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Report

drawn up on behalf of the Committee on Energy and Research

on the ~~adoption~~ of and the prospects for a system of basic prices for imported primary energy sources within the framework of a Community energy policy

Rapporteur: Mr P. GIRAUD

PE 44.311/fin.

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English Edition



By letter of 10 December 1975 the Committee on Energy and Research requested authorization to draw up a report on the adoption of and the prospects for a system of basic prices for imported primary energy sources within the framework of a Community energy policy.

Authorization was given by the President of the European Parliament in his letter of 18 December 1975. The Committee on Economic and Monetary Affairs was asked for its opinion on 4 February 1976.

On 22 December 1975 the Committee on Energy and Research appointed Mr Giraud rapporteur.

It considered the draft report at its meetings of 23 January 1976, 16 March 1976, 28 April 1976, 31 May 1976, 3 November 1976, 30 November 1976 and 21 January 1977. At the last of these meetings it unanimously adopted the motion for a resolution and the explanatory statement.

Present: Mr Springorum, chairman; Mr Flämig, vice-chairman; Mr Normanton, vice-chairman; Mr Giraud, rapporteur; Mr A. Bertrand (deputizing for Mr Memmel), Mr Burgbacher, Mr Ellis, Mr Delmotte (deputizing for Mr Van der Hek), Mr Hougardy, Mr Noè, Mr Osborn, Mr Radoux (deputizing for Mr Frehsee), Mr Vandewiele and Mrs Walz.

The opinion of the Committee on Economic and Monetary Affairs is attached.

C O N T E N T S

	<u>Page</u>
A. MOTION FOR A RESOLUTION	5
B. EXPLANATORY STATEMENT	8
I. Introduction	8
II. The development of alternative energy sources presupposes a common EEC position within the framework of international cooperation	11
III. Alternative energy sources and their cost	13
IV. Oil price proposed by the International Energy Agency : \$7	14
V. The Commission's proposal for a minimum import price for oil	15
VI. Implementation of the idea of a minimum protection price .	16
VII. Conclusion	17
Opinion of the Committee on Economic and Monetary Affairs	21

The Committee on Energy and Research hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on the adoption of and prospects for a system of basic prices for imported primary energy sources within the framework of a Community energy policy

The European Parliament,

- having regard to the communication from the Commission of the European Communities to the Council on the main foci of a policy for the development of energy resources in the Community and within the larger framework of international cooperation (COM(75) 310),
- having regard to the report of the Commission of the European Communities on the achievement of the Community energy policy objectives for 1985 (COM(76) 9),
- having regard to the communication from the Commission of the European Communities to the Council on the implementation of the energy policy guidelines drawn up by the European Council at its meeting in Rome on 1/2 December 1975 (COM(76) 20),
- having regard to the report of the Committee on Energy and Research and the opinion of the Committee on Economic and Monetary Affairs (Doc. 530/76),
- having regard to its previous resolutions concerning energy policy, and in particular,
 - its resolution of 14 March 1974 on appropriate medium- and long-term measures for the further alleviation of the energy supply crisis in the European Community¹,
 - its resolution on the communication from the Commission of the European Communities to the Council concerning a new energy policy strategy for the European Community²;
 - its resolution on the objectives of a common energy policy³,

¹ OJ No. C 40, 8.4.1974, p.55

² OJ No. C 93, 7.8.1974, p. 79

³ OJ No. C 76, 7.4.1975, p. 30

1. Deeply regrets that no concrete legislative measures have yet been taken to protect the development of alternative energy sources;
2. Emphasizes again that Community energy supplies should not be sought exclusively from the cheapest sources currently available, but that the over-riding consideration must be long-term security of supply;
3. Feels, therefore, that comparisons of prices of competitive or alternative forms of energy should be based not on the present situation but on future prospects, allowing for the security factor;
4. Considers it essential to give concrete form at the earliest opportunity to the energy policy guidelines drawn up by the European Council in Rome, by expediting Community action through the formulation of a Community energy policy entailing increased solidarity between Member States with a view to facilitating and protecting Community energy production.
5. Points out that the minimum protection price for imported crude oil must protect alternative forms of energy for 20-30 years, since Community policy must give preference to security of energy supply, even at somewhat higher prices, rather than accept the risks inherent in dependence on imports;
6. Hopes that the proposals designed to:
 - protect and encourage the development of Community energy resources,
 - encourage energy saving,
 - ensure internal solidarity in a crisis,will form the cornerstone of Community action undertaken to achieve the objectives for 1985;
7. Wishes to stress:
 - the intensification of efforts to develop and protect energy sources available in the Community,
 - the urgent need to intensify research and development to ensure in due course contributions from new and alternative energy sources;
8. Welcomes, in the light of this, the communication from the Commission of the European Communities to the Council proposing a minimum protection price for crude oil imported from third countries as an encouragement and protection mechanism;
9. Points out that the solidarity necessary within the Community may be achieved by fixing a minimum price for oil, and by mechanisms to make possible a spreading of the costs incurred in the joint effort, so as to guarantee the profitability of investments needed to achieve the objectives of security and independence;

10. Considers the principle of mutual aid absolutely essential for the resources allocation mechanism during a crisis; it should also be one of the bases of protective mechanisms for alternative forms of energy;
11. Is of the opinion that the principle of a minimum, possibly adjustable, protection price should be one of the instruments of an incentive mechanism for the implementation of any true Community energy policy, and requests that the mechanism for applying this principle be the same throughout the Community;
12. Recognises that the adoption by the Council of a directive on a Community information and consultation procedure covering the price of crude oil and petroleum products in the Community constitutes a first step in the policy to achieve price transparency;
13. Is of the opinion that the implementation of a minimum protection price for imported oil, achieved by a system of levies, would stress the Community nature of the measure, while entailing a minimum of amendments to Community regulations on imports of crude oil and on products refined in the Community;
14. Considers that the Community's stance on the minimum protection price problem is an acid test of the Council's political will to think and act in concert on vital questions such as energy supply;
15. Proposes talks with the oil-exporting countries on the creation of a minimum basic price and hopes that these countries will contribute to this end and help finance investment in the development of alternative energy sources;¹
16. Trusts that, in discussions of all these problems connected with the minimum protection price, account will be taken of likely trends in the cost of all the current and pending projects to increase utilization of Community energy sources; it must also be established which Community energy sources would become unviable, given a low minimum protection price;
17. Emphasizes that it is in the Community's interest to speak with one voice at international level;
18. Finds it unacceptable that the Council of Energy Ministers was unable to reach agreement at its meetings of 25 March, 19 October and 21 December 1976, and hopes that a forthcoming Council may debate and approve as soon as possible all the proposals submitted to it and which should make it possible to give the Community energy policy a genuine 'new impulse';

