

European Communities

EUROPEAN PARLIAMENT

Working Documents

1983-1984

25 April 1983

DOCUMENT 1-90/83

REPORT

drawn up on behalf of the Committee on Economic and Monetary Affairs
on problems of the oil refining industry

Rapporteur: Mr Richard CABORN

On 15 September 1981 the motion for a resolution Doc. 1-467/81 on alternative job opportunities for workers made redundant was referred to the Committee on Economic and Monetary Affairs as the Committee responsible and to the Social Affairs Committee for its opinion.

On the 21 October 1981 the Committee on Economic and Monetary Affairs appointed Mr. CABORN as rapporteur.

The committee considered the draft report at its meeting of 21-22 March 1983 and adopted it at that meeting by 11 votes for to 9 against.

The deposit was made on 23 March 1983.

Participated in the vote:

Mr. MOREAU (Chairman), Mr. CABORN (Rapporteur); Mr. ALBERS (deputizing for Mr. Ruffolo); Mr. BEAZLEY; Mr. BEUMER (deputizing for Mr. van Rompuy); Mr. COTTRELL (deputizing for Mr. Hopper); Mrs. DESOUCHES; Mr. FORTH (deputizing for Sir Brandon Rhys-Williams); Mr. FRIEDRICH; Mr. LEONARDI; Mr. MIHR; Mrs. NIELSEN (deputizing for Mr. Delorozoy); Mr. PAPANTONIOU; Mr. PURVIS (deputizing for Mr de Ferranti); Mr. ROGALLA (deputizing for Mr. Walter); Mr. TURNER (deputizing for Mrs. Forster); Mr. WAGNER; Mr. WEDEKIND (deputizing for Mr. Schnitker); Mr. WELSH; Mr. von WOGAU

The Social Affairs Committee decided subsequently not to draw up an opinion.

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

MOTION FOR A RESOLUTION

on problems in the oil refining industry

The European Parliament

- having regard to the motion for a resolution by Mr. Patterson (Doc. 1-467/81),
 - having regard to the communication from the Commission on problems of the oil refining industry: progress report (COM (82) 360 fin),
 - having regard to the report by the Committee on Economic and Monetary Affairs (Doc. 1-90/83),
1. Notes with great concern that the Community oil refining industry has been characterised by a large, and increasing gap between demand and primary capacity, and that capacity utilisation has declined from 81% in 1973 to a provisional figure of 58% in 1981.
- Observes that this deterioration has continued in recent months, and notably between the Commission's progress report of 30 September 1981 ⁽¹⁾ and that of 15 June 1982 ⁽²⁾.
2. Further notes that the last decade has seen a reversal in the balance of trade as regards finished refined goods from third countries, and that over this period the Community has moved from being a significant net exporter to being a net importer of such goods.

(1) COM (81) 534 fin.

(2) COM (82) 360 fin.

3. Expresses its concern, moreover, at the Commission's estimates that Community capacity will have to further decline from the estimated 1982 level of 754 million tonnes/year to 600 million tonnes/year by 1985.
4. Points out that this will provoke further major closures of oil refineries with severe consequences for employment not just in general community terms, but more seriously in specific regions and localities which are heavily dependent on the industry.
5. Observes that the Commission's strategy towards the oil refining industry, while continuing to be based on the assumption that contraction and restructuring of the industry is necessary, has changed from one entailing more direct Community involvement ⁽¹⁾ to one in which the Commission's role is essentially reduced to keeping the situation under review.
6. Welcomes the consequent Commission reports on the changing situation within the industry, and, in particular, the progress report of June 1982, but considers that a number of issues briefly mentioned by the Commission need to be further clarified.
7. Recognizes that this is a field in which accurate forecasts are difficult to make, given varying forecasts for the development of the economy as a whole (and, in particular, concerning the duration of the current recession), for the future role of oil and oil products in the Community economy, and on the changing character of the oil market itself (with the decline in demand for fuel oil and the rise of demand for middle distillates).

Calls, nevertheless, for more precision by the Commission as to how it reaches its estimates for the necessary decline in capacity within the sector.

8. Further requests the Commission to expand on its statement that the planned reduction in total Community capacity is distributed fairly evenly among all the larger member States.

