

European BACKGROUND INFORMATION Community

EUROPEAN COMMUNITY INFORMATION SERVICE

2100 M Street NW, Washington DC 20037 Telephone (202) 872-8350

New York Office: 277 Park Avenue, New York NY 10017 Telephone (212) 371-3804

BACKGROUND NOTE

No. 5/1974

March 26, 1974

THE ENERGY CRISIS AND THE EUROPEAN COMMUNITY

The October War in the Middle East set off a chain of events that altered the European Community's entire framework for economic growth. On October 16, 1973, the Organization of Arab Oil Exporting Countries (OAPEC) imposed an embargo on the United States, the Netherlands, and a partial embargo on Denmark, initiated a program to scale down production and began raising oil prices. On March 18, 1974, in Vienna, OAPEC (with Libya and Syria dissenting), decided to lift the embargo on the United States and step up production, but made no decision on a price rollback. OAPEC will review the situation on June 1.

"Never before have the clouds lowered so menacingly over Europe as now," EC Commissioner Ralf Dahrendorf told the European Parliament February 14. Dahrendorf (responsible for research, science, and education) was presenting the Commission's 1974 report on the Community's economic situation in the absence of Commission Vice President Wilhelm Haferkamp (responsible for economic and financial matters) who was at the International Energy Conference in Washington.

Dahrendorf's report confirmed the findings of a January 30 Commission communication on the foreseeable impact of the energy situation in the Community.

The Community's main problem is the disruption of the EC economic, monetary, and trade position by skyrocketing oil prices, rather than the potential shortage of raw materials.

Scale of World Implications

Petroleum prices started to climb in October and more than doubled in December. If they stay at their present level, the Commission said, the oil producing countries would receive an added revenue of about \$60 billion, radically disturbing trade and capital movements. Over the next three years, their net receipts could amount to about 10 per cent of the current gross Community product (GCP).

Europe, Japan, and the importing developing countries will be hardest hit by higher petroleum prices. In the industrialized world, the competitive capacity of the Japanese and European economies will be the most weakened. The American trade balance will also be adversely affected. As for the developing countries, the annual increase in their oil bill will surpass the current annual average of international aid which they receive. Foreign aid has barely sufficed to balance the developing countries' current accounts in recent years, the report said. Without a new pattern of capital transfers, the Commission said, higher energy costs could undercut industrialized countries' development aid policies and reduce developing countries' import capacity. This situation would seriously affect the Community's trade balance, because EC exports to developing countries account for more than 20 per cent of its trade with third countries.

Direct Effects on the EC

The Commission estimates that the 1974 average price of crude oil will go 180 per cent higher than the 1973 average. Although the current oil prices may change somewhat, the Community's economic growth will slow down. Dahrendorf reported that the GCP grew at a rate of 5.7 per cent during 1972-73, the highest rate recorded since 1969. Member State gross national product (GNP) rose by 7 per cent in Ireland and Luxembourg, about 6 per cent in France, Belgium, and Britain, 5.5 per cent in Germany and Italy, and 5 per cent in Denmark. The Netherlands' growth rate remained unchanged at 4 per cent.

Despite EC and Member State measures to mitigate the impact of the energy crisis, overall EC production growth is estimated at 1.5 per cent for 1974 due to side effects such as postponements of certain investments and purchases of consumer durables (appliances, automobiles, plant equipment, etc.). The GCP, therefore, would only grow at about 2 per cent to 3 per cent this year. Industries most affected will be chemicals, plastics, construction, motor vehicles, textiles, cement, glass, ceramics, tourism, rubber, transport construction, commerce, and other services.

Inflation in the Community promises to worsen this year. Consumer prices in 1973 rose at a rate of 8.5 per cent, ranging from 6 per cent in Luxembourg to 11.5 per cent in Ireland. The Commission expects added oil costs to raise the general price level by between 2 per cent and 3 per cent in 1974. Additionally, the 1974 inflation rate is not expected to be lower than 10 per cent in any Member State.