¹ See opinion of Committee on Economic and Monetary Affairs, para.28 (Alternative 5)

19. Hopes that, in view of the gravity of the problem, the Commission of the European Communities will arrange for consultation with the European Parliament ;
20. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENTIntroduction

1. The Commission gave a fresh impulse to the Community energy policy in January 1976 in its response to the guidelines drawn up by the European Council in Rome (1/2 December 1975) and in completing the proposals it had previously sent to the Council.
2. An important group of proposals and documents was thus submitted to the Council: 'Implementation of the energy policy guidelines drawn up by the European Council (COM(76) 20)'; 'Report on the achievement of the Community energy policy objectives for 1985 (COM(76) 9)'; 'The main foci of a policy for the development of energy resources in the Community and within the larger framework of international cooperation (COM(75) 310)'.
3. The communication entitled 'Implementation of the energy policy guidelines' replies to the guidelines drawn up by the European Council at its meeting of 1/2 December in Rome, which covered three essential points: the establishment of genuine solidarity between the Member States in case of oil supply problems, the encouragement of energy saving and the adoption of measures aimed at protecting or promoting the development of energy resources within the Community.
4. As for internal Community solidarity in case of oil supply problems, the Commission submits no new proposals to the Council but refers to the two already submitted to the Council in 1974 on measures to be taken in case of supply problems which sought to fix a Community objective in reducing primary energy consumption and to exercise surveillance on intra-Community trade in crude oil and petroleum products.
5. These two proposals, reaffirming the principle of Community solidarity, are a basic necessity for safeguarding the unity of the Common Market.
6. As for protecting and developing energy resources, the Commission also recalled the objectives of reducing its energy dependence on imported energy, and at the same time submitted a report to the Council comparing Member States' present estimates with the objectives set for 1985.
7. It notes that the price of imported oil would continue to exert considerable influence on the price of other energy sources and the viability of investments in the latter within the Community. There is then the question of instituting mechanisms for encouragement and protection should the price of imported oil drop considerably.

8. The Commission asks the Council to decide here on a series of basic mechanisms, either by adopting the formal proposals already submitted, or by agreeing in principle and adopting a resolution on the other points.

9. If they are to achieve the objective of minimum dependence, these mechanisms must satisfy reasonable economic conditions. Moreover, an adequate level of consumer prices ought to guarantee industry the necessary profitability and encourage the consumer to use available fuel more efficiently.

10. The Commission's proposals concern the following points:

Coal stocks

An economic downturn could result in a very high level of coal stocks and the consequent financial burden on coal businesses could be excessive, threatening the maintenance of the present level of production in the Community. Pursuant to Article 235 of the EEC Treaty, the Commission envisages interventions geared to the market situation and independent of any national measures of up to 50 million u.a. per annum to assist the storage of coal.

11. Aid for coking coal

Since 1967, the Community has had a support system for coking coal intended for the iron and steel industry and this is to remain in force until 1978. The Commission proposes continuing this system until 1985, maintaining the level of contributions from Member States, from the iron and steel industry and from the EAEC budget for financing this support in 1977 and 1978.

12. The Commission requests the Council to approve the proposals already submitted that are designed to strengthen support for technological development projects and aid for prospecting projects in the hydrocarbons sector.

13. The introduction of a minimum price would create a kind of 'safety net' against the uncertainties surrounding the world price for oil. The major beneficiaries in the Community would be the hydrocarbons, coal and nuclear sectors.

14. The Commission requests from the Council its approval in principle of this system, which, by virtue of Article 113 of the Treaty, would come into force when the threshold price of 7 US dollars per barrel FOB was reached for a reference crude, and which would initially be applied to crude oil and its heavy and medium grades. The case of light grade oil products would need a thorough study of its own.

15. The Commission requests the Council to approve immediately the plan to issue Euratom loans to the value of 500 million u.a. for the financing of nuclear power stations.

16. To anticipate possible difficulties with the supply of uranium ten years or so from now, the Commission wished to intensify its encouragement of uranium prospecting on the basis of Article 70 of the Euratom Treaty.

17. The Commission also hopes that the Council will hold a policy debate on three other kinds of measures.

The Commission considers that a study should be made of the possibility of strengthening existing measures, either by granting specific aid to coal-fired power stations or by taxing heavy grade fuel, or by encouraging refineries to instal plant to process their fuel surplus into medium- or light-grade products.

18. Certain investment projects may be subject to high risks. A guarantee system, still to be worked out, might enable certain specific projects to be protected according to carefully defined criteria.

19. The estimated increase in energy investment might justify a strengthening or a greater diversification of Community investment based on the borrowing capacity of the Community.

20. To achieve the '1985 objectives' (COM(76) 9), the Commission undertook a study of the 1985 energy estimates of Member States and compared them with the 1985 objectives established by the Council on 17 December 1974 (see Mr PINTAT's report to the European Parliament, Doc. 524/74).

21. The report that the Commission drew up on the basis of this study ought to enable the Council to hold a thorough-going exchange of views on the various practical problems obtaining in Member States.

22. The present estimates of Member States give grounds for believing that the share of each energy source in covering Community needs in 1985 will be in line with the objectives drawn up by the Council with a view to reducing by half the Community's dependence on external supplies.

23. However, according to the estimates a reduction in energy dependence in 1985 to 40% of the present total does not seem likely, although two years ago both the Commission and the European Parliament considered such a target to be achievable.

24. Certain factors, however, give rise to concern about the achievement of even the objective of 50% dependence:

- present estimates of Community production for 1985 (solid fuel, hydrocarbons, nuclear energy) are lower in absolute value than the objectives fixed by the Council;

- the level of consumption estimated is linked to an all-out effort to achieve a rational use of energy, the effects of which might be counteracted by an economic revival;
- present estimates by Member States are based on the hypotheses of an economic growth slower than that assumed when the objectives were fixed.

25. Consequently, if economic activity - and the demand for energy - were to show a growth rate slightly higher than that at present estimated by Member States in the ten years between now and 1985, the conservative estimate of 50% independence would be unattainable. In such a case, only imported oil could satisfy the extra demand, since the investment needed to develop internal resources would not have been made early enough.