(1) As outlined for instance in the Commission's communication (COM (78) 71 fin) on problems connected with the profitability of the refining industry in the Community.

Asks in this context for a more detailed analysis of the likely national and regional impacts of such measures. Considers, however, that production capacity reduction must be based on the principle of removing outdated inefficient capacity first.

9. Considers that, in view of the general uncertainty of the economic outlook already referred to, it is not possible to make specific estimates of direct and indirect job losses but that it would be useful for the Commission to identify those regions most likely to be affected.
0. Agrees that the process of adaptation could and should be left to the companies themselves, provided neither regional security of supply, nor freedom of competition was affected.

Calls also for a analysis of the state of competition in this sector, and in particular as to how the enterprises involved are able to cooperate with each other, and with the Commission, in conformity with the rules of competition, in order to ensure that capacity is reduced in an orderly way throughout the Community, without resorting to a so-called crisis cartel.

1. Points out that the Commission's analysis of the Community oil refining industry needs to be put within the wider competitive context of changes in the worldwide oil refining industry, and in terms of changes in the situation of the industry in each of Europe's major competitors, and in particular the United States, Japan, the oil producing developing countries,

and the rapidly industrializing developing countries. Requests, therefore, that the next Commission study contain such information.

12. Regrets that the effects of enlargement have not been taken account of in the Commission's progress report. Points out, for instance, that there has been a programme of expansion in refining capacity in Spain that is well above the level of demand.
13. Insists on the need for coordinated Community assistance, including use of the Social and Regional Funds in cases where the process of adaptation does prove to have serious structural consequences for regions or zones of the Community but believes that any measures taken should fall within existing guidelines and not be the subject of a separate sectoral policy. Such assistance should aim, in particular, at:
 - promoting diversification of product employment in areas where unemployment is particularly sharply felt;
 - initiation of programmes of meaningful retraining for those made permanently redundant;
 - enhancement of the skills of those who may be made temporarily redundant.
14. Regrets that the Commission's 1978 proposal for Community aid for industrial restructuring and conversion operations ⁽¹⁾, was never agreed to by the Council, and has subsequently been withdrawn by the Commission.

Calls on the Commission to state whether it considers the regional and social funds or other Community instruments are adequate to support restructuring in the oil refining industry in addition to other critical sectors.

15. Instructs its President to forward this resolution to the Council and the Commission.

(1) OJ C 272/3 of 16.11.1978

EXPLANATORY STATEMENT

Introduction

1. In spite of its general title "alternative job opportunities for workers made redundant" the motion for a resolution (Doc. 1-467/81) that has been referred to the Committee on Economic and Monetary Affairs concerns in fact the more specific problem of oil refinery closures, their consequences for employment, and the possible Community measures that could be taken to help in the process of adaptation.
2. The motion even more specifically refers to forthcoming closures announced by British Petroleum, but the problem is one that affects the Community oil refining industry as a whole, and it is the situation of this latter that has been considered by your rapporteur.
3. The Community oil refining industry is being studied by the European Commission on a continuing basis, and has been the subject of periodic progress reports by the Commission. The latest of these ⁽¹⁾ dates from 15 June 1982, and has been accompanied by a request from the Commission for the Parliament to hold a plenary discussion on this subject.
4. Your rapporteur has examined a number of broad strategic issues in carrying out his mandate:
 - the degree to which there has been a deterioration in the situation of the oil refining sector within the Community, and the likely outlook for the future;
 - the nature of the Commission's response to the problems in this sector, and its evolution from proposing a more direct role for the Community to one merely proposing to keep the situation under review;

(1) COM (82) 360 final "problems of the oil refining industry: progress report

- the adequacy or inadequacy of the information conveyed by the Commission in its latest progress report referred to above;
- the nature of the instruments that are available to the Community if it decides on a more active policy of assistance.

Deterioration in the situation of the oil refining sector within the Community

5. The problems that face the oil refining and related industries within the Community have their origins in a number of historic and continuing factors. These have culminated in the present and forecast excess of refining capacity over demand for not only products processed within the Community but also over demand as a whole.