Dahrendorf warned that the Community's improved employment situation could be seriously undercut by the energy crisis. Furthermore, he added, reduced business investments could result in massive unemployment. More than 80 per cent of the drop in demand for workers will be concentrated in the construction, automobile, transport, machinery, textile, and chemical industries, along with certain service sectors.

Impact on the Balance of Payments and Monetary Reserves

Higher costs of EC imports will force terms of trade to move sharply against the Community. Assuming a 10 per cent reduction in the volume of 1974 oil imports, additional costs will reach \$22 billion. Thus, the EC trade balance and current account vis-à-vis non-EC countries will deteriorate by about \$17.5 billion. This figure corresponds to 1.5 per cent of GCP and about 17 per cent of third country exports. Dahrendorf said the Common Market's energy costs would continue upward in the next few years due to its dependence on imports and the slow process of developing alternative energy sources. The Community's increasingly unfavorable external balance reflected the deterioration of trade in most Member States. Most of the 11 billion unit of account (UA)* increase in the EC official gold and foreign exchange reserves (including Special Drawing Rights and the reserve position in the International Monetary Fund) was reached in the first three months of 1973. The trend began to reverse itself toward the end of the year.

EUROSTAT Report

The Statistical Office of the European Community (EUROSTAT) published a December report tabulating major features of EC energy production and consumption and comparing the EC energy situation with those of the United States, the Soviet Union, and Japan. Following are some of the EUROSTAT findings:

World energy consumption nearly doubled between 1969 and 1972, growing at an annual average rate of 5.6 per cent. The annual energy growth rate was slightly lower than the world average in the European Community (5.5 per cent) and the United States (5.1 per cent), higher in the original Community (6.8 per cent), and rose sharply in Japan (15.7 per cent).

*One UA equals \$1.20635 at current rates.

Annual petroleum consumption in the original EC-Six rose from 327 million to 641 million tons between 1960 and 1972. Japanese annual consumption, in 1960-71, rose from 90 million tons to 254 million tons of oil. In 1971, the EC-Nine consumed 840 million tons of oil, or about three times Japanese consumption, half US consumption (1,679 million tons), and about the same as the Soviet Union's (798 million tons).

The world's increasing use of energy, the report said, was marked by a sharp change in patterns of consumption between 1960 and 1971. During that period, most countries made a sharp transition from coal to petroleum and stepped up their use of natural gas. The Community's coal consumption dropped by more than 2 per cent annually from 64 per cent to 27.7 per cent of the total energy consumption. EC crude oil consumption, on the other hand, grew by about 14 per cent annually from 28.5 per cent to 58.2 per cent. World coal use dropped from 49.4 per cent in 1960 to 32.3 per cent in 1971, while oil consumption went up from 29.7 per cent to 40.9 per cent, respectively.

EC natural gas consumption jumped from 1.7 per cent in 1960 to 9.5 per cent in 1971, considerably lower than world average for those same years, 13.9 per cent and 20.5 per cent respectively. Much more natural gas was used in the United States and the Soviet Union than in the Common Market over the last decade. (See Annex, Tables 1 and 2.)

EC Energy Production and Needs

A comparison of the Community with other large economic powers reveals a dearth of indigenous resources in the EC-Nine and Japan. EC primary energy production covered only 42 per cent of its consumption in 1971. Japanese production covered only 19 per cent of its needs. Although the United States is the world's largest energy producer, it had to import 13 per cent of its supplies. Soviet production, on the other hand, surpassed domestic requirements by 18 per cent. (See Annex, Table 3.)

Production and Supply of Crude Petroleum

Community crude oil production is negligible, representing only 0.4 per cent of world production and meeting only 2 per cent of EC requirements. Accordingly, the Common Market is the world's largest importer of crude petroleum, purchasing almost a quarter of world production (or about half the international trade in crude petroleum). Most Community imports come from the Middle East (64 per cent) and Africa (30 per cent). In 1972, the principal countries supplying the Community were: Saudi Arabia (23 per cent of EC imports), Kuwait (14 per cent), Libya (14 per cent), Iran (11 per cent), and Nigeria (9 per cent). The EC-Nine purchased 62 per cent of Africa's crude oil production and 40 per cent of Middle East production. (See Annex, Table 4.)