26. If the opposite happened and economic activity proved slightly less than at present estimated, the objectives could still be unattainable if, for instance, the same economic difficulties resulted in North Sea oil production reaching no more than the minimum estimated.

27. Only if measures aimed at a more rational use of energy prove fully effective and if increases in energy requirements conform to the estimates can the objective of 50% independence be reached.

II. The development of alternative energy sources presupposes a common EEC position within the framework of international cooperation.

28. On this point, the Commission sent two communications to the Council, the first setting out the main foci of a policy for the development of energy resources in the Community and within the larger framework of international cooperation (COM(75) 310).

29. Such a policy of development of energy resources will have to:

- be based on an overall design to ensure the necessary cohesion in its actions; these will necessarily be of different types, having to be adapted to the characteristics of each source to be developed;
- ensure a balance between the interests of those countries taking responsibility for developing particular sources and those of the countries benefiting from the availability of these sources. The policy must also be based on specific measures designed to encourage or support the production of energy deemed to be essential for security of supplies and on a mechanism for protecting this energy against any abrupt fall in the price of imported oil.

30. As for the solidarity to be developed within the Community, it would find expression in:

- the fixing of a minimum price and the adoption of measures that will ensure the maintenance of this price;
- mechanisms for sharing the costs of the joint effort undertaken to guarantee the profitability of the investment required in order to achieve the objectives of security and increased independence;
- for energy costing more than the level needed to ensure independence, the costs attaching to their maintenance would be allocated case by case and according to the nature of the objectives in question and the beneficiaries.

31. Within the framework of cooperation on a scale larger than that of the Community:

- the differences in energy supply conditions or in economic structures may result in different reference price levels as between countries or groups of countries for the application of mechanisms to achieve solidarity;
- the disparity between these reference prices should, however, result in neither an imbalance on the world energy market, nor a subsequent distortion in the conditions of competition between the different consumer countries;
- the sharing of the costs of Community effort could only be proportional to the benefit gained by each one from the effort made by the others.

32. A similar system, without being the basis for a world equalizing price for oil, would place useful cards in the hands of the consumer countries when it came to negotiating with the producers.

33. Its principle is in line with the present trend in international trade, namely to seek regular supplies for the consumer while providing a stable income for the producer.

34. The proposals, designed to protect and promote the development of Community energy resources, to encourage energy saving and internal solidarity during a crisis, form the very foundation of any Community action taken with a view to achieving the objectives for 1985.

III. Alternative energy sources and their cost.

35. The problem of the cost of alternative energy sources has special significance, being a matter of importance not only for the North-South dialogue but also inside the International Energy Agency and particularly within the Community.

36. Commission experts have projected the average production costs for each alternative energy source in the Community, based on the quantitative production objectives as they appear in the present estimates of Member States. The results are as follows:

- for coal, the average (pithead) cost which was 65 dollars per tonne petrol equivalent (tpe), or 9 dollars per barrel in 1975, should increase to 80 dollars tpe or 11 dollars per barrel in 1985, given Community coal production of between 161 and 166 million tpe.
- considerably lower, the production costs for brown coal (lignite) which in 1975 had only reached 26 dollars tpe or 3.5 dollars per barrel would only increase slightly by 1985 to \$30 tpe or \$4 per barrel. This would consequently be the least expensive Community fuel, followed by natural gas, for which the cost rose in 1974 for a production total of 130 million tpe to \$8 tpe or \$1 per barrel. In 1985, with a production total between 150 and 165 million tpe, the costs would range between the present level and \$25 - \$50 tpe or \$3.5 - \$7 per barrel.

37. The very small quantity of crude oil produced in the Community in 1974 (11 million tonnes) was extracted at an average cost of \$11 tpe or \$1.5 per barrel, but the same 161 million tonnes expected in 1985 would cost between \$30 and \$70 tpe or from \$4 - \$10 per barrel, i.e. the floor price of \$7 per barrel proposed for imported oil would be exactly half way between the two extremes.

38. Nuclear energy should supply most of the increase in Community energy requirements over the next ten years. In calculating equivalent costs, the experts began by fixing the price which would be paid for fuel in a conventional oil-burning power station to produce electricity at the same cost as a nuclear power station.

39. In 1974, electricity produced in the Community by nuclear processes had reached an amount which would have required in a conventional power station the burning of 16 million tpe of fossil fuel. On the basis of these figures, nuclear energy production was achieved at a cost of \$25 tpe or \$3.5 per barrel, which is considerably lower than the production costs using Community coal. In 1985, when Community production of nuclear energy is estimated at between 182 and 189 million tpe, the costs will be between \$40 and \$65 tpe or \$5.5 and \$9 per barrel.

40. In 1985, Community energy production costs will be, in order of importance : lignite, natural gas, oil, nuclear power and coal.

41. At present, when the c.i.f. price of imported oil is about \$12, there is uncertainty about Community energy sources whose present cost and projected cost lie between the level of the minimum import price and the present import price. Community action should therefore be considered for some hydrocarbons and coal. Two systems could be envisaged:

- a system of mutual aid between producers in the form of a premium to be paid to a guarantee organisation. The accumulated premiums would enable the profitability of investments to be guaranteed in the face of the uncertainties affecting their competitiveness in relation to imported oil.
- a different system, simpler to institute, would consist of a guarantee of minimum profitability for invested capital. If market conditions should change so that it was no longer possible to obtain a predetermined rate of interest on the capital, the Community would make up the difference between this rate of interest and real profitability. Obviously, if the price of imported oil fell below the minimum price, the latter would apply so that the costs of the guarantee did not become excessive.

42. Although these questions are important, they have not yet been embodied in a proposal to the Council. Only later will the Commission be able to formulate practical proposals that are not designed to support local energy sources which range between the minimum price of \$7 and the market price but rather to encourage the financing of the necessary investment.

IV. Oil price proposed by the International Energy Agency: \$7

43. The idea of a 'minimum protection price' (MPP) was born just over two years ago within the framework of the International Energy Agency, which proposed that the governments of the 16 member countries should fix the MPP for oil at \$7 a barrel.

44. The principle of a floor price for imported oil was adopted by the IEA in March 1975 and was based on the notion that oil would determine the reference price for all other forms of energy for the next ten years.

