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IMPLEMENTATION OF THE ENERGY POLICY GUIDELINES
DRAWN UP BY THE EUROPEAN COUNCIL AT ITS MEETING IN ROME
ON 1 and 2 December 1975

(Communication from the Commission to the Council)

IMPLEMENTATION OF THE ENERGY POLICY GUIDELINES

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At its meeting on 1 and 2 December 1975 the European Council attempted to give fresh impetus to the activities of the Community institutions in three sectors of energy policy :

- the establishment of genuine solidarity among Member States in the event of oil supply difficulties;
- the encouragement of energy savings;
- the adoption of measures aimed at protecting or encouraging the development of Community energy resources.

In this communication the Commission :

- repeats the proposals which it has already made in these three sectors and which it asks the Council to adopt without further delay;
- outlines the basic features of other proposals which it could make and on which it desires the Council to hold a substantive discussion leading to approval of the Draft Resolution contained in Annex 1.

I. Community solidarity in the event of oil supply difficulties

It is of fundamental importance that the Community should not run the risk of finding itself in the same situation it faced during the supply crisis that occurred at the end of 1973 and beginning of 1974. That was the aim of two proposals for Council decisions drawn up by the Commission in 1974 (1) concerning, in the event of supply difficulties,

- the setting of a Community target for a reduction in the consumption of primary forms of energy;
- the maintaining of intra-Community trade in crude oil and petroleum products.

These two proposals do not constitute in themselves a means of distributing available supplies. Their sole objective is to ensure the unity of the Community market by facilitating use of supplies that will be available and, more particularly :

(1) cf. doc. COM (74) 1964 final, Annexes I and II.

- to set out the principle of Community solidarity in a model text requesting the Member States to make a comparable effort to reduce their energy consumption in the event of supply difficulties;
- to ensure that this comparable effort does not lead to distortions to intra-Community trade due for example to unco-ordinated and speculative measures as regards prices.

The Commission proposes that the Council should, in accordance with the political guidelines drawn up in Rome by the European Council, resume examination of these two proposals, which represent the indispensable minimum for protecting the unity of the internal market. The Commission reserves the right to propose further measures to this end, should the need arise.

II. Encouragement of energy savings

A. The Community has already taken several decisions committing it to a policy of rational utilization and saving of energy. The Council has approved :

- a Resolution on the Community action programme on the rational utilization of energy (1). As a result of this Resolution, the Commission has, with the aid of national experts, undertaken a thorough examination of the situation in the Member States and the measures that appear desirable at Community level;

- a Resolution setting a target for the reduction of oil consumption in 1975 (2);

- a Resolution setting a target for energy savings in 1976 and 1977 (3).

B. The Commission is forwarding to the Council (4)

- a first report on the execution of the Community action programme for the rational utilization of energy;

- five proposals for recommendations concerning measures on the thermal insulation of buildings, heating systems in existing buildings, the driving of road vehicles and the use of electrical household appliances.

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(1) O.J. No. C 153 of 9 July 1975, p. 5.
(2) idem, p. 9.
(3) Doc. R/2942/75 (ENER 93), 2 December 1975.
(4) Doc. COM (75) 691.

C. The Commission will later forward to the Council other reports on the implementation of its rational utilization of energy programme accompanied, where necessary, by new proposals for action based on the work of the national experts who are giving their assistance.

III. Protection and development of the Community's energy resources

A. The Community has set itself the target of reducing its dependence on oil imports: in a Resolution dated 17 December 1974 the Council listed the proposed targets for each source of energy which would allow the proportion of the Community's supplies accounted for by energy imports to be reduced to 50 % - and if possible 40 % - by 1985 (compared with 63 % in 1973).(1)

The Commission is also forwarding to the Council an initial report (2) which compares the Member States' current forecasts with these targets and specifies the obstacles that have to be overcome and the constraints that have to be considered if the course set out in the Resolution of December 1975 is to be kept.