Use of Petroleum Products by Major EC Sectors

The EUROSTAT breakdown of petroleum product usage, sector by sector, reveals certain special characteristics. Approximately 16 per cent of EC refined oil products undergo further transformation in electric power stations and gas works. A large portion of EC oil products are consumed by industry for non-energy uses (10.8 per cent). The petrochemical industry (naphthas) and civil engineering works (bitumens) are the principal non-energy users. Demand for heating of buildings, amounting to 25.3 per cent of the total, varies widely throughout the Community depending on temperature and use of other heating sources. The "household" sector uses four grades of products for different purposes: gas oils and light fuel oils for central heating (77 per cent), residual fuel oil for heating apartment houses and other large buildings (15 per cent), kerosene for stoves (5 per cent), and butane-propane (LPG) mainly for cooking (3 per cent). (See Annex, Table 5.)

Summit Guidelines

The final statement of the December 17-18 EC "Summit" meeting in Copenhagen, Denmark, stressed the need for speedier creation of a common energy policy with a built-in rapid decision-making machinery. The nine EC Heads of State or Government also called for a common position on reforming the international monetary situation and new powers for the European Monetary Cooperation Fund. They also confirmed the importance of seeking wide-scale cooperation with the oil-producing countries to secure stable energy supplies at reasonable prices. Immediately after the Summit, EC institutions and Member States gave priority to the energy crisis and began working along the lines of the Summit recommendations.

A comprehensive EC energy balance sheet was compiled to aid the Commission and Member States in their work. The sheet was approved by the Commission January 24. Member States supplied information voluntarily, pending final approval by the Council.

Over the past several months, the Commission has submitted several new and revised energy-related proposals to the Council of Ministers, with more forthcoming.

An Energy Committee made up of senior national officials to brief and assist the Commission in preparing energy proposals was proposed by the Commission and adopted by the Council of Ministers, January 31. The Committee is chaired by the Commission and provided with a secretariat by the Council, with assistance from Commission departments.

Monetary Reform

The Community's imperiled monetary situation prompted the Commission's January 23 communication to the Council on the State of the Community. The Commission recommended several urgent measures including:

- a Council pledge to avoid competitive devaluation and trade restrictions
- Common Market credit facilities to give short-term support to weak currencies through increased quotas
- a Monetary Committee and Central Bank Governors' report on the eventual modification of rules for transferring gold between monetary authorities, both internationally and within the Community
- EC evaluation of International Monetary Fund proposals for improving the balance of payments while giving attention to the developing countries' needs.

The Commission also urged the Council to reconsider its earlier proposal for a plan to unfreeze EC central bank monetary reserves. EC Commissioner Haferkamp presented the plan at a press conference in Brussels January 23, as a way to mitigate the consequences of the additional \$17.5 billion cost to the EC energy bill, which otherwise would result in a balance of payments deficit and heavy borrowing on the international capital market.

Gold represents, on the average, 25 per cent of Member States central banks' monetary reserves, the percentage being higher in France and Italy. Haferkamp explained that these banks will not now liquidate their supply because of an international agreement requiring them to sell their gold at the official \$42 price -- three times lower than the open market price.

Therefore, the Commission devised a system whereby EC central banks would transfer 10 per cent of their gold to the European Monetary Cooperation Fund (EMCF) to be credited in terms of units of account (UA). These credits would be calculated on the basis of price "X" instead of the \$42 price. Although the value of the deposits would remain unchanged in the EMCF, the banks would have sufficient reserves (with the units of account) to handle their current monetary problems. Price "X" would only serve as a provisional base, to be corrected when the world banks fixed a new price for gold.

Commission Energy Proposals

A plan for creating and maintaining fuel stockpiles for electric power stations fired by coal or petroleum products was proposed to the Council of Ministers by the Commission on January 11. Stocks for at least 50 days would be built up by no later than January 1, 1976. They would be located on site, or in some cases between several power stations. To ensure compliance, Member States would set up monitoring systems for power stations of 100 megawatts or more. This regulation would not apply to stations powered by water, manufactured gases, geothermal or nuclear energy. Stations powered by lignite or natural gas would be required to have a 50-day supply. Stockpiling would not be required because of the storage difficulty and because natural gas is safely transported through underground pipelines.