45. Proceeding on this basis, it became clear that a fall in this price could compromise all efforts made to develop alternative sources of energy.

46. The minimum protection price (MPP) does not indicate the ideal price for the sale of oil on the internal market but is rather the price agreed upon by the IEA member countries themselves with a view to ensuring that none of their members will sell oil on the market at a price lower than the fixed price.

47. Let us imagine that the price on the international market falls below \$7, for example, to \$5. Everyone would be free to buy oil at that price but it could not be resold on the internal market under the MPP. In other words, some form of tax would have to be imposed (import duty, fiscal or parafiscal consumer tax) to bring it up to at least the level of the MPP. Each member country would be free to choose the form of taxation it found most convenient. In this way an adequate return on investments in energy would be guaranteed.

48. Nonetheless, this guarantee is only partial since the price of about 25% of Community oil production is higher than \$7. One Member State of the Community which is not a member of the IEA is in principle opposed to the floor price. The MPP is in fact an American invention adopted by the IEA and is regarded by certain OPEC countries as a retaliatory measure directed against them. However, for two reasons, this view appears less and less defensible:

1. By a decision of the Conference on International Cooperation, the IEA has been recognized as one of the international organizations entitled to permanent representation on the committees of the North-South Dialogue;
2. OPEC has repeatedly called on the West to exercise restraint in the use of oil and to look for new sources of energy. This is precisely what the IEA is doing. The fact that this may lead in time to a reduction in the industrialized countries' dependence on OPEC or even eliminate it altogether, is a contradiction for OPEC and not for the Agency.

49. It coincides perfectly with the objectives set within the IEA which are also those of Community policy.

V. The Commission's proposal for a minimum import price for oil

50. The resolution presented by the Commission (COM(76) 20) on the implementation of the energy policy guidelines drawn up by the European Council on 1 and 2 December 1975 is the most political of the documents submitted to the Council.

51. The most likely political decision concerns the adoption for the Community of a minimum import price for imported oil, which has been fixed at \$7 a barrel for crude oil.

52. At the present time, the Community price of imported oil is about \$12 per barrel c.i.f. Should there be a drop in the price of oil, investors have to be protected by the 'safety net', which should protect them against the risk of a collapse or a drastic fall in prices.

53. The minimum protection price is not, then, a specific measure. It is a support and general protection measure covering all sources of energy and is not intended to encourage the protection of any one source in particular.

54. The reference price of \$7 per barrel is an FOB price, that is to say, it is the initial price at which it is bought in the producing countries before being sold to the Community. Public authorities are undoubtedly aware of this price, in the first place, because it is published by the producing countries and, secondly, through the information system set up by the Community.

VI. Implementation of the idea of a minimum protection price

55. As now defined, the concept of a MPP is clear and, since the level of \$7 per barrel as now envisaged is based on economic references, governments enjoy a very wide latitude in implementing the principle.

56. Various measures such as customs duties, levies, quotas and consumer taxes can, in fact, be used to implement a minimum import price for oil.

57. Customs duty could be imposed on all oil imports and would be reviewed, for example, every month, in order to bring it into line with the world market price. Exemptions from this duty would be possible only within the framework of existing agreements (e.g. free trade areas).

58. A second possibility - which is also a trade policy measure - would be to impose a variable duty or levy of the type commonly used in the Community and applied to agricultural products. This system would make it possible for a single price to be established for all imported oil. If, for example, the average FOB price for oil imports fell below the minimum price, a levy would be payable on imports equal to the difference between this price and the average FOB price for crude oil or imported petroleum products.

59. The third possibility, the quantity quota, would have the effect of limiting the amount of oil imported into the Community but would offer no guarantee that the price would be maintained at \$7.

60. The fourth possibility, consumer taxes, would affect both imported energy and domestically refined products. If agreement on a Community mechanism proved impossible, this system could be applied at the level of the Member States.

61. The special difficulty and disadvantage of this system are clear. If domestically produced oil is taxed at the same rate as imported oil, it is difficult to see how there would be any incentive to increase production, since once produced the oil would be taxed.

62. In conclusion, the application of a MPP and, in particular the introduction of a system of levies, would mean modifying the regulations and the arrangements for the importation of crude oil and, in appropriate cases, of refined products. Such measures come under the heading of trade policy measures, for which, by virtue of Article 113 of the EEC Treaty, the Community has exclusive competence.

63. Consequently, all international commitments in this area are outside the competence of the Member States. Only the Community as such can enter into agreements of this nature and adopt the measures necessary for their implementation.

64. Any commitment accepted by the Community must respect the basic principles of the Common Market and, in particular, the principle of the free movement of goods within the Community.

VII. Conclusion

65. The Committee on Energy and Research shares the Commission's satisfaction that a preliminary programme for assessing financial requirements for developing energy resources and a draft resolution on the implementation of the energy policy guidelines have been submitted to the Council and the Member States.

66. However, these documents should be submitted for an opinion to the European Parliament, which has frequently shown itself favourable to the introduction of a Community energy policy.

67. The new Commission proposals should be related both to the goal of realizing greater autonomy in the energy sector and to the various points of concern for which a solution must be found before any real common energy policy can be implemented.

68. Your rapporteur believes that the principle of a minimum protection price is beyond dispute. This price should constitute one of the instruments not only of a protection but also of an incentive mechanism.

69. Nonetheless, more information is necessary on the way the minimum protection price will be applied, and on the possibility of revising the level of this price to bring it into line with developments in the oil market and the development of alternative forms of energy. The draft resolution does not adequately reflect the energy policy guidelines drawn up by the European Council in Rome on 1 and 2 December 1975. Moreover, it envisages, in practice, only one concrete measure, namely, the fixing of a system of minimum prices for oil imports, and cannot therefore be regarded as a coherent body of concrete and well-balanced measures applicable to all energy sectors.

70. Consequently, the minimum protection level should be set by reference to economic criteria, i.e. in relation to the cost of the long-term development of basic energy, which in the case of the Community means nuclear energy.

71. The problem of the level of protection of the minimum import price for oil cannot be dealt with in blanket fashion for all consumer countries, but should take account of the special features of the ways they are supplied!

72. In view of the general agreement on the desirability of introducing a floor price for imported oil which emerged after the decision in principle taken at the European Council in Rome, the problem which now remains to be solved is, essentially, that of alternative sources of energy which are too costly to be profitable at this price.

