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ENERGY IN THE EUROPEAN COMMUNITIES

Ladies and Gentlemen,

Since 1973, the oil price has - in money terms - grown almost tenfold. During the last nine months alone the oil price has shown the same amount of increase as in the time from 1973 to 1978. The increase was 8 dollars a barrel.

It is difficult to understand fully the dramatic growth of the funds now flowing to the OPEC countries: This year OPEC members stand to receive more than 120 billion dollars. This is the first time in history that without recourse to military force such an enormous redistribution of wealth has taken place within such a short time.

This redistribution is taking place moreover in a period of major economic difficulty. International economic relations are complicated by rising protectionism, monetary disturbances and uncertainty in the field of international investment. A considerable part of these difficulties are the result of present energy problems. I should like to make clear that this remark refers to both energy production and energy consumption, to both the OPEC producers and to the consumers.

Most national economies of the industrialized countries are experiencing great difficulties as demonstrated by rising unemployment and increasing inflation. I think that last winter brought it home to us that in the energy field we have reached a critical point. Time is short and without adequate political action we may be heading for uncharted waters and eventually disaster. Still we do have at the moment a period of relative calm on the world oil markets. But soon we shall be facing the rigors of next winter. In this period of relative calm on the world oil markets it may be useful to reflect on the nature of recent problems and on the prospects which lie ahead.

The particular events of last winter - the Iranian revolution and the consequent shut down in production, the extreme cold in Europe - could not have been predicted. But the underlying developments in the world oil market which made this year's price explosion possible have been plain to see for some time. Many people and notably we in the Commission of the European Communities sounded warning notes. But they have gone unheeded.

We must be realistic and clearly understand that control over production and pricing was slipping away from the oil companies and from western governments even before 1973. Demand was increasing at enormous rates up to then and it did not take long for world demand to start to increase again after 1973.

I.

The events which took place in 1973 and during last winter give us three lessons which we must take to heart at our peril.

- The first lesson which I draw from last winter is that we are still far too dependent on oil. In 1978 it accounted for 54 % of our total energy consumption, compared with 61%

in 1973. Though there has been this progress which is quite substantial it is clear that we shall remain vulnerable to the next upset in the world supply system until we have substantially reduced our dependence on oil. We have really only begun the process of massive substitution of oil by other energy sources.

- My second conclusion is that the oil market has now become extremely fragile and increasingly sensitive to supply interruptions. It is clear that there is already very little margin left in the world oil supply structure, and that any significant and unfavourable development in the production policy of any one major oil producer would rapidly affect Community oil supplies. The temporary loss of 6 million barrels/day of production from Iran was not minor - it was 20% of OPEC's production. Other producers made up some of the shortfall, but with difficulty. And even after the partial restoration of Iranian production and the 1 million barrels/day increase by Saudi Arabia the market remained tight and pressures on prices were maintained.

In these circumstances, steadily rising real prices for energy are inevitable. This effect can and must be moderated by positive energy saving measures in addition to the reduced demand which higher prices will cause. Over a long period of time, rising prices will be a factor favouring the opening up of "new" or unconventional oil reserves, and of new energy sources, including gasification and liquefaction of coal. But we must now take the right decisions to accelerate this progress and to overcome the long lead times between price and effect. Financial incentives may be necessary. The Community has a role here and I shall return to this later.

- My third conclusion is that if my prediction of permanent oil stringency is correct, then we shall see a hotter political spotlight turned on all oil questions.

Downstream, governments will want to take an increasing interest in what is going on in their markets. Upstream, governments from all parts of the world are going to want to be sure of their standing and influence in key production areas. A latent element of politisation of the world energy market. lies therein.

II.

What should the Community be doing now?

I propose three dominant courses of policy and action: First, we must reduce our own energy demand. Second, we must develop our own energy supplies from all sources. Thirdly, we must improve our relations and mutual understanding with OPEC and other producer countries. These are all obvious and self-evidently correct. But they are not so simple or easy to achieve.

1. The reduction of energy demand by energy saving is a vital and very difficult task. Much remains to be done, through action at Community, national and local level.

