

OIL AND GAS POLICY IN THE EUROPEAN COMMUNITY

A speech by

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Communities

to

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COMMUNITY

I. The importance of North Sea Oil and Gas to
the European Community

Many of you are well aware, I am sure, that the European Community intends to make a major effort between now and 1985, to reduce dependence on imported energy, and to diversify sources of supply. This effort is expressed by the energy targets adopted by the European Council of Ministers in December 1974.

These targets set out to reduce Community dependence on fossil fuel imports from the present 60% or so of total energy requirements to around 50% at least, and 40% if possible by 1985.

/In this the North Sea...

In this the North Sea will play a key role : first as an indigenous source of oil and gas supplying up to 12 to 15% of Community energy requirements in 1985 ; secondly as a privileged source of imports worth, perhaps, a further 5 to 7% or so of requirements.

By way of comparison, in 1985 coal should be providing a further 14 % or so of Community requirements, and nuclear energy another 13 % or so.

Quite clearly, the development of the North Sea must be one of the central pillars of the Community's energy supply policy.

2. The Community role in developping North Sea Oil

It is important to understand that the objectives I have just outlined to you, and the figures which go with them, reflect what appears to be politically possible for Norway and the United

/Kingdom, rather than ...

Kingdom, rather than what might

be technically possible. Thus these figures are entirely consistent with production forecasts published by the governments concerned for the 1980's.

But it is no secret that the Community as a whole would like to see oil and gas resources developed at the upper limit of what is politically possible. And thereby lies the first function of the Community ; - to create a general environment in which the pursuit of the common interest can be made to be and be seen to be consistent with the national interest.

In this context, I would like to underline the importance of the social and political problems which the countries most directly concerned with developing North Sea Oil have to face at the moment. North Sea Oil and gas is a great potential benefit but also a risk.

/For Britain the risks are above

For Britain the risks are above all economic. The costs of developing North Sea Oil and getting it ashore are rocketing. If they continue at the present rate, the economic viability of many marginal fields, particularly those yet to be developed, could easily be jeopardised. A modest fall in world oil prices by around 3 dollars a barrel in real terms over the next five years could put those fields in real trouble.

Estimates of the scale of present and future investment in the North Sea vary widely, but some have estimated that up to 5 thousand million pounds sterling could have been directly invested in the British sector by 1980, with more than that again in ancillary facilities.

If a significant proportion of this investment was to go sour, it would be a major catastrophe for the United Kingdom economy, which cannot afford

/a transfer of resources...

a transfer of resources into ultimately non-productive uses.

For Norway, the risks take on a more social and regional character. But if the character of the problem is rather different, the fact for Norway too, there are risks, even if rather more qualitative, in the development of North Sea resources.

The development of a Community oil and gas policy must be such as to respond to these problems. And in so doing, it will respond to some of the most important uncertainties that the companies face in North Sea exploration and production. The kind of Community framework we are considering would go a long way towards reducing uncertainties in three crucial areas.

- first ; future trends in prices of crude and oil products
- secondly ; the terms on which finance will be /available to industry ...

available to industry, and, above all, the sheer availability of that finance

- thirdly ; the problems we may anticipate due to over-capacity in the refining sector, to increased product imports, and inadequate returns, in general, on downstream investment.

But before coming as to discuss in more detail how such a policy might develop in concrete terms, and the obstacles which have yet to be overcome, let me pause a while to stress the importance of the effort which is already underway within the Community, to support indigenous oil and gas production.

3. The European Communities present policies

What I am going to say later might give the impression that there is a very long and difficult road to travel before a coherent and detailed Community oil and gas policy could be said to exist.

To some extent, that is true, but I think it is

/important to note ...

important to note what is already agreed, which is in my view, of some considerable significance.

But before coming on to discuss measures which directly support oil and gas exploration and production, I would like to underline the importance of the support in the market place which the energy policy adopted by the Community last December offers.

How does this support operate ? By enhancing the market for oil and gas. Thus oil and gas resources will be channelled into those uses where substitutes are least easily obtained, so that the optimum use is made of a scarce and valuable fuel. The use of oil and gas as a basic source of heat will be minimised, except where environmental conditions require it (o.g. gas used for space heating of urban dwellings). This will be achieved by the accelerated development of alternative energy resources and an active programme of energy

/conservation, involving

conservation, involving an investment commitment (oil and gas excluded) of well over 65 thousand million pounds sterling in the period 1975-1985 (over 130 milliard UC), for the Community as a whole.