73. The simple introduction of a minimum protection price would not be enough to guarantee the development of Community energy resources; it must be supplemented by specific incentive, support and guarantee measures drawn up by common agreement with a view to sharing equitably the advantages and obligations.

74. The principle of reciprocity, which is absolutely essential for the resource-sharing mechanism in time of crisis, should likewise constitute one of the basic elements of the protection mechanism for alternative forms of energy.

75. In other words, the acceptance of a minimum price for domestic oil should have as its counterpart the right of access to this oil by other countries. There will thus be a variety of mechanisms and the principle of reciprocity must also be taken account of.

76. The cost of new sources of energy will be substantially higher than the price paid for energy in 1973. They will never be competitive in price with the cost of oil produced in the Near East.

77. This difference in costs poses a dilemma. If the industrialized countries succeed in developing alternative sources of energy on a large scale, the demand for OPEC oil will fall and international prices will be greatly reduced.

78. Imports of cheap oil could then jeopardize investments made in new sources; the low price of petrol would again stimulate demand and imports would rise, thereby increasing both dependence and vulnerability.

79. Thus, paradoxically, in order to protect the main investments which the industrialised countries need to make in order to lower the international price of oil, we are committed to ensuring that the price of oil does not fall below a certain level on the internal markets.

80. In conclusion, following the encouraging start of the North-South dialogue and the decisions taken since then in the International Energy Agency, Europe must again become politically active in the energy field.

81. In this way Europe would have the opportunity of creating new political and institutional relations through fruitful cooperation between producers and consumers as regards the recycling of petrodollars, investment policy, joint efforts on behalf of the poor countries most affected, the fixing of an equitable price for the producer and guarantees of regular oil supplies for the consumer.

OPINION OF THE COMMITTEE ON ECONOMIC AND
MONETARY AFFAIRS

Draftsman: Mr F. BURGBACHER

On 27 February 1976 the Committee on Economic and Monetary Affairs appointed Mr BURGBACHER draftsman.

It considered the draft opinion at its meeting of 23 September 1976 and adopted it unanimously.

Present: Mr Van der Hek, chairman; Mr Burgbacher, draftsman; Mr Artzinger, Mr Cifarelli, Mr Deschamps, Mr Dykes, Lord Gordon Walker, Mr Leonardi, Mr W. Müller (deputizing for Mr Albertsen) and Mr Normanton.

1. The Committee on Economic and Monetary Affairs has already had occasion to consider certain aspects of the problem of introducing rules on the protection and development of alternative energy sources. This was in connection with the GULDBERG report on the effect of increased energy prices on Member States' productivity and competitiveness. (Doc. 431/75), see in particular points 17 to 22 of the motion for a resolution and points 26 to 32 of the explanatory statement (Annex 1 attached). The House has not yet adopted an opinion on this motion for a resolution.

With regard to problems of protection the GULDBERG report (Doc. 431/75) makes the following main points:

- energy prices should not necessarily be kept as low as possible in that it is necessary, in order to safeguard future energy supplies by developing other energy sources, to maintain energy prices at a higher level than before the oil crisis which occurred in late 1973;
- despite monopoly tendencies in the area of energy supply the Community energy policy must safeguard the existence of several different supply sources and be devised in such a way that, after a 'running-in' period, it leads to - or may be transformed into - a liberal system in which market forces have a significant influence on the sources of primary energy the individual energy consumer uses for various purposes;
- furthermore, no system should be devised which would eventually involve intolerable expenditure for the Community budget.

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2. The most important topics for discussion in the Committee on Economic and Monetary Affairs included the following:

- (a) Can the question of a minimum price arrangement for imported crude oil be dealt with in isolation or should the European Parliament consider simultaneously all the individual measures which will gradually combine to form an organization of the market in energy?
- (b) The technicalities of a minimum price arrangement.
- (c) The possibility of subsequent review of principles or details.
- (d) The level of the minimum price.

as regards (a)

3. The adoption of a minimum price for imported crude oil will not in the present circumstances entail any change in the production costs of individual branches of industry or regions within the Community since the price of crude oil on the world market is higher than the minimum price proposed by the Commission of \$7 per barrel for reference oil (FOB price).

The price of oil on the world market may in the meantime fall below the minimum price fixed by the EEC; the effect of such a situation must naturally be calculated as accurately as possible. In view of its importance it is regrettable that the Commission has not devoted greater attention to this question. It was a central topic in the discussions held by the Economic and Social Committee and was the main reason for the Committee's divided vote on the adoption of a minimum price for imported oil (40 for, 17 against and 19 abstentions).

4. It is obvious that if the minimum oil price in the Community is higher than on the world market, the price of energy is being maintained at an artificially high level. Member States which possess no significant primary energy sources will consequently adopt a critical attitude. And it could happen that precisely those countries which possess substantial primary energy sources will derive relatively the greatest benefit from further EEC initiatives aimed at promoting investment in energy sources other than imported oil.

Since some Member States may well in this way obtain relatively large benefits from the various EEC measures to promote investment in the energy sector, it is all the more necessary to safeguard equality and freedom of access to energy for all the Community countries, especially in the event of a future energy shortage.

The problems which arise in the context of a Community energy policy, if there is to be a fair balance of advantage and disadvantage, are a decisive factor in the Council's lack of success so far in reaching agreement on the energy policy of the Community.

5. It is therefore also a somewhat dubious procedure to isolate the proposal for a minimum price for imported oil from the overall problem.

As regards (b)

6. As far as the technicalities of a minimum price arrangement are concerned, two problems should be mentioned:

7. Firstly, the price of \$7 per barrel relates to reference crude oil. There are also price differences between the various types of oil which are not based on objective criteria. OPEC has not yet succeeded in agreeing on price relations between the various types of oil and it will therefore take some time before agreement is reached in the Community on these price differences.

8. Secondly, the form in which the minimum price is applied must also be more closely defined. The reference to Article 113 of the EEC Treaty suggests either a customs duty or a variable levy.

Any proceeds should be allocated to the Community budget.

It ought possibly to be pointed out explicitly in the opinion that it has been agreed that a minimum price arrangement must be based on Article 113. Another alternative, i.e. that of implementing the minimum price by means of national levies would be totally inconsistent with the basics of the EEC Treaty and would probably impede agreement on the other aspects of the Community energy policy.

If agreement can be reached on a minimum price for oil on a broader international level, the member countries of the Community must adopt a common stance, and this implies common rules to safeguard the agreement.