Major factors of ^{total} energy consumption are the rate of economic growth, and the link between that and increases in energy demand. I think that with firm efforts, the Community could reduce this ratio to 0,8 by 1985. This would bring about savings of 190 million tonnes oil equivalent per year by that date. If existing best practice in the energy efficient design of buildings plant and machinery were adopted rapidly throughout the Community, the ratio could be reduced by 0,7 - equal to additional annual savings of 100 million tonnes oil equivalent by 1990.

In the longer term, we must work towards restructuring the economy so that it can operate at a high level, but on a less energy intensive basis. This means constructive thought about life-styles which are less wasteful of resources in general - including energy - and the political willingness to carry out in practice what seems sensible on paper. The recent study entitled "In favour of an energy efficient society" by a high level independent team of experts points the way in this field and will provide the basis for much of the Commission's further work. We might save about 15 % of present consumption in industry, about 30 % in transportation and almost 50 % in households. What we need in the future is a new type of growth which is not based on consumption and waste, notably waste of energy. Our future growth must be rather based upon investment designed to ensure our economic and political survival.

To sum up on energy saving, I should say that it is a vastly underrated field of energy policy, yet one in which we can do more, more quickly and more cheaply to keep our energy situation under control than in any other. Revising building regulations, arranging for the regular servicing of boilers and working out rational urban transport policies are all less glamorous than building nuclear power stations, or searching for oil in deep waters. But the results, if less sensational, can be even more important.

2. The Community is not richly endowed with its own energy resources. But it is essential that what we have is exploited to the full. Last year we produced only 45 % of our own requirements. By 1985 we could produce about 50 %, but on present trends it seems unlikely that we shall increase this share very much by 1990. How can we best make further inroads into our own dependence, in the longer term?

- One of the biggest contributions to Community supplies has come from Dutch and subsequently UK, natural gas. The Netherlands and the UK together account for the largest part of the Community's estimated recoverable reserves. Our natural gas production in 1978 was 14 % of global energy consumption. As

this audience will know very well, production will peak in the middle 1980's and by 1990 imports should be equal to production. Imports lack, of course, the security of domestic production.

Domestic production, however, depends on the exploitation of new discoveries and the development of existing discoveries of relatively small reserves by means of common carrier pipelines. These in turn depend on gas prices. For the longer term, I hope to see the industry adapting itself for an expanding future based on new sources of supply - including the gasification of coal.

- Coal is by far the Community's largest energy resource. Yet we have failed alarmingly to arrest the decline of the coal mining industry, and of the Community's capacity to burn coal. In the 1960's, the run-down of the coal industry may have seemed the logical, if painful, thing to do. But since 1973, it has been very difficult to arrest the trend, in spite of repeated policy commitments by the Community and Member States. Consumption last year was 204 million tonnes oil equivalent compared with 222 million tonnes oil equivalent in 1973 and production had declined by 26 million tonnes oil equivalent in the same period. I recognise the difficulties - coal is difficult to handle, dirty and Community coal is expensive to mine - but unless we take action now we shall not have the capacity to burn or produce coal in the 1980's, when we shall really need it.

It is essential that coal be used increasingly for electricity production. I know that the Netherlands has decided to burn oil in its power stations when gas is phased out. This is frankly a disturbing decision, although I can appreciate the economic arguments.

- Community oil production has received much publicity recently - it is a glamorous subject. The United Kingdom - with estimated recoverable reserves of 4,500 million tonnes -

produces the lion's share at the moment, but prospects elsewhere - offshore Ireland, France and Denmark - are encouraging and it is important that exploration continues rapidly. The cost of deep-water exploration has risen dramatically in recent years, but the effort must continue if the decline of United Kingdom production around 1990 is to be compensated by alternative Community production. But even at peak production in the mid 1980's, the United Kingdom will account for only 20 - 25 % of Community requirements.