One of the main constraints that will be encountered is the need to invest in order to maintain or increase Community energy production. The concerns and the public authorities are expected to invest within the Community an annual sum averaging approximately 22 thousand million u.a. over the next ten years. Of this total 5 % will go to coal, 27 % to the production of nuclear fuels and the construction of nuclear power stations, 33 % to the generation and transmission of electricity and 35 % to the hydrocarbons sector (oil and gas). (3)

The investment effort will of course only take place if the climate is favourable. The aim of reducing dependence on energy imports thus involves the necessity of reducing as much as possible the many uncertainties which would prevent or delay investment decisions in the current and future state of the energy market.

The price of imported oil will continue to exert a considerable influence on the price of other sources of energy and thus on the viability of investments that will be made in to this sector in the Community. The experience of the sixties has shown the degree to which oil can take the place of other energy sources, particularly coal, if its price remains very low.

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(1) O.J. No C 153 of 9 July 1975.
(2) Doc. COM (75) 689.
(3) Provisional estimates based on an examination of national investment programmes conducted by the Commission with the aid of experts from the Member States.

But it should be noted that, if this price, which is currently around \$12 for reference crude[1], should fall in real value to \$7, then 25-30% of the energy production forecast for the Community in 1985 would no longer be economic. If the price fell to \$5, around 50% would be uneconomic. In the face of these risks, even if it appears unlikely that either the play of market forces or an OPEC decision could bring about in the long term a drastic fall in the price of oil, the question of establishing measures for protection and encouragement arises.

B. The basic mechanisms proposed by the Commission

The Commission asks the Council to state its position on the protection or incentive measures described below. In some cases the Council has already received formal proposals upon which it has to give a ruling: in other cases the Council should express its approval in principle by adopting the resolution contained in Annex 1.

The protection or support measures to be adopted to attain the objective oflesser dependence should correspond to "reasonable economic conditions", which presupposes in each case as detailed a cost-benefit analysis as possible of the planned operation and the proof that :

- the sector in question is faced by a genuine problem demanding intervention by the public authorities;

- that the intervention requires, at least in part, a Community effort.

Furthermore, consumer prices must reach a reasonable level to guarantee economic returns to the industry and to encourage the consumer to use available supplies more efficiently.

1) Coal stocks

The Commission asks the Council to express its opinion on the advisability of measures to lessen the financial burden arising for the coalmining industry from the stocking of an increasing proportion of its production.

[1] Arabian Light.

Structurally, it is difficult to adapt coal production to short-term market fluctuations. The formation of a certain level of stocks is inevitable to enable the mines to maintain a certain level of production. However, very unfavourable economic circumstances may increase these stocks to an exceptionally high level, as is the case at present. Financing such a level of stocks involves expenditure exceeding the normal economic conditions of coal production. Finally, the burden of this expenditure could lead to the closure of production capacities which are however surplus only for the time being. The aim of maintaining the current level of Community production would therefore be jeopardized.

Community action to finance these stocks - added to other measures designed to support production and bring the market into equilibrium - would make it possible to lighten the burden on the mining industry. It would be a short-term measure to be introduced at Community level, independently of any national measures, whenever stocks exceeded normal operating requirements. Intervention could be varied depending on the use of the stocks. This does not preclude national measures which might go beyond those of the Community and whose approval depends on other considerations.

The Commission considers that the Community should allocate annually a maximum sum of 50 million u.a. for intervention purposes; beyond this any aid should be national. To finance the system the Commission proposes to use Article 235 of the EEC Treaty as a basis.

Annex 2 contains detailed information on the various possible systems.

2) Aid to coking coal

Since 1967 the Community has had a support system for coking coal and coke intended for supplying the steel industry (1); this system will remain in force in its present form until the end of 1978.

(1) Decision No 73/287/ECSC of 25 July 1973, OJ No L 259 of 15 September 1973.

