitation of the resources concerned and, consequently, as far as possible be based on the market;

(e) first and foremost, tend to speed up the optimization of reliable available resources in the territory of the partners and elsewhere in the world.

These principles will serve as a basis for Community action and will provide a guideline for its action at international level.

II. COMMUNITY POLICY ON THE EXPLOITATION OF ENERGY RESOURCES

The Community's policy on the exploitation of energy resources should:

- be based on the adoption of specific measures designed to promote or support the production of the amount of energy known to be required in order to ensure security of supplies;
- and, as a corollary, the possibility of establishing an energy safety net to counteract any abrupt or excessive fall in the price of imported oil.

Drawn up along these lines, such a policy would be adapted to the Community's supply structure and would, in the long term, be in the consumer's interest.

A. Specific promoting or supporting measures

Through their provisions on non-discrimination, freedom of movement, competition and commercial policy, the Treaties create an environment which favours the exploitation of the Community's energy resources.

¹Decisions adopted by the Council at its 333rd session held on 3 and 4 March 1975 - Doc. R/1082/75, pages 5 and 6.

They also contain provisions which allow for the creation of means to be used for promoting or supporting activities. Such means have already been successfully applied and should be more widely used, reinforced or supplemented, even if the price of imported oil remains at the present level.

1. Encouragement and promotion

(a) The means currently available are:

Loans or loan guarantees

- to undertakings in the coal industry, under Article 54 of the ECSC Treaty;
- to projects of joint interest in the hydrocarbons sector, under Regulation (EEC) No 3056/73;
- by the European Investment Bank (Article 130 of the EEC Treaty).

Interest subsidies

- to undertakings in the coal industry, under Article 54 of the ECSC Treaty

Reimbursable subsidies

- to projects of joint interest in the hydrocarbons sector (Regulation (EEC) No 3056/73)

Support for scientific and technical research

- coal (Article 55 of the ECSC Treaty)
- nuclear energy (Article 7 of the EAEC Treaty)

Guarantees of marketing outlets

- Decision (ECSC) No 73/287 concerning coking coal and coke intended for use in the iron and steel industry.

Subsidies

- Decision No 3/71/ECSC on Community rules for intervention by Member States for the benefit of the coal industry (this Decision does not, however, involve the Community in any expenditure).

Community interventions under these different instruments amounted to about 570 m u.a. in 1974¹.

¹In some cases it was a matter of expenditure on other commitments.

(b) The Commission has already forwarded to the Council various proposals aimed at supplementing this corpus of instruments:

- proposal for a decision to authorize the Commission to contract Euratom loans (500 m u.a.);
- proposal for a regulation concerning support for prospecting projects of joint interest in the hydrocarbons sector;
- proposal for doubling the appropriations to be set aside under Regulation (EEC) No 3056/74.

The document entitled "Community Financing of the Energy Policy" gives a complete run-down of the various instruments and means of action, and an estimate of the sums to be provided in the form of Community interventions for the period 1975-85.

The Commission:

- will step up its financing activities in the field of energy in those areas where it has at its disposal the necessary powers;
- will put forward proposals to the Council for new measures suited to promotion or support of activities by the Community in those areas where they prove necessary.

2. Consistency of the activities

Those Community instruments already in existence or capable of being created are very diverse and their effectiveness would be increased if they were applied in a consistent manner.

Therefore:

- for information purposes, the Commission will present an annual programme on the financing of the Community's energy policy which will indicate what direction it plans to take as regards financing, as well as the proposals for action to be taken by other Community institutions, which the Commission is formulating (see document entitled "Community Financing of the Energy Policy").

B. Minimum safeguard price

In addition to the specific measures, which constitute the foundations of a policy for the development of resources, a safety net is needed to provide protection against the risk of a fall in the price of imported oil.

Two types of methods may be envisaged:

- (i) mutual insurance and guarantee arrangements;
- (ii) the fixing of a level below which the Community would protect its energy market.

As a possible complement of the first method - which comes within the province of the specific measures in certain respects (see II.A) - the Commission considers that the second one could, if need arose, be applied by the Community.

It has the advantage of:

- (i) making it possible to avoid a recurrence of what happened in the 1960s when the fall in the price of crude oil slowed down the development of reliable energy sources needed for long-term supplies and speeded up the decline of others;
- (ii) enabling the consumer to benefit from falls in the cost of energy as long as these are compatible with the security of supply in the long term;
- (iii) avoiding boundless burdens on national and Community budgets by making them support energy sources which provide long-term supplies.

The Commission considers that:

- (i) the minimum safeguard level must be fixed on the basis of economic criteria, i.e., as a function, in the long term, of the cost of developing the source of energy covering the base load - nuclear energy in the Community's case. As the safeguard level would be determined by a factor internal to the Community it would not be a source of confrontation with the producer countries and would even be in line with some of their objectives;

- (ii) appropriate protection mechanisms can be created under the provisions of the Treaties;
- (iii) in the present circumstances the precise fixing of this level and the definition of mechanisms take second place to the implementation of specific incentives or support measures.

The Commission proposes that the Council keeps open the possibility of adoption by the Community, as and when required, of a minimum safeguard level and arrangements for implementing it.

III. INTERNATIONAL COOPERATION ON A BROADER BASIS THAN THE COMMUNITY

With international cooperation on a broader basis than the Community, the features of solidarity in the development of resources will be somewhat different from those mentioned above.

(A) Experience shows that cooperation will tend to be expressed primarily by carrying out projects of common interest, not necessarily entailing the participation of all the countries cooperating, rather than by support measures of a general nature the burden of which would be shared between all the partners.

The Community as such may find it of value and must therefore be prepared to contribute towards some of these measures.

(B) Secondly, the question of the minimum safeguard price for imported oil cannot be examined in a general manner for all the consuming countries; allowance must be made for the individual features of their supplies:

- (i) by taking into account energy sources potentially available in the world as a whole which offer the same degree of security of supply as domestic resources. Hence the minimum safeguard price must not be fixed at the level of the most expensive type of energy available in the cooperating countries;
- (ii) on the basis of a regionalized approach: the safeguard level must apply to the fob price of imported oil plus elements to cover differences in the structure of consumption in the partner countries and their geographical location.

(C) As in the Community framework the fixing of the minimum safeguard level and the choice of a mechanism take second place to the adoption of measures providing an effective incentive to invest. In this respect, the setting of common production targets and access to investment facilities and the resources available in all the partner countries are major factors.

(D) In the present circumstances priority should also be given to the aim of making energy savings.

(E) Lastly, in the case of international cooperation a balance must be struck between advantages and obligations in general and for each individual partner country¹.

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The Commission asks the Council to adopt:

- (i) this communication as the basis for a Community policy for the development of alternative energy sources;
- (ii) the guidelines in Part III as the Community's position on international cooperation concerning the development of such sources.

¹ See the principles adopted by the Governing Board of the International Energy Agency on 20 March 1975. The policy for the development of resources will be implemented "on a basis designed to:

- result in fair treatment of participating countries in respect of energy prices;
- facilitate non-discriminatory energy trade and investments among IEA countries;
- assist the establishment of a fair economic and social balance between participating countries when fixing the (minimum safeguard) level".