In figures, this effort should have the following consequences :

- even if the EEC economy grows at 4 % p.a. over the period 1975-1985, an energy conservation programme should ensure that overall energy requirements do not grow at more than 3 % p.a.

This should result in a saving of around 250 million tons oil equivalent in 1985 - not much different from probable North Sea production in that year.

- whereas, in the period 1960-1973, for each 10 million tons oil equivalent increase in overall energy requirement, oil and gas

/requirements increased by ...

requirements increased by 13.4 million tons, in the period 1974-1985, for each 10 million tons oil equivalent increase in overall energy requirements will only increase by around 6.4 million tons oil equivalent. This will be achieved by an ambitious programme for nuclear power and by maintaining the current level of Community coal production.

- a more rational use of oil and gas resources will be ensured. The Council of Ministers have already adopted a directive restricting the use of oil and gas in power stations. Whereas 41 million tons of oil and gas were used to generate electricity in 1973, only, at the most, some 22 million tons will be so used in 1985, with the rest of the electricity supply being generated from coal and nuclear sources. By 1985, nuclear power could be beginning to play a significant role as a source of process heat for industry.

/The importance of this ...

The importance of this policy is as follows :

First : all member States are firmly committed to an energy conservation policy, and all of them, though to a greater or lesser degree, see the price mechanism as one of the most important ways of achieving it. Thus even if world prices fell, this would be an argument for maintaining domestic energy prices relatively high ;

Secondly : member States are committed to replacing oil as a source of heat and many kinds of power by nuclear and coal-generated electricity. Thus, increasingly, economic growth will no longer be thought of as being underwritten by cheap oil, and the resistance to high oil price will weaken as oil is channeled increasingly into those activities for which substitutes are relatively hard to find, for example, transport and chemicals manufacture.

Thirdly : to maintain their commitment to developing

/alternative fuels to

alternative fuels to imported oil, member States will want to ensure that their determination is not tried too sorely. Thus, if we are to rely exclusively on a select subsidy system, a collapse in imported energy prices, if passed on to the consumer, could eventually reach a point where the expenditure burden for the public sector was no longer supportable. In other words, I believe governments are committed to avoiding a replay of our experience in the 1960's, if necessary by general measures of market protection. The argument, of course is about how to do it, when to do it, and at what price level to do it - but I believe there is now a general acceptance of the idea. There can be no doubt that as the process of upgrading the uses to which oil and gas are put proceeds, it will become much easier for Community countries as a whole to envisage relatively high market guarantees for oil and gas against the risk of a world price fall.

/Now, let me come back ...

Now, let me come back to technical and financial problems and talk in terms of direct support. The European Community already has instruments of relevance to this field. The European Investment Bank is beginning to be a significant source of finance - loans to the British sector alone are now running at well over 60 million pounds sterling so far. Funds have been provided through the Community's Social Fund to help training programmes for North Sea divers and training in offshore drilling technology. A regulation exists providing for Community support for projects designed to advance technology in the field of oil and gas exploration, production, transport and storage. A budget of some 13 million pounds sterling (25 MUC) per annum was voted in 1973 under which some 21 million pounds sterling (42.5 MUC) has already been approved as support for a first series of 21 projects.

/Because of the tremendous ...

Because of the tremendous response this last scheme has had from industry, the European Commission is now seeking to raise the budget ceiling to around 25 million pounds sterling per annum (50 MUC). Meanwhile for the 1975 exercise, 120 requests for support were received related to proposed investments totalling some 124 million pounds sterling (247.3 MUC) between 1975 and 1977. Faced with this avalanche of proposals, the Commission is proposing to the Council of Ministers a further series of 38 projects for the 1975 exercise supported to the extent of some 22 million pounds sterling (44.7 MUC), and representing a further overall investment effort of some 60 million pounds sterling (118 MUC) between 1975 and 1977. The Commission points out that, had the budget ceiling been higher, other worthwhile projects could have been supported

/from amongst those submitted.

...

from amongst those submitted. It may also be of interest for you to know that one of the projects which it is proposed to support concerns offshore production in Arctic conditions, such as are found in off-shore Greenland.

But while we are pleased with these successes, there can be no doubt but that they are a very modest beginning. And so the European Commission is actively developing a whole series of proposals linked to a possible four-to-five fold increase in the overall level of Community financial involvement in energy. Currently this involvement is running at around 5 to 6% of energy investments in the Community, involving around 310 million pounds sterling a year.