As regards (c)

9. An energy policy cannot and must not be designed to last for ever. It must be adjustable to changes in the situation. This also applies to the minimum price, though only to a certain extent, since any reduction in this price must take into account the profitability of alternative investments.

Since the Commission proposal is also designed to some extent to ensure the development of energy sources other than imported oil, it is inconceivable that there will be any question of bringing down the minimum price in the short term.

As regards (d)

10. The minimum price for imported crude oil must form the core of Community policy on the development of alternative energy sources and the reduction of the Community's dependence on energy imports from third countries. The purpose of the minimum price is to safeguard the profitability of investment in alternative forms of energy. This objective is more important than the size of the figure chosen.

In the opinion of your draftsman there would therefore be no point in holding a detailed discussion on the minimum price without also considering how high it should be. He therefore recommends that the Committee on Economic and Monetary Affairs - controversial though this issue may be - give more thought to what the minimum price should be.

11. Firstly, it should be stressed that the minimum price must not be set so high as to guarantee the profitability of all investments related to the development of alternative energy sources. The Community must remain true to the liberal system under which misinvestment is primarily an entrepreneurial risk¹.

Secondly, the minimum price must be set high enough to ensure that the investments which are necessary to achieve the objective of reducing our dependence on imported oil can be made without risk.

12. Your draftsman is not in a position to recommend a precise figure for the minimum price on the basis of the above but he is convinced that the minimum price of \$7 per barrel proposed by the Commission is too low.

Investments related to the development of alternative energy sources are long-term investments. Profitability calculations and investment decisions must therefore be based on the expected prices of competitive forms of energy in the post-1980 period and not on current prices.

If the minimum price is fixed on the basis of current prices, it will have the effect of discouraging rather than promoting investment in alternative forms of energy.

The prices of all types of energy will unquestionably rise. The only problem is to forecast by how much they will rise.

13. One of the difficulties of forecasting the future movement of the price of oil has to do with how this price is fixed and the fact that real production costs vary between \$2 and \$12 to \$15 per barrel of crude oil.

Middle East crude oil will continue to be by far the cheapest to produce. The oil-consuming countries must pay much more, however, since the oil-producing countries inflate the price by means of taxes and duties. This means that the oil-producing countries can manipulate the price of oil, raising it to almost any figure which they consider desirable or on which they can reach agreement.

¹ In this connection it must be emphasized that any guarantee arrangements would have to be devised in such a way that guarantees are provided only for actual investment expenditure and not for any subsequent investment profit.

The threat of price manipulation does not, however, come from the oil-producing countries alone, since 50-60% of the price which the ultimate consumer must pay for oil products in western Europe accrues to the budgets of the individual States in the form of levies.

14. The calculations involved in investment in alternative energy sources are also complicated by the following factors:

- the trend in the overall demand for energy and the demand for individual energy sources;
- the trend in the price of oil (possible manipulation);
- the long period required to carry out investments in alternative energy sources (5-15 years) and the long waiting period (20-30 years) which must always be expected before the investment begins to pay.

The above imponderables make it not only extremely difficult but practically impossible for investors to predict the movement of the price of oil and the profitability of their investments.

This proves how necessary it is to fix a minimum protection price for crude oil within the Community that would protect investment in alternative energy sources and also how difficult it is to determine the correct level for this minimum protection price.

15. Consideration should therefore be given to the possibility of a system under which the minimum protection price could be adjusted every one or two years to the current situation. This would of course require a triggering mechanism to ensure that changes were not determined arbitrarily but occurred automatically. Without an automatic procedure of this type the purpose of the minimum protection price would not be achieved and we should again be faced with the old problem of reducing oil imports by introducing alternative investment in new plant requiring long-term safeguards.

With this automatic procedure the minimum protection price would still have to be guaranteed so as not to hamper or make impossible alternative investment. In practical terms that means that any fall in the minimum protection price would have to be limited by the automatic procedure.

16. The Committee on Energy and Research lists (points 36-39 of the explanatory statement) the expected production costs of individual energy sources in 1985. A minimum price of \$7 per barrel exceeds the production costs of brown coal and natural gas; the production costs of a large proportion of coal and crude oil production and of electricity produced from nuclear energy would however be considerably higher.

The Commission has calculated¹ that between 25 and 30% of expected 1985 Community energy production would not be economic if the price of oil, which is currently about \$12 for reference crude², actually dropped to \$7.

17. Your draftsman takes the view that the minimum price should be fixed high enough so that it matches the production costs of oil and natural gas from the Ekofisk area and the production costs of electricity from nuclear energy. As far as the latter are concerned, account should be taken not only of real production costs but also of the problem of siting, the cost of environmental protection, the necessary investment in grid facilities and the switching of all conventional power stations to shorter hours of operation.

18. Your draftsman is naturally aware that a high minimum price for imported oil, coupled with other measures as part of a Community policy in the energy sector might well lead to over-production.

He also takes the view that future 'energy mountains' must be avoided but it should be pointed out at the same time that in the long term increased energy consumption is a precondition for a further rise in the gross national product.

In the experience of your draftsman the price of energy in times of shortage invariably adjusts to the price of the most expensive energy source that meets supply requirements. Should the Community fail to increase appreciably its own energy production by pursuing a consistent energy policy, it may be confronted with further high price demands for imported oil during the 80's and it is also quite possible that the import of natural gas will lead to dependence in that area too. The cost of meeting such new price demands for crude oil and natural gas products may be much higher than that of safeguarding reasonable price stability for individual energy sources through a common energy policy.

19. In the debate on the structure of the common energy policy reference is often made to the consequences of the common agricultural policy. Your draftsman is firmly convinced that a food surplus is cheaper for the Community than a food shortage and the consequent need to import. In this connection it should also be pointed out that the proportion of monthly income spent on food by a four-member German worker household has dropped from over 40% in 1950 to about 22% today.

Energy is for the economy what food is to human beings.

¹ COM(76) 20, Page 5

² Arabian Light.

Content of the motion for a resolution of the Committee on Energy and Research

20. In point 2 the Committee on Energy and Research notifies its overall approval of the principles proposed by the Commission for the Community energy policy; point 3 indicates areas to which special importance should be attached.

The first three points as it were state the terms for 'welcoming' the proposal in point 4 to introduce a 'minimum safeguard price' for imported crude oil.

