

Exposé to UNICE's Energy Bureau, 23 June 1981

Brussels

INTRODUCTION

- I welcome this first opportunity to address you as D.G. for Energy in the European Commission. A particularly opportune moment a week after the meeting of the IEA GB at Ministerial level;
the day before the Energy Council; and
a matter of weeks only before the next Western Economic Summit in Ottawa.

- I should like to use this occasion to say a little about each of these events

*a bit of assistance and some personal reflections about
OECD's activities in the field.*

IEA MINISTERIAL, 15 JUNE

- IEA Ministerial took place against background of relative calm on the international oil markets. For the first time for two years Ministers were able to meet in an atmosphere without real or threatened crisis.
- Not surprisingly, therefore, the meeting was relaxed and concentrated heavily on the medium- and longer-term.
- At same time, however, there was a good deal of hard-headed realism about the short-term. The Ministerial Communique recognises the ^{great} potential fragility in the oil market situation, emphasizing that continued stability depends both on the avoidance of complacency and continuation of high levels of supply from several major producing countries, *most of which, of course, can be taken for granted* *Common sense*
- The Commission particularly welcomes this attitude.

Sub-Crisis Measures

- We also particularly welcome the determination expressed by IEA Ministers to use the breathing space offered by the current oil market situation to reconsider and develop further measures to reduce the impact on prices of limited oil supply disruptions. Believe everyone has learnt the lesson of 1979.

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As you know, the pressure is off for the time being. In the Community, 1980 showed a 7.5% fall in oil consumption and an 11% fall in oil imports, by comparison with 1979. Our estimates for the first semestre of 1981 show that this hopeful movement is strengthening: oil consumption seems to be down by 15%, and imports by 10%, by comparison with the corresponding period of 1980. The recession is of course an important factor. But energy saving and fuel switching are clearly beginning to bite quite hard.

- There are now to be detailed consultations between IEA Governments and the oil companies to see how best to proceed. These will begin [early] next month (9/10 July) and their results should provide a basis for decisions by the Governing Board at Official level during the second half of the year.

Structural Change

- As far as ~~the~~ longer-term structural change is concerned, Ministers felt that progress so far was encouraging but that momentum needed to be maintained.
- Discussion focussed particularly on three areas : coal, nuclear and energy pricing.
- On coal a general feeling that more work needed to be done, together with the industry, to clarify the potential for development and to identify the constraints on production, trade and coal use in the IEA area. ^{There} Is to be a full review of MS's coal policies and programmes, with input from the Coal Industry Advisory Board.
- The Commission shares the general concern about possible constraints on the development of coal, and ^{it} has recently sent to the Council a ^{paper} note which reviews the potential constraints on increased coal use in general industry. This ~~is an~~ item ~~which~~ will be considered ~~particularly~~ in the context of ~~general~~ investment policy, ~~more generally~~ which I shall refer to later.
- On nuclear power, Ministers agreed on the importance of an increased role, despite the well-known difficulties for some IEA Member States. The Communique emphasizes the need for prompt national and international action to increase public understanding of the safety issues; to implement waste management and disposal programmes; to streamline investment procedures, and so on. This is very much the approach which we see as important in the Community also. *Considering hesitations of certain MS of IEA - SWE, FR, NL - the language is notably positive.*
- On energy pricing, there was what I would describe as moderately useful progress. There is a general feeling among IEA Members that the ^{div't-} application of rational pricing policies in the energy field is fundamental to success in the energy transition. But ^{it's} not of course easy to persuade all IEA Members to agree on the application of common pricing principles, given the implications for other economic and trade policies. Main achievement was a general agreement that subsidies which discourage conservation, high levels of domestic energy production and rapid substitution away from oil should be avoided. Issue to be taken up further by GB (Official) and reflected in annual IEA monitoring procedures (country reviews).

ENERGY COUNCIL, 24 JUNE

- Energy Council will cover some of the same ground, but focussing in particular on :
 - sub-crisis measures
 - energy investment (including coal) and pricing.
- The Council may also provide an opportunity for Mr. Davignon to say a few words about the Community's programme of demonstration projects *in field (on saving of all sources)*.