The Commission considers it necessary to extend the period of validity of this decision until 1985, so that it remains effective throughout the whole of the period covered by the Council Resolutions on the objectives of the common energy policy and by the Commission document "Medium-term guidelines for coal 1975-1985".(1)

The Decision currently in force provides for a reduction in 1977 and 1978 of the contributions made by the Member States, the steel industry and the ECSC Budget to finance the aid. As the Decision should remain in effect for a longer period, the Commission considers that this provision should be rescinded.

When it is rescinded, the need to adapt other parts of the Decision could also be considered in the light of the experience of these last few years.

3) Development of oil and gas resources

The Council has received Commission proposals for increasing support for technological development projects and for granting Community aid to exploration projects in the hydrocarbon sector. These measures are an important part of the strategy proposed for protecting and promoting energy production.

All in all, the measures now proposed would represent little more than 1% of the total annual expenditure by industry and the public authorities on research and technological development and on prospecting for and producing hydrocarbons. This type of action by the Community will account for a very small share of expenditure, but it is concentrated on forward-looking sectors where special difficulties are encountered, and is likely to have an appreciable multiplier effect on the development of resources.

4) Introduction of a minimum import price for oil

The introduction of this minimum price would create a sort of safety net against the uncertainties affecting the world price of oil. It may be asked whether this net would ever be needed in practice, but this does not reduce the need to establish it as a precautionary contribution to a climate that will be generally favourable to investment.

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(1) Doc. COM(74) 1860 final.

This measure would primarily benefit hydrocarbons (oil and gas from large fields) as well as nuclear energy and coal, which would be protected indirectly in so far as the minimum price prevented further mine closures.

As it would only be used in a situation which may be considered today as unlikely, the minimum price for imports is certainly not the only element of the measures to be adopted. It does however offer the advantage of setting a limit to the cost of special measures that would be taken by the Community.

It is not necessary at present for the Council to state its position on all the technical aspects of this machinery. In the opinion of the Commission, its approval of the principle and the basic outlines is enough though this is vital.

5) Financing nuclear installations

The Commission asks the Council to adopt without further delay the draft Decision forwarded, which aims at authorizing it to issue Euratom loans to a value of 500 million u.a. as a contribution to the financing of nuclear power stations and fuel-cycle installations.(1) At its meeting of 26 June the Council recognized the importance of this draft from the point of view of the energy policy.[2]

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Promotion of uranium prospecting

The current prospects of developing natural uranium production in the world raises the fear that supplies might become tight in around ten years' time. In view of the time needed for bringing supplementary production capacities into operation to reduce the risk of shortage, prospection must be encouraged now.

Article 70 of the EAEC Treaty authorizes the Community to give financial support to prospecting programmes on the territories of Member States. A sum of one million u.a. was entered in the 1976 Budget for this purpose.

(1) Doc. COM (74) 2070 final.

(2) Summary of decisions taken by the Council at its 348th meeting, Doc. R/2031 (ENER 75) p.4.

The Commission indicates in Annex 4 the scale of the efforts to be undertaken in the uranium prospecting sector and the ways in which it intends to use the appropriation.

C. Other measures to be studied

The foregoing measures do not cover all conceivable fields of activity; they are limited to what appears indispensable and currently possible.

The Commission would like the Council to engage in a policy debate on the three following types of measures which appear worthy of consideration at present.

Using this discussion as its basis, the Commission will, with the help of the Energy Committee, engage in a more thorough examination of the form any future action in each of these sectors will take.

1. Promoting the use of coal in thermal power stations

The Community has already adopted measures which, by restricting the use of hydrocarbons in power stations (1), should to a certain extent encourage increased use of coal in this important sector of consumption. Some Member States have also taken various steps towards the same end.

However, this gives rise to the question of how effective all these measures are. The Commission believes that there should be consideration of the possibility of backing them up by granting special aids to power stations using coal, by imposing a tax on heavy fuel oil or by encouraging the refineries to equip themselves in such a way as to convert their fuel oil surpluses into intermediate or light products. (See Annex 4)

2. Guarantee for new investments

Some investment projects in the energy production sector which are of considerable interest to the Community as a whole may be exposed to exceptional risks. In view of the uncertainty as to oil price movements, even some investments which would be competitive with current oil prices might not come to fruition.