This four to five fold increase should, of course, be seen in the context of what remains to be done in the next ten years to implement the strategy

/the Community has adopted - ...

the Community has adopted - an effort which could involve a total expenditure of up to 100 thousand million pounds sterling, for the Community as a whole. (200 milliard UC).

Whatever increases are finally agreed, a substantial share will obviously be directed towards North Sea oil and gas. In this context, one specific instrument being actively considered is Community support for exploration and production in especially difficult conditions, particularly aimed at easing the problems of marginal fields. This would relate to off-shore developments in general, of course, not just those in the North Sea, though the question of what kinds of geographical limits to consider is one which is the subject of spirited discussion with the Council's committees at this very moment.

/Policy developments in near future

As far as the production of oil ...

Policy developments in near future

As far as the production of oil and gas within the Community is concerned, the Commission feels that it has defined the principles for common action. Now the urgent necessity is to translate these principles into a further series of concrete actions.

We can only do this in close consultations with the governments and the industries concerned. We have to build up a sense of fellow-working and mutual comprehension much larger than exists today. In that context, may I say how much I welcome the very specific suggestions you have put forward in your "Memorandum on Financing North Sea Oil". It is just the kind of clear position statement we are going to need to make progress.

/We are proposing to ...

We are proposing to member States and companies a procedure to build up this mutual comprehension by consultation, not only through the unofficial channels which already exist, but through more regular official consultations with individual firms and representative bodies. When dealing with neutral technical questions, for example, such as storage problems, we think there should be representative bodies of the oil industry to advise the Commission.

We are proposing a list of specific points to study together, to promote the development of Community production. I have circulated this list for your information and comment.

Our intention, on the basis of these consultations, is to make early progress in four vital areas :
first : the establishment of guaranteed offtake

/levels if world prices fall ...

levels if world prices fall appreciably in relation to Community costs of production ;
secondly : the underwriting of investment in Community oil and gas production so as to ensure a reasonable rate of return ;

thirdly : an adequate utilisation of existing refining capacity and any new construction, taking into account developments foreseen outside the Community ;

fourthly : a price structure which balances the needs of the consumer with an adequate rate of return on downstream investment.

5. The role of small and medium-sized companies

What could be the role of the small to medium-sized company in all this ? First I should make it clear that there are no commitments as to the future role of small and medium-sized companies in exploration and production in any of our policy statements to date. This is one important aspect of policy on

/which we would welcome the ...

which we would welcome a closer understanding with you.

But I may say that our prejudgement is favourable. The one specific scheme we have at the moment to support technological development has turned out to be of particular interest to such companies as yours, and I am not surprised to see your memorandum suggesting that the proposed support for exploration in difficult waters is of equal interest to you.

For myself, I see your role as being necessarily rather limited because of the economic realities of offshore activity, but nonetheless of particular importance in taking on new initiatives and new approaches to the problem. Secondly, I believe it is important for the Community to ensure the widest possible involvement of firms whose activities can further the interests of the Community.

/However we do attach great ...

However we do attach great importance to the role of small and medium-sized companies in downstream activities. They help keep competition alive, to diversify sources of supply, and to level out prices by developing the trade in refined products.

Immediately after the oil crisis in the winter of 1973/74, many people saw little hope of a prosperous future for such companies, but with the development by oil producers of their own refining capacity and, more generally, of their own oil-trading companies, the existence of these companies takes on a new significance.

Nevertheless, to take advantage of these long-term changes, small and medium-sized companies will need to cooperate much more, not only to ensure regular supplies at competitive prices without excessive dependance on one supplier, but also in marketing, and the management of storage capacity.

/The function of buyers'

The formation of buyers' cooperatives, especially if on a Community scale, could enable small and medium-sized companies to deal directly with undertakings in oil exporting countries, by means of long-term contracts. Given this kind of continuity, independants could envisage their own refining, or the signing of long-term processing agreements with existing refineries.

To encourage this role for the independants, the Commission can help, first of all, by ensuring that national and Community rules on competition are properly applied, and by preventing discrimination by the oil majors. In particular, the common-carrier principle must be observed by operating companies as regards pipelines within the Community.