Sub-crisis measures

- Some of you have already had preliminary discussions on our ideas for a mutual aid scheme in oil stocks with one of my colleagues (Tent on 9 April). Do not intend to go into detail about it. But let me make some general points.
- A mutual aid scheme would be ^{just} one element in a battery of measures to deal with potential sub-crisis situations. Should not be seen as a substitute for measures of demand restraint, etc. but rather as a complement.
- In essence the idea is very simple. Firstly, companies would be allowed in certain circumstances to draw down on a share (say 5 days) of their obligatory security stocks. Secondly, and as a necessary corollary, Governments authorising the draw-down of stocks would have to have some form of agreed safeguards to meet any deterioration in the situation.
- The freedom to use a small share of obligatory stocks would increase supplies available to companies, increase their flexibility and reduce the need for rapid recourse to the spot market. 5 days stocks could meet a deficit of 2-3 % for 4-5 months.
- But, while the idea is simple in essence, it poses a number of practical and political difficulties, notably :
 - the 'trigger'; relationship of 'sub-crisis' to 'crisis' measures;
 - anti-trust; costs of stocks; participation (would it be a useful mechanism if it were not extended to the main consuming countries outside the Community ?)

No idea of trying to any

- ~~Cannot expect a~~ firm decision in favour of such a scheme by Ministers at tomorrow's Council. But Ministerial meeting should give political impetus to the discussions with the oil companies to which I have already referred. By the autumn, we expect, we should have a clearer idea whether the practical and political difficulties can be overcome.
- By then we should also know the outcome of current discussions in the US Congress on the anti-trust problems and on the problem of the financing of US security stocks, which are both factors inhibiting a clear position on this issue by the US Administration. *[*President Reagan has asked for US \$ 3 bn in the 1982 Budget to finance purchases for the US strategic reserve. This request is encountering difficulties in Congress where there is a strong body of opinion that the SPR purchases should be financed 'off budget'. US officials apparently do not wish to weaken their arguments vis-a-vis Congress by conceding that part of these security stocks might eventually be assigned to an IEA or other 'guarantee' or 'mutual aid' scheme*]*.

Investment

- The second main issue for the Council - energy investment - is the key to structural change.
- Member States already envisage a high level of energy investment in the next ten years (500 bn ECU, 80 % on energy supply and 20 % on energy demand).
- The Commission wants to be sure ^{first of all} that MS's programmes can be fully achieved despite the restrictive economic and financial climate. *we have some doubts, especially on level of budget*
- But we also believe that even more investment may be required if we are both to maintain a satisfactory rate of progress out of oil and allow the energy sector to make the most effective contribution to economic recovery in the Community.
- Our paper to Council gives particular emphasis to the rational use of energy. This includes both improved efficiency in energy production and use and also opening up markets for alternative energy sources as they become available. The potential for cost-effective investment is large enough for it to make a lasting contribution to economic recovery, to industrial renewal and improved international competitiveness in the Community, and ^{to} assist in the return to more satisfactory levels of employment. We also believe that a coordinated effort by all Member States would magnify considerably the benefits for each.

- We are not yet in a position to make firm proposals. There is a lot more work to be done to examine investment forecasts, to identify the nature of the constraints that may operate and to consider how best these constraints can be overcome.
- We shall be consulting the Governments of Member States on these points over the coming months. And we shall also be consulting industrial investors themselves. (We intend to come to you in UNICE to raise these issues and we shall pay particular attention to what you tell us.)
- A thorough survey of the investment problem cannot be done quickly. While this work is underway, decisions will be required on current proposals by the Commission for a renewal of the NCI (the Ortoli facility). Towards the end of next month Ecofin is expected to take a decision on NCI II (loan finance of perhaps 1 1/2 bn ECU over two years or so) which the Commission sees as an essential element in the promotion generally of industrial restructuring in the Community. Within the new NCI ^{the new} the Commission ~~will be~~ proposing a specific tranche for the rational use of energy. This will enable the Community's loan instruments to strike a better balance between their lending effort for energy supply and that for the rational use of energy. But agreement on this idea will not obviate the need for a more fundamental look at the energy investment problem in the Community.