(1) Council Directives 75/404/EEC and 75/405/EEC, OJ No L 178, 9 July 1975, pp. 24 & 26.

One way to encourage them could be to cover them against losses arising from any reduction in the price of imported oil. This cover would however only be granted on a case-by-case basis, following a thorough examination according to predetermined criteria. If operated, this guarantee would not prove to be an excessive burden on public funds, firstly because of the initial selection of projects and secondly because of the workings of the minimum import price mechanism which would pass on to the consumer part of the burden of protection if the price of imported oil were to fall drastically.

In-depth studies are still necessary before it is possible to assess the workings and the cost of such a guarantee system. As a first stage, the Commission proposes to examine with the help of the Energy Committee a series of hypotheses based on the probable cost and profitability of specific projects. During this examination, it will be necessary to ensure that the system contemplated does not allow beneficiary firms to achieve excessive profits or avoid their due industrial and commercial risks.

3. <u>Utilization of the Community's loan capacity</u>

For more than twenty years the ECSC's loan capacity has allowed it to back the coal industry's investments by lending funds obtained at favourable conditions on the international money market.

As stated above, the Council has been sent a proposal to authorize the Commission to act in a similar fashion to aid the construction of nuclear power stations. Finally, EIB activities in the hydrocarbon and electricity sectors have assumed considerable importance over the years.

The question arises of whether the foreseeable increase in the proportion of industrial investment accounted for by energy investment does not justify a strengthening or greater diversification of this type of Community intervention. The examination of the financial requirements of the energy sector between now and 1985 which the Commission is conducting with experts from the Member States - along the lines set out by the Council debate at its meeting of 25 June in Luxembourg - should provide at least a partial answer to this problem. The results of this study will be dealt with in a report to the Council.

). <u>Examination of investment programmes</u>

In general, the Commission, with the help of the Energy Committee, intends to examine continuously the progress made in developing energy resources in the Community and to review wherever necessary the quantified objectives of the Community energy policy. This will allow it to identify any shortcomings in, and the obstacles facing, the investment programmes of the Member States and the Community.

Eventually, the Energy Committee could be informed every year of the results of this examination of national investment programmes.

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To sum up, the Commission feels that the corpus of guidelines and measures it is putting forward to the Council for approval should be re-evaluated at a future date in the light of changes in requirements and in the objectives the Community decides to pursue towards the establishment of its energy policy. This implies the possibility of revising or adapting the measures planned and proposing further measures.

The Commission would like to stress that the various measures to be taken to protect or promote energy production in the Community must form a balanced whole. Nevertheless, it should be possible to adopt those elements of the whole which appear ready for decision as soon as there is a sufficiently clear idea of the balance to be achieved without waiting for the other items to reach the same state of progress.

The implementation of a policy of production and development of resources is a dynamic process which must be conducted without interruption; Council approval of the Draft Resolution contained in Annex 1 would be a new and important step along this course.

DRAFT COUNCIL RESOLUTION

The Council of the European Communities,

Whereas the European Council, which met in Rome on 1 and 2 December 1975, laid down guidelines for the protection and development of the Community's energy resources;

Having regard to the Treaties establishing the European Communities;

Having regard to the Communication from the Commission;

Whereas the minimum possible degree of dependence by the Community on imported energy remains a fundamental and permanent objective of the Community energy policy;

Whereas this objective requires the adoption of appropriate measures to ensure the development and protection of the Community's energy resources;

Whereas such measures must be based on general policy designed to ensure a balanced distribution of the burdens and advantages within the Community;

Whereas such a general policy should not prevent the gradual implementation of specific guidelines or measures wherever they might appear justified,

1. - acknowledges the need for Community measures to lighten the financial burden represented by the cyclical stocking of coal
   - notes the Commission's intention to present proposals in this connection, on the basis of Article 235 of the EEC Treaty, for allocating an appropriation in the sum of 50 million u.a. maximum.