In the longer term, the development of a Community oil and gas policy should help remove remaining barriers to the free circulation of petroleum

/products, and to the free ...

products, and to the free establishment of firms. Last and very important, the Community can help ensure the survival of the independents in the event of a crisis. Apart from the Commission's proposals for an allocation system linked to an obligation for refining companies to supply, the Commission has envisaged the possibility of a compensation fund to cover any temporary difference between the independents' purchasing cost and those of international companies.

But by and large the Commissions' approach in this sector is to restrict itself to making things possible, and to rely upon the initiative of these small and medium-sized companies to seize the opportunities which then exist by virtue of their own efforts.

6. The way forward

By way of conclusion, I believe I should put oil and

/gas policy back into the ...

gas policy back into the overall framework of Community energy policy. For it is not going to be possible to advance in this area of policy independantly of other areas, if Community energy policy is to reflect a balanced response to the interests and concerns of all the member States involved.

Britain for one has been reluctant to participate in the development of a Community energy policy which could constrain her freedom of action, and which might be thought to be too responsive to the consumer rather than the producer interest. Britain has not been alone in her hesitations - on the consumer side, for example, there are many who hesitate to commit themselves to the development of indigeneous ressources within the Community but outside their territories for fear that such an effort could turn out to be a one way street.

/ Others still feel that the ...

Others still feel that the moment is not right to develop major initiatives in Community policy, especially those with important financial implications.

What I have just said suggests that the scope for progress by consensus is very limited indeed. The Commission feels that it is essential for it to take the initiative in stressing the inadequacy of the kind of consensus that now exists.

We now have to break through to a new common understanding of our interest in working together, and an agreed way of giving that interest an early reality. This is something we have to do amongst member States at the level of overall energy policy, just as it is our intention to do, in the way that I have outlined to you, in oil and gas policy. We have to rekindle a sense of urgency in energy matters, and create a common understanding on the basis of

/which member States could begin ...

which member States could begin to negotiate some of the positions they have adopted up to now.

For that to be possible, I believe member States will have to discuss a package of policies with a view to adopting them simultaneously. This package must be sufficiently wide-ranging to accommodate the essential interests of each member State. On the other hand, while being responsive to the energy problem the Community faces, it should be limited to the strict minimum of what is necessary, to simplify the negotiation as far as possible. Very shortly, the Commission will be putting forward its own proposal as the catalyst for the kind of negotiation we want to see.

I cannot discuss the detail of that package with you today, but you will see when it emerges that

/we lay considerable emphasis ...

we lay considerable emphasis on the need to make substantial progress in oil and gas policy in some of the areas I have presented to you, during the next few months.

In my opinion, it is only by creating a climate of mutual confidence of much greater substance and durability between member States that we can hope to make a real step forward towards a Community energy policy. This is an ambitious approach but one which, I believe, recognises the interests of industry too, by holding up the prospect of a comprehensive political and economic framework within which they can operate with much greater certainty and confidence, and at the European level.

Mr SIMONET speaks on :

OIL AND GAS POLICY IN THE EUROPEAN COMMUNITY

London, 6. November 1975

Speaking today to a conference organized by the Association of Independent Petroleum Exploration Companies, Mr SIMONET, European Energy Commissioner, surveyed oil and gas policy in the European Community.

Mr SIMONET stressed that the Community's oil and gas production targets reflected what appeared to be politically possible for Norway and the United Kingdom, rather than what might be technically possible. But it was no secret that the Community as a whole would like to see oil and gas resources developed at the upper limit of what was politically possible. It was the job of the Community to create the circumstances whereby the pursuit of the common interest could be made to be, and be seen to be, consistent with the national interest.

After underlining the importance of policies already adopted by the Community, Mr SIMONET explained that a series of intensive consultations were now in hand with a view to making early progress in four vital areas. He identified these as first, the establishment of guaranteed offtake levels if world prices fall below costs of production ; secondly, the underwriting of investment so as to ensure a reasonable rate of return, thirdly, a price level which balances the needs of the consumer with an adequate rate of return in downstream investment; and fourthly, a policy to ensure the adequate use of refining capacity.

Mr SIMONET felt that, in the years to come, the small to medium-sized company could have an important role to play in exploration and production, and particularly in refining and distribution. The Commission felt that member States should

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ensure that there is no discrimination against such companies relative to the oil majors, and that the rights of free establishment are protected.

But, to grasp their opportunities, these firms will have to organize themselves into purchasers' co-operatives, and co-operate much more in marketing.