Price Monitoring

A system for monitoring prices of petroleum products sold in the Community was proposed by the Commission on January 18. According to the proposal, Member States would provide the Commission with confidential monthly reports on the average cost, freight, and insurance (CIF) value of crude and petroleum product imports. Additionally, EC oil refineries would be required to publish and transmit prices on their products to their respective Member States. On Commission recommendation, the Council would take appropriate measures to deal with cases of exaggerated pricing or speculative action endangering the Community's economic equilibrium. The Commission will soon submit proposals for a pricing system in the context of a long-term EC policy.

Protection for Independent Distributors

Extreme difficulties experienced by Europe's independent petroleum products' distributors in obtaining a large enough supply to stay in business during the oil crisis prompted a Commission decision to investigate the supply operations of large oil companies, December 21, 1973. Companies refusing to supply independent distributors on an equal basis with larger firms could be fined under the Community's competition (anti-trust) regulations.

EC Import/Export Reports

To protect the Community's supply of oil and natural gas, the Commission resubmitted earlier proposals January 16 for expanding the list of petroleum product and natural gas imports to be reported to the Commission by Member States and businesses bringing in over 100,000 tons. On January 10, the Commission also proposed requiring Member States to provide bimonthly reports on intra-Community and third country oil export traffic. The Commission would hold frequent consultations with Member States to decide on measures needed to correct any supply deficiencies.

Other proposals would empower the Commission to draft guidelines for Member State reduction of energy consumption on a concerted and harmonized basis. The Commission also called on the Council to recommend that Member States harmonize and maintain their voluntary measures for reducing consumption.

Nuclear Energy Program

An action plan for promoting the use of nuclear energy in the European Community was proposed to the Council by the EC Commission on February 1.

The plan calls for sustained efforts to: protect the environment and public health, establish an industrial, scientific, and technological base, and secure adequate nuclear fuel supplies. Studies and directives would cover the radiological risk of nuclear installations, thermal pollution, transport of radioactive stocks, and power plant worker safety. The Commission reasserted the need for an EC political, scientific, and technological policy making nuclear energy a principle objective. It also called for joint Community-level consultation to improve nuclear equipment, promotion of competition in the nuclear sector, development of new techniques and technology, and exploration of ways to put the EC nuclear industry into the export market.

CREST Defines EC Energy Priorities

The Community's newly created Committee on Scientific and Technical Research (CREST) highlighted energy in the work guidelines adopted at its first meeting, February 18-19 in Brussels.

In its first phase of work, CREST will define EC priorities, sector by sector. Beginning with energy and raw materials, it will evaluate Member State guidelines, organization, and policy procedures. CREST will also ask a group of national experts to assess the Commission's energy proposals. CREST, established by a January 14 Council resolution, will coordinate national research policies not subject to military or industrial secrecy.

Plan for Broad EC-Arab Cooperation

A plan for wide-ranging cooperation between the European Community and 20 Arab nations was adopted by the foreign ministers of the "Nine" in Brussels on March 4. The ministers authorized the opening of talks with representatives of the "Twenty." Later, the Community hopes to set up joint EC-Arab working groups to discuss industry, technology, agriculture, transport, energy, and research. Finally, a full-scale conference of Arab and EC foreign ministers would be held.

Announcing the plan at a press conference in Brussels the same day, acting Council President Walter Scheel said that the talks would neither affect Middle East peace efforts nor replace a world energy meeting under United Nations auspices. Furthermore, he said, this European approach to the Arab states and the bilateral agreements some Member States have made with several of these countries would complement each other. Any future EC-Israel dialogue, he added, would be of a different nature. The Community's Mediterranean policy would not be brought into the EC-Arab talks, Scheel said.

Call for Unity

Commissioner Dahrendorf concluded the Commission's report to Parliament with a warning of the social, economic, and monetary dangers inherent in a return to autonomous and protectionist national policies. Pursuit of different national economic policies, he asserted, would only exacerbate the consequences of the energy crisis on the world and jeopardize the Community's standard of living.