Pricing

- Council agreed on principles of energy pricing in June 1980 and there has been a growing interest in the Community in this field over the past few months. Similar trend in the IEA.
- We are hard at work in the Commission on the complicated issues raised by the practical application of those principles and the related issue of energy taxation. We expect to report fully to the Council later in the year. In the meantime Mr. Davignon will make an interim oral report tomorrow which will focus on some of the main problems as we see them.
- The starting point in all our work is that the convergence of energy pricing principles in the Community is vital for energy policy reasons and to prevent distortions to trade. But the application of principles of economic pricing is fraught with well-known difficulties.

- In particular there is scope for widespread misunderstanding and confusion about the effects of structural differences in supply (notably in the electricity sector); about how to price gas most rationally; and about the effects and objectives of taxation policies in the energy field.
- A critical issue on which we need to focus particular attention is the difficult one of ^{improving} transparency in energy prices, particularly in the industrial market. I recognise that this will not be easy given the problems of commercial confidentiality that are raised and the complex nature of some of the markets. But progress in transparency is a precondition for the application of successful policies in this area.

Demonstration Projects

- You have expressed a particular wish for some comments by me on our experience of the demonstration projects programmes, to which Mr. Davignon may refer at tomorrow's Council. Let me make just a few general points.
- It is too early to draw very definitive conclusions, since few of the projects have been carried through to the end.
- In a year's time, we should be able to be more specific.
- Nevertheless, our experience so far gives every indication that both programmes (in energy saving and in alternative sources) are valuable and are achieving the desired results.
- We are near to exhausting the financial ceilings laid down in the various regulations.
- We made, some time ago, a proposal to double these ceilings (from a total of 55 MECUs to a total of 110 MECUs for energy savings; and from 95 MECUs to 190 MECUs for alternative sources).
- Unfortunately, our proposals have become bogged down.
- On the side of the Member States, there has been a strong tendency to delay, and the argument has been advanced that one must first see the Commission's reports on progress : this argument will now be overtaken by events.
- On the side of Parliament, however, there are of course also difficulties.

- I hope that the log jam can now be broken.
- I hope we can find a way through the difficulties in Parliament; and that the new British Presidency will move things along rapidly in the Council.
- Unless a decision is taken soon the Commission will be confronted with a constitutional dilemma, which it is in the interests of everybody to avoid.

OTTAWA SUMMIT

- The Tokyo and Venice Summits focussed particular attention on energy. Tokyo produced agreement on oil import targets; Venice an agreed programme of structural change for the *participating countries*
- Not to be expected that Ottawa will give energy such pride of place. But there is a general recognition amongst those preparing the Summit of the importance of discouraging complacency in the main consuming countries about the energy situation. The energy problem has not been solved simply because the oil markets are quiet and the main industrial nations have agreed on a strategy for the next ten years. There are a number of areas where continuing attention is particularly required; and accordingly we are likely to see the Summit focus on some of the same problems at present preoccupying both the IEA more generally and the Community in particular - notably, coal, nuclear, investment.
- An added reason for continuing to discuss the energy problem at the Summit is that the majority of participants will be 'new boys' (US, French, Japanese, Italian, as well as President Thorn himself). Given that so many of the leaders at the Summit were not involved in the negotiation of the Venice Programme it is desirable that its main orientations should be quickly endorsed by them so that the momentum of its follow-up maintained. All the more important in particular because of the continuing uncertainties about the thrust of US policy in this field.

CONCLUDING REMARKS

- This has been inevitably a very broad tour d'horizon.
- The point I would most emphasize in conclusion is my strong feeling that our present energy situation gives us no grounds for sitting back and that we must use the present 'non-crisis' situation positively and constructively to prepare our energy future in the Community.
- I look forward to working with you to that end.