2. - acknowledges the need to extend until 1985 the application of Decision 73/287/ECSC on aid to coking coal and coke
   - notes the Commission's intention to examine whether the provisions of that Decision can be improved in the light of the experience gained by them.

3. approves the principle of the adoption by the Community of a system of minimum import prices for oil;

considers that such a system should:

- be based on Article 113 of the EEC Treaty and be capable of being brought into play on that same basis;
- come into play at a threshold of $7 per barrel fob for reference crude;
- initially be applied to crude oil and its heavy and medium products, it being understood that a thorough examination is required in the case of the light products;
- enable the Community to obtain own resources from the application of the system;

notes the Commission's intention to present it with proposals on the preceding points and to continue its study of the other variants of such a system.

4. notes the Commission's intention to study and, in the light of its conclusions, to present to the Council as soon as possible any other suitable measures to ensure an economic and balanced development and protection of the Community's energy resources; such measures include:

- the promotion of the use of coal in thermal power stations;
- guarantees for new investments
- the use of the Community's ability to obtain loans.

Community financing of coal stocks

1. Technical problems

Coal and coke stocks are held by producers, traders, importers and consumers. For simplicity's sake, the following points concerning a Community financing system relate only to the amounts of coal and coke financed or stored directly or indirectly by producers; to simplify further, coke was not converted into terms of coal when the figures were drawn up.

Coke stocks held by independent coking plants or steelworks coking plants were disregarded and will be examined later.

In practice it is difficult to differentiate between operating stocks and pithead stocks in the true sense of the term. The figures given are based on total stocks; operating stocks are expressed therein in terms of half a month's output. Such stocks must be financed by the producers in every case.

2. Amounts

The volume of stocks held at the end of 1975 and the stock capacities of the producers can be estimated as follows :

(million tonnes)	UK	D	F	B	Community
a) total coal and coke stocks at the end of 1975	16.0	19.2	7.5	1.4	44.1
b) storage capacity	34.0	24.0	11.5	2.5	72.0
c) operating stocks	5.2	4.2	1.0	0.3	10.7
d) difference between (a)and (c)	10.8	15.0	6.5	1.1	33.4
(e) difference between (b) and(c)	28.8	19.8	10.5	2.2	61.3

(d) indicates the present amount of pithead stocks in the true sense of the term, i.e. excluding the operating stocks. (e) indicates the maximum possible amount of pithead stocks in the true sense of the word.

3. Costs

The storage costs include amounts written off for depreciation, interest and sundry costs involved in building up and running down stocks. According to available information they amount to 6-7 u.a. per annum per tonne of coal, and 8-9 u.a. per annum per tonne of coke. The costs differ in the individual Member States. No differentiation has yet been made between coal and coke.

Taking the sum of 7 u.a. per tonne as a basis for calculating the cost of maintaining stocks, the total annual cost to the producers of maintaining the 33.4 million tonnes of pithead stocks referred to in section (2) totals 233.8 million u.a. The capital sum locked up in those stocks amounts to 1 670 million u.a., taking 50 u.a. as the average value per tonne.

4. Questions connected with the Treaties

The necessary financial means can be made available within the framework of either the EEC Treaty or the ECSC Treaty, but the latter course would require either a substantial increase in the levy (of the order of 0.15 %) or a complete restructuring of the research programmes and the interest rate subsidies.

The financing of pithead stocks from Community funds should be regarded as a measure designed to attain the energy policy objectives laid down by the Community on 17 December 1974. On the basis of Article 235 of the EEC Treaty, the necessary means could be made available in the general budget of the European Communities.

Application of funding available under Article 70 of the Euratom Treaty

Need for financial support

1. The Commission was specially asked by the Council at its meeting on 13 February 1975 to prepare measures within the nuclear fuel supply policy to ensure economically secure reserves for the Community. These measures should be seen in the context of the Communities' projected requirement to import 90% of its natural uranium requirements in 1985.