- Nuclear power has attracted considerable attention - and controversy. The Commission has always recognised the need for an expanding nuclear capacity if our electricity demands are to be met and if our dependence on oil is to be reduced. We now have 29 gigawatts of installed capacity. Given the need to reduce oil consumption, the Commission would like to see 70 - 75 % of electricity generated from coal and nuclear power stations by 1990, which means getting as much as we can from both sources. However, in practice, it is unlikely that the desirable maximum of either will be achieved.

- I cannot complete the picture of the priorities on the supply side without a reference to the Community's work on research, development and demonstration. A new four year programme for research into new sources and energy conservation has been allocated 105 million European Units of Account for the period 1979 - 1983, roughly double that for the previous programme. The greatest part of this programme is devoted to solar energy.

To help bridge the gap between successful laboratory scale research and development and full commercial application, the Commission is running a scheme of financial aid to demonstration projects. 261.785.000 Dutch guilders over four years has been provided for new energy technologies. The first geothermal, solar and coal projects have already been chosen and further solar energy projects will be decided this year.

The advancement of technology for opening up new sources of energy is an urgent priority. But the lead times are long, and the scale on which substitution must take place is enormous.

Nevertheless, we calculate that new energy sources could by providing 4 - 7 % of Community supplies by 2000. This would be equivalent to 70 - 120 million tonnes of oil per year, a considerable amount in absolute terms.

3. The tripod of energy policy is completed if I add the development of co-operation with third countries to the two legs I have just described - energy saving and indigenous supplies. Since we shall never be anywhere near wholly independent of external supplies, it is important that we do what we can to increase the security of our imports and to improve the conditions of access to our market. Indeed, we sometimes make the mistake of treating all imports as if they were equally insecure and undesirable.

In fact, there is a lot of muddled thinking about external relations in the energy field. There is a simplistic tendency to label any disagreement which we may have with OPEC, for example, as "confrontational", and to regard "co-operation" as consisting merely of vague statements of goodwill or agreement.

In practice, of course, all the actors on the world energy stage - the Community, the other industrialized consuming countries, the OPEC countries, the East European countries, the non-oil developing countries have a strong interest in the fundamental stability and orderly development of the world energy market. Energy remains, nevertheless, fraught with the highest political and even strategic significance, and there is always the potential danger that short-sighted policies from any quarter will lead to an aggressive and destructing scramble for scarce world energy supplies. In such a process, the non-oil developing countries, already extremely hard hit by high energy costs, would suffer most.

But I am an optimist, and I believe that we can ensure that the issues which unite the various countries or groups are stronger than those which divide them. It is therefore a priority that we work hard in this field, and come to sensible arrangements.

I should like to elaborate a little on our relations with the oil producers. There is a high degree of inter-dependence between almost all of them and the western industrialized countries. The terms of trade may have changed, but whereas we need and shall continue to need their oil, they need industrial goods and expert services which can best be supplied by the west and furthermore their monetary assets and financial investments are placed within the western economy and therefore dependent on its success. The precise nature of these mutual requirements needs to be discussed and defined with OPEC. Much past policy and action - on both sides - has been due to inadequate understanding of the other side's position and aspirations.

It is vital that we are perfectly aware of the economic stress which the recent development of the world energy market put upon developing countries. They have observed the enormous economic upswing which industrialized countries have experienced between 1950 and 1970. This expansion was based on cheap oil. Oil was the motor of the western economies. Oil has a crucial importance for developing countries. It stands for economic growth and wealth. Oil was expected to play a major part in the development of these countries. The number of oil fired power stations is evidence of this. The explosion of the oil price now has made many development plans inoperational. Western industrialized countries who have opened the path to the present economic system and led other people on to it have a moral obligation to help developing countries to diversify their economic resources and to develop alternative sources of energy.

Ladies and Gentlemen, I started my remarks with an analysis of the background to recent price decisions by oil producing countries. I conclude with these brief remarks about our attempts to establish a dialogue and identify points of common interest with the producing countries. To that extent, my remarks should have some symmetry. But I hope that this will not detract from the urgency of my message in between - that Europe's energy salvation lies in our hands and depends on difficult decisions and firm action which should be taken without delay.