In point 5 it is pointed out that solidarity within the Community may be achieved in two different ways: by fixing a minimum price for imported crude oil and by guaranteeing the profitability of the required investments. Point 7 states that the minimum price should be one of the instruments of any Community policy.

21. Points 6 and 9 are of special interest to the Committee on Economic and Monetary Affairs. Point 6 emphasizes the principle of 'solidarity' and point 9 puts forward the view that the implementation of a minimum protection price should be achieved by a system of levies.

Comments on the motion for a resolution by the Committee on Energy and Research

22. The content of the motion for a resolution does not give rise to any fundamental objections on the part of the Committee on Economic and Monetary Affairs. However, it seems worthwhile commenting on the wording and proposing a number of additional points.

23. It is obvious from the context that the minimum price for crude oil is one of the cornerstones of a Community energy policy. Some thought should be given to the possibility of bringing out more clearly by means of an amendment to point 7 the fact that the minimum price must be central to the Community energy policy. In this connection it would also seem logical to place point 4 (in a slightly amended form) after point 7.

24. The words 'possibly adjustable' in point 7 refer to the question of the future adjustment of the minimum price. It might be suggested to the Committee on Energy and Research to devote a separate point to this problem.

25. It must also be noted that the Committee on Energy and Research says very little about the principles and preconditions underlying the introduction of a minimum price arrangement:

- imported crude oil from third countries (point 4)
- any adjustment (point 7)
- implementation by means of a system of levies (point 9).

The following additional principles should also be specified:

- (a) Reference to the main points mentioned under point 1 of this note in the GULDBERG-Report;
- (b) Request the Commission to analyse more closely the consequences of the various energy policy measures on the individual Member States or branches of industry;
- (c) The fundamental problem arising in the oil sector in the context of a closed Community energy policy is the safeguarding of a stable oil price, which is only possible in a context of international cooperation;
- (d) The principle of a minimum price for imported crude oil should be approved, but no opinion can be offered as to what this minimum price should be until additional information from the Commission has been considered.

26. The Committee on Energy and Research should also refer in point 9 of the motion for a resolution to Article 113 of the EEC Treaty and call on the Community to adopt a common stance in discussions of these issues at international level.

27. The Community's understandable efforts to reduce its dependence on imported oil clearly cannot succeed unless some of the laws of a world market economy are suspended. This is inevitable because any attempt to reduce dependence on goods or services is per se incompatible with the law of the market economy.

ALTERNATIVES

28. Since there is a suspicion, and a well-founded one, that in the present situation the Member States of the Community are incapable of unanimous agreement on a minimum protection price, possible alternatives need to be brought up for discussion.

(a) Alternative 1

Oil prices could rise so steeply that coal processing (gasification and liquefaction) might become economically viable. A minimum protection price would then be a more realistic and recommendable proposition.

(b) Alternative 2

With increasing demand, especially during an economic recovery, oil prices could rise according to the laws of the market economy, making Alternative 1 the obvious choice.

(c) Alternative 3

The oil-exporting countries, or the oil-consuming countries, could cut their duties and levies so drastically that, in economic terms, consumer prices would fall, making the m.p.p. superfluous.

(d) Alternative 4

If oil prices rose in a situation where Alternative 3 did not obtain, balance of payments problems caused by continuous large-scale oil imports could become so pressing that an m.p.p. would be forced on importers or oil imports could be restricted by law.

(e) Alternative 5

The oil-exporting countries could become increasingly interested in influencing coal production by acquiring holdings in mining concerns; this is already occurring on a large scale.

The oil-exporting countries would then have an interest in the economic viability of coal and would consider gasification and liquefaction as an interesting and, for them, a desirable means of reducing their own oil output. This would only be true if, as may be supposed, the oil-exporting countries were not so much interested in supplying large quantities of oil, which would deplete their reserves fairly quickly, as exploiting their oil fields over a longer period at appropriate prices, for political and economic reasons.

29. In this context, it should be remembered that OPEC spokesmen have repeatedly stressed in both written and oral statements that they would welcome coal as a competitive and alternative form of energy to avoid an excessive demand for oil from the oil-consuming countries.

CONCLUSIONS

30. (a) The Committee on Economic and Monetary Affairs, the Committee on Energy and Research and the European Parliament deeply regret that no concrete legislative measures have yet been taken to develop alternative energy sources.

- (b) It should again be emphasized that Community energy supplies must not be sought from the cheapest sources at present available, but that the overriding consideration must be long-term security of supply.
- (c) Therefore, when comparing prices of competitive or alternative forms of energy, particular consideration must be given not to the present situation but to future prices as far as they can be reasonably calculated. These calculations must make extra allowance for supplies from local, i.e. European sources.
- (d) A minimum protection price for imported crude oil must be the objective, whatever the difficulties involved. It is important to bear in mind here that this m.p.p. must include an element of protection for alternative forms of energy over a period of 20 - 30 years. This is impossible without taking a calculated risk in costing. It therefore presupposes that for political reasons, the Community will give preference to security of supply, even at somewhat higher prices, rather than accept the risks of dependence on imports.
- (e) It must be pointed out that the m.p.p. of \$7 per barrel which has been put forward for discussion is inadequate and will not in itself provide a solution. It is merely an instrument of the common energy policy and an act of solidarity by the Member States in which the interests of all the Member States and the Community as such must be taken into account.

Since the interests of the oil-exporting countries in supplying oil to the consumer countries for as long as possible at fairly high prices run parallel to the oil-consuming countries' efforts to end their dependence on oil imports, a joint solution to the m.p.p. problem should be possible between the oil-exporting and the oil-consuming countries, given this identity of interests.

- (f) This naturally presupposes that European alternative forms of energy would be available to all the Member States of the Community and not just to that country on whose territory they happen to be present.
- (g) Whether customs duties or variable levies should be applied for implementing purposes within the meaning of Article 113 of the EEC Treaty is an open question.

