

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(75) 74 final

Brussels, 21 February 1975

VIEWS ON THE MEASURES TO SUSTAIN THE DEVELOPMENT OF ENERGY RESOURCES

(Communication from the Commission to the Council)

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of energy resources

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1. It would be useful, at this stage, to think upon what kind of system the consumer countries could set up in order to give concrete expression to their solidarity in the development of alternative resources.

Main outlines of a price system

The system outlined below refers to the price levels which could be chosen by the consumer countries as points of reference for their energy policies. Its aim is not that of finding a world oil price likely to respond to the mutual interests of producers and consumers, but nevertheless it is clear that any internal choices which the consumers make, will have an effect on the establishment of an equilibrium price level.

2. The system to be considered must respond to the following objectives:
- (a) it must guarantee that under no circumstances will decisions on prices endanger the long-term energy supply development;
 - (b) the return of the investments deemed necessary to attain the degree of security of supplies considered politically desirable must be guaranteed;
 - (c) it must be possible to maintain or develop production from certain sources of energy whose cost exceeds the level judged acceptable under the security criteria or, if this is justified, for special reasons.

3. In order to attain the first of these objectives, a level of prices should be established which corresponds to the cost of the long-term development of resources capable of ensuring that the long-term supply is maintained. This will create the necessary prospects of stability for investors, in the absence of which they would not carry out the necessary investments.

This can be done by fixing a floor price based on a long-term cost level, by common accord by all consumers. This price would be guaranteed against any threatened drop resulting from decisions by the producers, by an appropriate protective mechanism which would be either permanent or only used when needed.

The adoption of a common reference price would not impede healthy competition but would impede the kind of excessive competition which - as witnessed on the oil market between 1960 and 1970 - under the facade of short-term advantages finally led to a dead-log or to critical situations. The aim is to establish a situation in which the elements on the market play their role without compromising the general interest.

4. In addition to the economic objectives of guaranteeing a price covering the long-term development cost, there is the political objective of achieving a measure of independence of imported energy. Under present conditions, this objective calls for investment in dearer energy sources which will only be achieved if a return is guaranteed covering them against a possible drop in the price of oil. This guarantee would be carried out by appropriate measures for each case, within the limits of costs deemed acceptable, account taken of the common objective of independence.

5. A third case is that of those sources, the cost of which exceed the acceptable additional cost of security supply: this is the case with sources of energy the decline of development of which should be protected for a limited period. Such protection is not a matter for consumer solidarity. Rather it should be ensured by means of specific measures the scope of which could be defined on the basis of the interests to be protected, and the cost of which could be shared on the basis of the objectives sought and on the basis of

6. This system would offer consumer countries the advantage of being able to achieve a balance between cooperation efforts and the benefits to be derived from those efforts by each participants.
 - (a) With regard to the solidarity to be created within the Community it would assume the form of:
 - (i) the fixing of a common floor price and the adoption of Community measures to guarantee its maintenance;
 - (ii) mechanisms enabling the apportionment of costs resulting from the common effort undertaken, in order to guarantee the advantage of necessary investments to reach the security objectives and a greater independence;
 - (iii) with regard to the forms of energy where these exceed, the level necessary to ensure independence, the costs incurred for their development or maintenance will be apportioned for each case and this on the basis of the nature of the objectives sought as well as on the basis of the beneficiaries.
 - (b) In the framework of a wider cooperation;
 - (i) the discrepancies arising from the conditions of energy supply or from the economic structures could lead to different reference price levels between countries or groups of countries, for the application of mechanisms of solidarity;
 - (ii) disparities between these reference prices should not however lead to an imbalance on the world energy market nor should they result in a distortion in the competitive position between the various consumer countries;
 - (iii) the apportionment of the cost of the common effort could only be proportionate to the benefits derived by each participant from the efforts undertaken by others.
7. Such a system, without being the basis for a world balance for oil prices, would provide the consumer countries with factors necessary to establish a negotiating stance vis-à-vis the producers.

By nature, it is in conformity with the current evolution of international trade which tends towards the search for a regular supply for consumers and for stable returns for producers.