

COMMISSION OF THE EUROPEAN COMMUNITIES²¹

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ENERGY PRICES IN THE COMMUNITY

(Working document of the services of the Commission)

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In its Resolution of 13 February 1975, the Council stated "the need to make it possible for prices to cover, gradually and to the fullest extent feasible, the costs of making energy available and the amortisation of the necessary investments".⁽¹⁾

The Energy Committee, meeting on 4 October 1976, was presented with a memorandum from the Netherlands Delegation on "the function of energy prices in the achievement of the Community energy policy"; the memorandum envisaged prices playing a dual rôle i.e. facilitating energy investment on the one hand and reducing the growth in energy consumption on the other.

After reviewing the problem of energy prices, this note outlines the progress to date and possible developments.

I. THE PROBLEM

It is clear that prices are among the main elements of a policy designed to reduce the Community's energy dependence, in respect of both supply (protection and development of Community energy resources) and demand (implementation of a rational energy utilization programme.)

- A. On the supply side, the development of Community energy resources presupposes investing the necessary capital and raises the problem of financing. In the context of the optimum allocation of resources, this is closely linked with a pricing system designed to amortise the investments and provide for a normal return on the capital invested. With this in mind, analyses must focus on those prices which really generate revenue for the operators, i.e. pre-tax, ex-works prices. For tax reasons alone, these prices may differ considerably from consumer prices.
- B. On the demand side, there are two pertinent questions:
 - Are energy prices likely to curb the growth of energy consumption, taking into account the constraints of international competition and economic and social policy objectives ?
 - Will the relative prices of energy products improve the structure of the energy balance ?

(1) O.J.No.C.153/6 of 9 July 1975.

In other words, although it might not be appropriate at this stage to work towards full harmonisation of energy prices in the Community, nevertheless with regard to the unity of the market, a measure of consistency between the pricing policies of the individual Member States must be achieved on a Community basis.

II. WORK IN PROGRESS

Concentrating first of all on the demand side, the Commission services concerned have prepared a summary of the consumer prices of the main energy products in the Community for the years 1973 and 1976. The working paper based on this study has been submitted to the Energy Committee for any comments and corrections. Its main purpose is to give an overview of the trend in energy prices since the 1973 crisis and to show the dispersion of these prices around a Community mean. Despite its methodological shortcomings, the study does raise a number of questions.

- A. Despite the 1973 crisis, the real price of certain products has not increased. Although these are products intended for private consumption in most cases, suggesting that the economic policy considerations specific to each country are responsible (fight against inflation, social considerations), it is open to question whether this state of affairs can continue.
- B. With regard to the spread of prices, for a particular product, between the different member countries, it seems to have broadened for premium motor gasoline and for gas for small consumers, to have remained about the same level for the electricity sector, heavy fuel oil, gas for medium consumers (domestic sector 250 Gcal, industry 100 Gcal p.a.) and coking coal, and to have narrowed for domestic coal and steam coal, gas for large consumers, automotive gasoil and domestic fuel. Although it is futile and perhaps unjustified to aim at total price harmonisation, the above findings do reveal a lack of alignment of pricing policies.

The initial results are obviously approximate and will be adjusted in the light of information which the national delegations undertook to supply to the Commission at the meeting of the Energy Committee on 5th July, 1977.

III. GUIDELINES FOR FUTURE WORK

This first study indicates that, for the present, it would be useful to proceed with a more detailed analysis on a Community scale. If such work is to produce meaningful results, there must be a clear understanding right from the outset, of the scope of the exercise and the priorities.

An initial discussion within the Council might produce a consensus

on the matter and particularly on the need for the cooperation between the services of the Commission and the specialists of the various Member Countries.

For their part, the services of the Commission think that to avoid embarking on a global study which, apart from methodological problems, would considerably increase the duration of the exercise, priority consideration should be given to the following questions, bearing in mind the work conducted elsewhere, in the Community framework or through other agencies, and that the analysis should be pursued beginning with the following problems:

- A. On the question of investment financing, with regard to prices in force in certain sectors, electricity for example, do prices allow adequate self-financing and a sufficient return to attract capital? Any economic appraisal should not go into detail but confine itself to highlighting the most important questions.
 - B. On the question of energy saving, do certain charges, notably in the electricity and gas sectors, run counter to the objectives set for reducing the growth in total energy consumption?
 - C. On the question of the structure of the primary energy balance, should an examination be made as to whether an adjustment of the relative prices of fuels could lead to their better utilisation?
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