- (h) The Community's stance on the m.p.p. question is an acid test of the Community's ability to think and act in concert when deciding the vital question of ensuring energy supplies or depending on imports. Security of energy supplies is the sine qua non for industrial productivity and growth, and above all for maintaining the social standards of all Community workers.
- (i) The possibility of an amicable agreement on the m.p.p. between the oil-exporting countries and the Community, based on the assumption of parallel interests made in Alternative 5, must be carefully and openly discussed. The oil-exporting countries should therefore be encouraged to help finance investment in alternative energy sources to ensure their long-term interest in the profitability of these investments.
- (j) In any discussion of the m.p.p. problem, account should also be taken of foreseeable trends in the cost of electricity produced from nuclear energy, oil from such areas as the Ekofisk field and other alternative forms of energy. Present uncertainties surrounding these costs must be removed. In doing so, separate account must be taken of operating costs on the one hand, and fiscal or other government levies imposed by the oil-exporting or oil-consuming countries on the other. It must also be established which energy sources, especially in the oil sector, would become unviable, given a low m.p.p.
- (k) As a general comment, the Community has an interest in speaking with one voice at international level. When it comes to the security of energy supplies, this is virtually a matter of life or death.

Extract from the motion for a resolution by the Committee on Economic and Monetary Affairs on the effect of increased energy prices on Member States' productivity and competitiveness (Doc. 431/75)

Ensuring energy supplies

17. Notes that the relatively low price of oil has been a considerable factor in the high standard of living of the industrialized countries;
18. Believes, however, that the Community's great dependence on oil imports represents a threat to its economic and political independence;
19. Therefore believes it necessary that the Community should develop the use of other forms of energy by way of a common energy policy;
20. Notes that the investments required for the development of alternative forms of energy are so great that no private investor will be willing to tackle the problems without some form of guaranteed return: the Community must therefore, in the initial period, protect the development of alternative sources of energy;
21. Calls for such guarantee arrangements to be based on the following principles:
 - energy prices should be determined on a long-term basis;
 - after an initial consolidation period market forces should be allowed to determine to a great extent which primary energy sources should be used for which purpose;
 - it should be possible to have advance warning of the Community expenditure which may be incurred;
22. Finds that the possibility of agreement on a common energy and energy prices policy depends on general acceptance by Member States of the need for solidarity and on their accepting the necessary political consequences.

Extract from the explanatory statement of the Committee on Economic and Monetary Affairs on the effect of increased energy prices on Member States' productivity and competitiveness (Doc. 431/75)

IV. ENSURING ENERGY SUPPLIES

26. Energy prices have been and continue to be of great importance for the standard of living in Western Europe. Relatively low oil prices have to a large extent made previous energy sources such as coal and coke uncompetitive, but have on the other hand laid the basis for continued rationalization of industrial production processes and are largely responsible for the high standard of living in the industrialized countries.

At the same time, however, low oil prices have meant that industrialized countries have mainly based their consumption of energy on oil. So countries that do not themselves produce oil have become particularly dependent on imports.

27. Developments in 1973 and 1974 showed how dependent West-European countries were on decisions taken by the governments of the oil-producing countries. Unless the Community makes a deliberate effort to end its almost complete dependence on imported oil, its economic and political independence will be drastically limited. For if it is once shown that oil supplies can be used as part of an economic and political strategy, then its state of dependence will have become unacceptable to the Community.

The only recourse available to the Community here is to develop the use of other energy sources through a common energy policy.

28. In working out a common energy policy, it is inevitable that nuclear energy will be the core of the Community's own energy supplies¹. This is because of both the limited resources of other energy sources and economic considerations. Given sufficiently wide application, the price of electricity from nuclear power stations will be competitive even by comparison with conventional power stations, which base their electricity production on oil. This does not, however, alter the fact that crude oil will continue to be the main source of energy in the foreseeable future.

¹ See the opinion of the Committee on Energy, Research and Technology. As explained in para. 8 the Committee on Economic and Monetary Affairs does not consider itself responsible here for evaluating what sources or quantities of energy the Community should take as a basis for future policy.

Irrespective of the energy sources chosen as a basis, the Community must accept the fact that the days of relatively low energy prices are over; it is, moreover, realistic to expect that the real price of energy will continue to rise gradually over the next few decades.

29. By basing itself more on nuclear energy, the Community is of course going from one dependency relationship to others, since the Community countries themselves have only limited uranium resources. Supplies of uranium must therefore be secured in advance through international agreements, and the Community must be aware that the rising demand for uranium may send nuclear energy prices upwards. The decisive difference is, however, that raw material costs in nuclear energy production are a far smaller part of total production costs than oil is in conventional power stations. An aggressive price policy on the part of uranium producers will, therefore, have a relatively smaller effect on the price of electricity to the consumer.

Another important difference will be that the energy-importing countries will, in the event of new energy crises, have more possibilities than in the present situation for taking advantage of any changes in the price relationship between oil and uranium.

30. The investments necessary to develop alternative energy sources are so large that no private investor can risk them without some kind of profitability guarantee. Crude oil from the Middle East and North Africa will continue to be by far the cheapest energy source to produce, and the oil producers will therefore be able to undercut nuclear energy in its initial phase of construction through an active price policy. If there were to be a heavy drop in the oil price in the future, it would totally alter the whole basis for nuclear energy producers' investment calculations.

The Community must, therefore - at least in the initial phase - protect the development of alternative energy sources.

31. The Committee on Economic and Monetary Affairs will not go into details as regards these guarantee arrangements, but confine itself to putting forward some considerations of principle.

Firstly: in the short term, for the sake of standards of living energy prices might be kept as low as possible. It is, however, important also for consumers for this price level to be fixed on the long view; in other words, the price must be high enough to safeguard future energy supplies.

Secondly: for both primary and secondary energy, the energy sector is an area where the monopoly tendencies on the supply side - whether nationalized or private - are inevitably very pronounced; despite this, the Community energy policy must safeguard the existence of several different supply sources and be devised in such a way that, after a 'running-in' period, it leads to - or may be transformed into - a liberal system in which market forces have a significant influence on the sources of primary energy the individual energy consumer uses for various purposes.

Thirdly: the Community must not repeat the error made in the common agricultural policy. Excessively high threshold prices and Community purchases of surplus production in the energy sector will only involve the Community in very heavy - and possibly prohibitive - expenditure.

32. In your rapporteur's opinion it is impossible in the present economic situation in the Member States to separate the introduction of a common energy supply policy from the solution of the other current economic problems: the monetary system, regional development, industrial restructuring, etc. Moreover, neither binding cooperation on energy policy nor an economic union can be achieved unless the Member States can agree to a large extent on further-reaching political cooperation, to cover both foreign and security policy.

The possibilities of creating an effective Community-wide energy policy are therefore very much dependent on whether the Member States will acknowledge the necessity for solidarity and accept its inevitable political consequences.