Calling on Member States to work together in resolving the Community's current difficulties, Dahrendorf said a common energy policy, launching of the Regional Development Fund, and transition to the second stage of economic and monetary union should now become the cornerstones of a global economic policy.

Copies of the complete EUROSTAT report may be obtained from the European Community Information Service, 2100 M Street, N.W., Washington, DC 20037. Copies are limited to one per person.

ENERGY IN COMMUNITY COUNTRIES

Table 1 PRIMARY ENERGY CONSUMPTION +

1972	Hard Coal & Equiv. ++ Mn* tpe %		Lignite & Equiv. Mn tpe %		Crude Petroleum & Equiv. Mn tpe %		Natural Gas Mn tpe %		Primary electrical energy Mn tpe %		TOTAL Mn tpe %	
	EC-9	189.7	21.5	24.4	2.8	524.5	59.5	102.7	11.6	39.7	4.5	882.2
EC-6	112.3	17.5	23.0	3.6	394.3	61.5	79.0	12.3	31.3	4.9	541.0	100
Germany	59.3	23.8	21.7	8.7	137.2	55.2	22.0	8.8	7.6	3.1	248.6	100
France	28.3	17.2	1.0	0.6	110.8	67.3	11.7	7.1	12.8	7.8	164.6	100
Italy	7.7	6.4	0.3	0.2	89.5	73.9	12.8	10.6	10.6	8.7	121.1	100
Netherlands	3.0	5.2	0.0	0.0	28.7	49.6	26.3	45.6	-0.3	-0.5	57.7	100
Belgium	11.5	26.1	0.0	0.0	26.7	60.4	6.0	13.7	-0.1	-0.2	44.2	100
Luxembourg	2.5	52.9	0.0	0.5	1.5	31.0	0.1	2.2	0.6	13.3	4.7	100
Britain	75.3	35.1	-	-	106.9	49.8	23.7	11.1	8.7	4.1	214.6	100
Ireland +++	0.7	10.5	1.3	18.7	4.9	69.0	-	-	0.1	1.7	7.0	100
Denmark	1.4	7.0	0.0	0.0	18.6	95.3	-	-	-0.5	-2.3	19.5	100

*Million

+For the reference period and in the corresponding state of the transformation techniques, inland consumption represents the amount of primary energy which the Community or one of its member countries must have available to meet its inland demands.

++The unit of measurement used is the ton of petroleum equivalent (tpe). This is the amount of energy required to obtain an amount of heat equal to that provided by one ton of petroleum (10 million kcal) from any energy source.

The word ton is used to denote the metric ton.

Table 2 PRIMARY ENERGY PRODUCTION

1972	Hard Coal		Lignite		Crude Petroleum		Natural Gas		Primary Electrical Energy		TOTAL	
	Mn tpe	%	Mn tpe	%	Mn tpe	%	Mn tpe	%	Mn tpe	%	Mn tpe	%
EC -9	176.7	50.1	23.7	6.7	11.8	3.3	100.3	28.5	38.3	10.9	352.7	100
EC -6	100.1	41.3	22.2	9.1	11.4	4.7	77.3	31.9	29.6	12.2	242.5	100
Germany	72.5	60.3	20.9	17.4	7.1	5.9	13.9	11.6	4.9	4.1	120.1	100
France	19.0	44.5	1.0	2.3	1.5	3.5	6.4	14.9	14.1	33.0	42.7	100
Italy	0.1	0.3	0.2	0.9	1.2	5.0	11.9	49.3	10.5	43.5	24.2	100
Netherlands	1.9	4.0	-	-	1.6	3.4	45.0	92.5	0.1	0.2	48.7	100
Belgium	6.6	98.6	-	-	-	-	0.0	0.5	0.0	0.7	6.7	100
Luxembourg	-	-	-	-	-	-	-	-	0.0	83.9	0.0	100
Britain	76.6	70.6	-	-	0.3	0.3	23.0	21.2	8.6	7.9	108.5	100
Ireland +	0.1	3.9	1.4	87.9	-	-	-	-	0.1	8.1	1.6	100
Denmark	-	-	-	-	0.1	92.9	-	-	0.0	6.2	0.1	100

