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community**

# BACKGROUND INFORMATION

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BACKGROUND INFORMATION

## COMMON MARKET TACKLES THE ENERGY CRISIS

Anyone trapped in an elevator midway up the Empire State Building during New York City's fabled "blackout" knows that electrical power and energy in general are not to be taken for granted. The six member countries of the European Community-- with historically less abundant and more expensive energy sources than the United States -- have never taken energy for granted and are now embarked upon a common Community policy for energy.

The United States and the Community are "in the same boat" when it comes to energy, according to European Commission Vice President Wilhelm Haferkamp, who conferred with US officials in Washington early this month on the shared energy shortage. Mr. Haferkamp, who is the Commissioner responsible for energy, also visited the US Atomic Energy Commission headquarters in Germantown, Md. and made a two-day tour of oil and natural gas operations in Alaska.

Mr. Haferkamp's visit underlined the increasing importance of energy in the European Community: Internal energy consumption has tripled during the last 21 years -- in 1971 consumption amounted to about 871 million tce (metric tons of coal equivalent). (See Table I.) Investment in energy accounts for a quarter of all industrial investment. More than a million workers are employed in the energy field.

With increased industrialization, a rising standard of living, and the general expansion of the European economy, energy consumption should continue to grow at a 5 per cent rate in coming years. By 1985, internal Common Market energy consumption will reach 1.80 billion tce. One billion tce will be needed for industry, 570 million for domestic consumption, and 230 million for transport.

#### Fossil Fuels Still Meet Most Community Energy Needs

Like the United States, the Community relies less and less on coal to meet its energy requirements. Coal, which in 1950 met 70 per cent of the Common Market's energy needs, now supplies only 20 per cent.

Also like the United States, the Community is turning toward natural gas and oil. While 21 years ago little natural gas was used as fuel, it now meets 11 per cent of the Common Market's energy demands. Oil now supplies 60 per cent of the Community's energy requirements, up from 12 per cent in 1950.

The Community, in fact, is the world's greatest importer of oil -- 412 million metric tons in 1971. (See Table II for major suppliers.)

Contrary to optimistic expectations, nuclear energy has developed slowly in the Community. The 4,323 electrical megawatts produced by the Community's nuclear reactors in 1971 amounted to only 1 per cent of the Common Market's total energy consumption.

#### Forestalling an Energy Crisis

Throughout the industrialized world, recurrent forecasts of an imminent energy crisis have generated interest in developing "national energy policies." In the United States, for example, a 15-month, \$2-million study recently undertaken by the Ford Foundation will, in the words of the Foundation President McGeorge Bundy, "help prepare an informed and reasoned base for a national energy policy."

In the European Community, a common energy policy -- discussed for years -- is becoming a reality. The objective of this policy is threefold:

- \* to increase and coordinate efforts in research and development
- \* to secure an adequate supply of energy at low and stable prices
- \* to create a common market for energy.

Early this year the European Communities Council of Ministers agreed that member states should notify the Commission annually of investment plans for oil, natural gas, and electricity. Twice a year the member states must also tell the Commission how much crude oil and natural gas they have imported during the previous six months. In addition, each December 31 the Commission is to receive import projections for the coming year.

While only a first step, gathering and centralizing information is the point of departure for any new policy. On the basis of this information, the Commission will publish annual energy reports, including analyses both of the Community's past and future energy development and of worldwide energy needs and supplies.

#### Other Steps Toward a Common Energy Policy

Since the Community depends on outside sources for two-thirds of its energy supplies, contingency plans are essential for future emergencies (such as the 1956 Suez Crisis). Thus, the Council adopted in December 1968 a directive requiring member countries to maintain a 65-day stockpile of oil, which the Commission has proposed be increased to 90 days.

The unpredictable supply of foreign oil is as much a problem for the Community as for the United States. Even with oil depletion allowances and import quotas to encourage domestic exploration, the United States may be spending \$15 billion a year for foreign oil by 1985. The Community, on its part, hopes to reduce reliance on oil through diversifying energy sources and increasing energy research and development.

The development of nuclear energy would lessen the Community's dependence on foreign sources for energy, but the cost is often prohibitive. A Community program of loans for developing nuclear reactors is under consideration. To meet the Community's need for nuclear fuel, negotiations are underway with the United States for supplying enriched uranium.

A True Common Market Means a Community Energy Policy

Besides its importance to keep homes and industry running, energy is also a means to an end.

Because energy accounts for an average 8 per cent of the cost of industrial production, it influences a product's selling price. Differences in energy supply and national legislation on energy distort competition. Moreover, industry naturally sprouts in areas where energy is abundant and cheap, thus hampering regional development policies.

The Commission has made proposals concerning harmonization of national energy taxes and hopes for eventual harmonization in the construction and use of refineries, pipelines, and gas stations -- and, of course, in energy prices.

The quest for objectives like these is indicative of the European Economic Community's intention of becoming a true "common market."

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TABLE I

The Community's Gross Internal Consumption of Primary Energy Since 1950

(in millions of tce\*/per cent of total)

	<u>1950</u>		<u>1960</u>		<u>1970</u>		<u>1971</u>	
Coal	210	70%	243	52%	189	22%	177	20%
Lignite	23	8%	32	7%	33	4%	32	4%
Oil	35	12%	138	30%	500	59%	521	60%
Natural Gas	1	-0-	12	3%	73	9%	93	11%
Primary Electricity	31	10%	39	8%	49	6%	48	5%
TOTAL	300	100%	464	100%	844	100%	871	100%

\* metric tons coal equivalent

TABLE II

The Community's Main Oil Suppliers

(in millions of metric tons)

	<u>1970</u>	<u>1971</u>
Mideast	194.6	234.8
North Africa	157.4	115.8
Equatorial Africa	24.3	35.8
Western Hemisphere	12.5	10.3