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ENERGY IIN 1985 THE ENERGY SITUATION IN EUROPE WILL LOOK DIFFERENT
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Commission presents energy strategy

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The oil crisis has revealed clearly, and in a lasting fashion, the European Community's excessive dependence on imported energy. This revelation has compelled Europe to reconsider its energy policy. The age of cheap imported energy has probably ended and will not return for a long time, if ever. The European Commission, the Community's executive and initiating body, therefore saw itself obliged to present the legislative body, the Council of Ministers, with comprehensive proposals for a future energy policy strategy. The principal objective of these proposals is to achieve the maximum reduction possible in the degree of dependence on the rest of the world for energy. By this means, greater security of supply should be guaranteed and drastic price changes in the energy sector avoided. In this connection, the intention is not solely to avoid increases in the prices of the various sources of energy ; even considerable price reductions on the energy markets are hardly desirable, as they would cast doubt upon the viability of investments in other energy sources in the Community, which are aimed at helping to reduce the dependence on imported energy. On the one hand the forms of energy produced within the Community are to be sold as cheaply as possible, to attract the consumer to them. On the other hand, successful attempts to achieve greater security of supply can be made only if the investors, i.e. the undertakings, can expect sufficient viability in the long term. A happy compromise between these two premises must be found. What is certain is that the public authorities must provide assistance for such a drastic structural change. It is also certain that the objectives in view can be attained only if consumers as a whole become aware of their collective responsibility for finding a better, i.e. more rational, use of energy, which will in future be in shorter supply and more expensive than before. It will be the duty of the politicians and businessmen and of public and private associations to create such an awareness.

A further precondition for the successful reorganisation of the energy sector is solidarity on the part of the Member States.

Only when the sharing of burdens and the free movement of goods is possible without hindrance in normal times can such solidarity be achieved in times of crisis. However, solidarity also involves greater division of labour. In the longer term it is thus in the economic interests of each Member State to organize its supplies of its main energy-carriers along Community lines. Thus, for example, Germany and the United Kingdom will have to concentrate on their coal production and assume responsibility for supplying other countries in which coal is no longer produced. The same applies to the Netherlands in respect of natural gas, and to the United Kingdom and France in respect of oil.

A slowdown in the growth of demand for oil, more rapid development of nuclear energy, increased supplies of natural gas and improved competitiveness of coal, including a larger potential market for imported coal : these are the fundamental objectives to be attained by 1985. If these objectives are to be attained, the supply structure must be diversified, both geographically and as regards types of energy, in such a way as to prevent crises from arising in respect of either quantities or prices. A lesson can be learnt in this connection from the oil crisis, which has been overcome, and the prices crisis, the effects of which will be reflected in the national balance of payment figures over the next few years. The objectives for 1985 include an average annual growth of the Community's gross product of 4.5%. At the same time it is assumed that substitution, i.e. the change-over from the consumption of one source of energy to the consumption of others, can be achieved only in stages in some sectors, and is completely impossible in others. In the medium term, the opportunities for substitution are extremely limited in the steel industry or in the motor transport sector, for example, while the electricity sector is far more able to adapt.

Now on to the more concrete objectives. A more rational use of energy could reduce internal consumption by 10% compared to the figure originally estimated for 1985. Provided that nuclear energy can be developed and obtained more rapidly in future, the share of electricity in the total consumption of energy should rise from the current figure - 25% - to 35%.

The Community's dependence on imported energy is to be reduced to 40% in 1985 (1973 : 63%). Dependence on imported oil is to be reduced from 98 to 75%, and the share of oil in the total supplies of energy in the EC is to be reduced to 40% (1973 : 60%). If the dependence on imported oil is to be reduced, the Community must produce 180 million tonnes of crude oil in 1985; high hopes have been placed on North Sea oil. In future the use of heating oil in thermal power stations is to be restricted.

In the case of coal, the current production level (255 million tonnes/year) is to be maintained. At the same time it is planned to import more coal. This would mean that in 1985 coal would still cover 15% of total energy supplies. In 1973 it was 23%. As a general rule, thermal power stations are to change over from oil and natural gas to coal and nuclear energy. In 1985, nuclear energy should cover approximately 50% of the demand for electricity. This would require an installed capacity of at least 200 GWe. Natural gas is to cover 25% (1973 : 12%) of the Community's energy supplies. To this end, the production of natural gas in the Community is to be doubled to 230 million toe (tonnes of oil equivalent). At the same time it is planned to increase imports considerably and to obtain imports from very varied sources, pursuant to the principle of diversification.

The need to rethink the energy policy, which arose from the oil crisis, becomes particularly clear if the objectives laid down in the energy strategy are compared with the figures drawn up for 1985 before the crisis. For example, the original estimates suggested that the dependence on imported energy would rise by 1% to 64% compared to 1973.

It must be stressed that the figures given are not estimates but objectives. The Community, i.e. the Governments of the Member States, must enter into a political commitment, the economic and social aspects of which will give rise to numerous problems. If the strategy is to prove successful, joint responsibility must be assumed at a community level by undertakings, the Member States and the Community institutions. The EC Energy Committee will probably play an important role in the implementation of the strategy. That Committee, to which experts from the Commission and from the Member States belong, and of which the Belgian Vice-President of the Commission, Mr. Henri Simonet, is

Chairman, is to assist the Commission in examining the objectives. It may be assumed that the very composition of the Committee will enable it to be the authoritative body in preparing decisions. The decisions themselves must then be taken by the Council.

According to Commission estimates, investments in the entire energy sector in the Community will rise to approximately \$ 300,000 million (1973 value) during the period 1975-1985. The greater proportion of this amount, i.e. approximately \$ 150,000 - 180,000 million, will be invested in the electricity sector, with approximately \$ 120,000 million having to be spent on nuclear energy. A sum of \$ 110,000 million will be invested in oil and natural gas, and \$ 6,000 million in coal. Investments to approximately 1.5% of the Community's gross product, will rise to approximately 2 - 2.5% during the period 1975-1985. This means that, roughly speaking, the growth of investments will be between 0.5 and 1% of the gross Community product. Provided that there is no noticeable drop in the prices of imported oil in the long term, the additional net investments required within the framework of the strategy for the period in question will probably amount to approximately \$ 10,000 million. During the same period, however, the Commission thinks that it will be possible to make a net saving of approximately \$ 50,000 million on payments for imported energy.

One of the most important tools for attaining the objectives and encouraging the collaboration of the undertakings is a prices policy which offers sufficient long-term returns on the investments needed. Such a policy must be accompanied by incentives to increase investment or by fiscal measures to prevent those forms of energy with low production costs from receiving an extra economic benefit. Because of the large amount of investments required, the undertakings will have to resort to a considerable degree to the international capital market. The Community must facilitate such investment if it is to attain its objective, i.e. to cease to be dependent on imported energy.