+ 1971

Table 3

RELATIVE IMPORTANCE OF THE COMMUNITY AND CERTAIN MAJOR COUNTRIES

1971	Population		Primary Energy Production (a)		Primary Energy Consumption (b)		(b) - (a)
	millions	%	millions tpe	%	millions tpe	%	millions tpe
EC-6	190	5.2	235	4.5	604	11.7	369
EC-9	253	7.0	355	6.8	840	16.2	485
USSR	245	6.7	975	18.7	798	15.4	-177
USA	207	5.7	1,464	28.1	1,679	32.4	215
Japan	105	2.9	49	0.9	254	4.9	205
-----	-----	-----	-----	-----	-----	-----	-----
WORLD	3,632	100	5,200	100	5,180	100	-

Table 4

PRODUCTION AND SUPPLY OF CRUDE PETROLEUM IN THE WORLD

1972	Production of Crude Petroleum A Mn tons	Purchases by EC-9		Purchases by US		Purchases by Japan	
		B Mn tons	% of A	C Mn tons	% of A	D Mn tons	% of A
AMERICAS	868	15	2	63	7	1	0
of which:							
USA	532(1)	0	0	/	/	0	0
Canada	88(2)	-	-	42	48	-	-
Venezuela	167	14	8	14	8	0	0
MIDDLE EAST	901	360	40	22	2	167	19
of which:							
Iran	254	63	25	7	3	79	31
Saudi Arabia	286	131	46	9	3	31	11
Kuwait and Nejd	182	80	44	2	1	38	21
Iraq	67	37	55	0	0	0	0
Emirates	87	40	46	4	5	12	14
AFRICA	274	170	62	23	8	5	2
of which:							
Libya	105	80	76	5	5	0	0
Algeria	52	31	60	4	8	-	-
Nigeria	90	50	56	12	13	3	3
FAR EAST	122	1	1	8	7	32	26
of which:							
Indonesia	54	1	2	8	15	32	59
China	30(2)	-	-	-	-	-	-
EUROPE (excl. EC-9)	420	13	3	0	0	0	0
of which:							
USSR	394	13	3	0	0	0	0
Rumania	14	0	0	-	-	-	-
Countries not specified	-	2	/	-	-	-	-
TOTAL NON-COMMUNITY COUNTRIES	2,587	560	22	/	/	/	/
EC-9	12	/	/	-	-	-	-
TOTAL WORLD	2,599	/	/	116	5	205	8

(1) including natural gas liquids

(2) including shale oils and bituminous sand oils

Table 5

USE OF PETROLEUM PRODUCTS BY MAJOR SECTORS (millions of tons)

1972	Transformations		Industry		Transport	Agriculture and Fishing	Households etc.	TOTAL
	Electric Power Stations	Gas Works	Energy Uses	Non- Energy Uses				
EC-9	72.7 (15.1%)	4.0 (0.8%)	107.6 (22.3%)	52.1 (10.8%)	112.9 (23.4%)	10.8 (2.2%)	122.2 (25.3%)	482.4 (100%)
Germany	9.6	0.5	25.7	16.3	29.9	1.5	44.5	128.2
France	12.8	0.7	26.7	7.7	22.7	3.2	25.6	99.5
Italy	16.9	0.2	17.1	9.2	17.2	2.0	20.6	83.1
Netherlands	2.5	0	2.5	6.0	6.6	0.4	6.8	24.8
Belgium	4.9	0	4.8	2.7	4.7	0.4	7.1	24.6
Luxembourg	0.1	0	0.7	0	0.3	0	0.4	1.5
Britain	21.0	2.2	25.5	9.5	27.1	2.1	10.4	97.8
Ireland	1.1	0.1	1.3	0.2	1.3	0.2	0.6	4.8
Denmark	3.8	0.2	3.3	0.5	3.1	1.0	6.2	18.1

