

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 235 final

Brussels, 8th May 1980

THE ENERGY SITUATION IN THE COMMUNITY AND THE WORLD

(Communication from the Commission to the Council)

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COMMUNICATION BY THE COMMISSION TO THE COUNCIL

Introduction

1. In its communication of 20 March to the European Council (COM(80)130 final) the Commission emphasised the need for a new Community initiative on energy, suggesting that 1980 might offer a breathing space for the Community to look realistically at the problems of energy supply and to agree on policies to deal with them. This note looks at the prospects for 1980 in more detail against the background of developments over the past year, and considers the main areas where further Community action is now required for both the short and the longer term.

The world oil situation

2. The world oil market continues to present a rather confusing picture, as regards both price and levels of supply. The December meeting of OPEC brought official prices to double their level at the beginning of 1979. But uniform OPEC pricing has not been restored and there are some marked variations of price for similar kinds of crude. At present there is no overall shortage of crude oil in relation to demand and with stocks at a record level in late 1979 there have been some signs of slack in the market. At the same time, however, there is considerable uncertainty about the maintenance of current production levels. A number of OPEC producers have announced plans to cut back their output from the 1979 level; Saudi Arabia, currently producing 9.5 m b/d, has made no commitment to maintain this level of production beyond the second quarter of 1980; and there is a major question over Iranian supplies. (*)

3. The high price levels and the prospect of a sharp fall in the rate of economic growth in the OECD area should mean a levelling off in world energy consumption this year, and some analysts are forecasting a reduction in demand for oil of up to 1 million b/d. But given the possible slowdown in oil production the most likely prospect for 1980 as a whole is of a continuing delicate balance between supply and demand, even assuming no major interruptions of supply. Looking further ahead, so long as OPEC remains unwilling to expand production, economic recovery in the OECD area is likely to be constrained unless and until it can be achieved without a growth in demand for oil imports.

(*) The assessment in this paragraph may need to be updated in the light of the evolving situation.

Community achievements

4. 1979 was a year of achievement for the Community in a number of fields. The Strasbourg Summit which committed the Community as a whole to maintain its oil imports at or below the 1978 level (472 m tons) from 1980-1985, was a major step forward in the strengthening of our collective resolve to reduce our dependence on oil and provided a solid basis for agreement on further positive measures. This achievement was further consolidated towards the end of last year by agreement on national ceilings within the global totals for 1980 and 1985.
5. The Community also registered success in the development of measures to improve the transparency of the oil markets. We have introduced registers for imports of both crude oil and products, which should provide us with a clearer picture than before about developments in this area. In addition the Commission has been examining the transactions on the Rotterdam and Mediterranean spot markets and is considering the scope for a system of certification of crude oil imports and for the establishment of a "quick response" system to provide rapid information about crude oil imports in a supply emergency.
6. Finally, the Council has reached agreement on the "Nuclear Trilogy" which should enable further progress to be made on questions of radioactive waste disposal, nuclear reprocessing and the fast-breeder reactor.
7. Against these achievements, however, the trends in the energy market in the Community last year highlight the need for even more vigorous action in the energy field. Three points should be emphasised.
8. Firstly, oil consumption levels. Oil consumption last year was some 25 million tons above the target of 500 million tons agreed by the European Council in Paris and oil imports at 475 m tons were slightly up on the 1978 level. This high level of consumption is to be explained partly by the harsh winter and partly by the unexpectedly high level of GDP growth. By the end of the year demand had fallen to a daily rate consistent with the Paris target. Community consumption in the last quarter of 1979 was 2.3% lower than in the same period in 1978. Nevertheless the high level of annual consumption underlines the progress that has still to be made in reducing the Community's oil dependence.
9. Secondly, disorder in the oil markets. The supply shortages of early 1979 were exacerbated by a scramble for supplies by some companies from both member states and other major western countries, which, because of their supply structure, were faced with the most serious difficulties. This fierce competition led to rather high prices on the spot market and to further destabilisation of the oil market which was already in some desarray because of developments in Iran.

10. Thirdly, inadequate progress in the development and use of alternative energy sources. There was a welcome increase of over 9% in coal consumption in the Community last year, bringing the total for the first time almost up to the 1973 figure of 310 m. tons. This was largely the result of higher power-station coal burn (notably in the U.K.). But coal production remained virtually static at 239 m. tons. We do not expect to see much change this year. On present trends there is little likelihood of meeting the Community's production target of 270 m. tons in 1985. The continuing slippage of nuclear programmes remains a further source of concern. On present trends, the Community will in 1990 still be burning 70 million tons of oil each year for electricity generation (the national figures are set out at Annex). Coal firing conversion and new construction must be speeded up. For nuclear, national situations vary widely, but in the Community as a whole the annual rate of ordering of nuclear power stations achieved during the past 3 years needs to be doubled over the coming 3 years if nuclear power is to make its due contribution to our energy needs in 1990.

Key policy issues for 1980

11. It is vital that the momentum of the Strasbourg Summit should be maintained if the Community is to develop an adequate response to its energy problems and to avoid the kind of problems that occurred last year. This points to the need for agreement over the next few months on new measures to deal with both the short and the longer term.

12. In the short term it would be imprudent to rule out the possibility of a further supply crisis, perhaps even more serious than last year's. We must continue vigorously to monitor our progress in keeping within the agreed oil import ceilings for 1980 and consider the scope for new action on oil import levels in 1981.

13. For the longer-term we must commit ourselves as soon as possible to a new series of measures to effect a more rapid transition away from oil. The cornerstone of this effort should be an intensified programme of investment in energy production and energy saving in the Community underpinned by agreement on progressive harmonisation of energy prices and taxes, as recommended in COM(80)130 final.

14. At the same time the Commission considers it vital for the Community to agree as soon as possible on an energy planning framework for the period up to 1990, including guidelines on increased energy efficiency, reduced oil consumption and levels of consumption of other fuels (notably coal and nuclear). Without such a framework on the lines set out in COM(79)316 final any new investment programme for the Community would lack the necessary coherence.

15. These are the main areas where new action on energy policy is required. But they are by no means exclusive. A commitment to increased energy investment will need to be accompanied by a continuing campaign of public education about the energy problem. This applies particularly to the nuclear field, where there are major psychological barriers to be overcome.

16. Finally, in the development of new policies for both the short and the longer term the Community must be ready not only to increase its solidarity with its industrial partners, but also to extend its contacts and cooperation with the oil producers and non-oil developing countries, with the aim of creating a more stable basis on which to secure our longer term energy supplies.

Sources of electricity generation in 1990

National forecasts as of late 1979

Country	Total	Oil		Nuclear	Coal	Other
	%	%	million tons	%	%	%
Belgium	100	13.3	2.4	43.9	26.7	16.1
Denmark	100	20.0	1.8	-	80.0	-
Germany	100	3.7	7.6	29.3	49.7	17.3
France	100	4.6	4.5	67.6	9.7	18.1
Ireland	100	49.1	2.6	-	35.8	15.1
Italy	100	44.7	35.8	20.6	16.5	18.2
Netherlands	100	33.7	6.0	5.6	33.7	27.0
United Kingdom	100	11.2/12.5	8.7/10.2	26.2/25.2	62.0/61.8	0.5
Total Community (incl. Luxembourg)	100	13.6/13.8	69.4/70.9	33.7/33.4	37.7/37.8	15.0

Note : The percentage shown for nuclear energy is the equivalent of approximately 115 GW of generating capacity.