2. The Community has to ensure security of supply by diversifying as much as possible its sources of supply, bearing in mind the changing natural resource policies of some of the uranium-producing countries. The recent rise in the price of uranium has provided an incentive for reassessing the Community resources. However, the prospects for uranium discovery in the Community, though reasonable, are not as yet known to be as attractive as elsewhere. For this reason some extra incentive to promote prospecting within the Community is necessary. In any case investment should be made as soon as possible owing to the long lead-times of from 7 to 10 years from uranium discovery to production.

3. Having the powers under Article 70(1) of the Euratom Treaty, the Commission is intending to support uranium exploration within the Community.

4. An amount of 1 million u.a. has been appropriated by the budgetary authorities for the year 1976, to initiate the implementation of the Council's decision to increase the security of natural uranium supplies by developing reliable and economic resources inside the Community. The Commission will further propose appropriation of suitable amounts to follow up this action.

PROGRAMME MANAGEMENT

5. The Commission, aided by an advisory group of geologists,has started to identify priority areas where this funding is required. The Commission departments are preparing a draft Commission regulation on the support of Community projects concerning uranium prospection programmes within the territories of the Member States. After approval by the Commission of this regulation and of a draft contract, an invitation to tender will be published in the Official Journal of the European Communities.

6. After consultation with an advisory group of experts from the Member States, the Commission will select the projects to be supported. The operator for the project will be the organisation submitting the proposal.

CRITERIA FOR APPROVING PROGRAMMES

7. Those projects approved must be seen to be of Community interest and benefit. They should promote exploration that otherwise would not be carried out and extend the techniques of uranium exploration. The programme must be fair and equitable to the Member States.

Encouraging coal use in power stations.

The continuing importance of coal and oil in the electricity production of the Community can be shown as follows:

		1975	1980	1985
Expected total production		1023 TWh	1450 TWh	1975 TWh
of which -	from coal	28.5 %	23.8 %	18.7 %
	from oil	24.4 %	28.3 %	20.7 %

The production from coal represents a coal consumption of some 120 Mtec in 1980 and 130 Mtec in 1985, which is less than the minimum expected coal production capability by some 10 Mtec in 1980 and 20 Mtec in 1985.

The possibility of achieving or improving upon the future expected coal consumption is dependent upon the price at which coal will be available; in 1985; it will also be dependent upon investment decisions by the electricity producers for new coal-burning plant. The electricity producers are reluctant to invest in such plant because of doubts about the soundness of such investment in economic terms.

The possibility of a levy on heavy fuel oil to make oil-burning power stations less attractive would affect only existing stations and those currently under construction (Council Directive No 405/75 restricts the use of oil in new power stations).

Possible measures to encourage the continued and increased use of coal in power stations could include the following:

1. Requiring the electricity producers to build more coal-burning power stations (with financial assistance, if necessary).

2. Ensuring the competitivity of coal compared with fuel oil by means of guarantees and (if necessary) subsidies.

3. Encouraging modifications to refineries to reform surplus fuel oil into middle and light products.

If these measures should lead to tariff increases, care must be taken to ensure that they do not appreciably hinder the desired penetration of electricity.

Community countries with no indigenous coal production may be encouraged to use imported coal, both from the Community and elsewhere. Coal imported from secure sources outside the Community has certain price advantages and could play a significant part towards reducing dependence on imported oil.

Clearly, the encouragement of coal use in power stations is a very complex problem; it is being carefully studied by the Commission, which is attempting to take account of the different situations in each of the Member States in this matter.

It should be recalled that some measures to encourage the use of coal in power stations have already been taken in different countries of the Community.

Mention can be made, for example, of the payment of a subsidy to electricity producers to compensate for the difference between the cost price of a calorie obtained from coal by comparison with that from oil. This subsidy is financed by an equalisation tax levied on all electricity producers, which is then passed on to the consumer by a tariff increase which has to remain within precisely stated limits.