These factors include :-

6. A number of decisions were taken in the 1960s and early 1970s to expand refining capacity to levels determined by what were proved to be over-optimistic forecasts of levels of growth of economic activity and demand for refined products, not only within the Community but also in then extant export markets. A number of the estimates had as their base forecasts of growth and demand in the region of 5% per annum into the 1980s and beyond.
7. Several considerable schemes to expand capacity were underway on these premises when in 1973 the oil market suffered the shock of the 1973 Oil Crisis which through sharply raised crude oil prices brought about a number of changes in attitude to oil as a fuel.
8. In 1973, the refining capacity of the Community stood at 787m. tonnes p.a. with 622m. tonnes p.a. of crude processed and net exports of 25m. tonnes p.a.
9. The oil market suffered another shock in the late 1970s following on the Iranian Revolution which brought another sharp rise in oil prices.

10. The 1970s also saw the ability of economies to grow to slow down and the latter part of the decade, in many cases, Community economies went into a decline which accelerated in the early 1980s. (This slowing and decline was also to be observed in a number of important third countries' economies.)
11. The general fall in economic activity had a subsequent effect on the industrial and domestic demand for oil and refined products.
12. The last decade has seen a reversal of the balance of trade in finished refined goods from third countries, which of necessity has affected refineries within the Community. The Community 10 have moved from being a net exporter (25m. tonnes p.a. 4% consumption) in 1973 to being a net importer (19m. tonnes, 4% consumption) in 1981. Production in lower wage third economies may make this activity attractive to producers. Major exporting areas of finished products are, the USA, Latin America, the Middle East, North Africa and the Socialist countries.
13. Whilst the period since the mid-1970s has seen a decline in refining capacity in the Community 10 there has been an increase in world capacity:-

USA	+ 11.5%
Latin America	+ 15.1%
Middle East	+ 9.5%
Asia (inc. Japan)	+ 13.5%

(figures 1981 of 1976)

These movements have affected the profitability of refining within the Community in two ways:-

- (a) The above mentioned higher profitability in refining in low wage economies.
- (b) Exporting of Community produced crude for cash returns in order to raise revenue, rather than refining within the Community. There is also a large trade with the USA (a large proportion of which seems

destined for strategic reserves) and the profitability (and hence return for Community revenues) and advisability of this practice seems to rely on the exchange rate of the US Dollar closures.

14. All of these factors have led the producers to embark on programmes of closure over the last years.

15. Over the last 6 years refining capacity within the 10 has moved as follows:

1977	852
1978	844
1979	830
1980	808
1981	784 Provisional
1982	754 Targetted

(Figures in m. tonnes p.a.)

16. Indications, and indeed intentions, are that the speed and scale of closures will accelerate within the next five years and may even continue to the end of the decade. These forecasts may be inferred from forecasts for consumption which are included in COM (81) 534 final paragraph 8, which operates from industry forecasts which are significantly lower than those of member states in 1980 i.e. 510/535 mta for 1985 as against 560 mta and 500/525 mta versus 535 mta for 1990.

In COM (82) 360 final, paragraph 6 these figures are again revised downwards for 1985 with median industry forecasts at 450 mta and governments' forecasts of 500 mta. Both documents refer to a capacity requirement of 600 mta, taking an 80% utilisation as normal, (though this has dropped to 70% in the 1982 Document). We are therefore faced with a number of forecasts which are at the moment being revised downwards, but which give a spread of required capacity at a 80% utilisation level of:

Consumption	450-560
Net Imports	30
<hr/>	
Required Capacity	525-663

Or:

At a level of 70% capacity utilisation the picture is so:

Consumption	450-560
Net Imports	30
<hr/>	
Required Capacity	600-800

17. All the available forecasts are pessimistic as to their views of economic activity in general and oil use in particular, this being due to the changing place of oil in the overall energy scene.

Therefore, under the most optimistic assumptions, maximum required capacity will be 800 mta. But it may be more realistic to look at the 1981 projections of a demand of 500 mta which would lead to a desired capacity at 70% utilisation of 714 mta or at 80% utilisation of 625 mta.

18. Whatever the exact figures, however, it is clear that under almost all assumptions, Community capacity will continue to decline, that there will have to be further closures of oil refineries, that jobs will be lost within the sector, and that these losses will have disproportionate effects on specific regions and localities which are heavily dependent on the industry.

Nature of the Commission's response

19. Since the nature of the problems in the refining sector became more apparent from the mid 1970's onwards the Commission has taken an active interest and has prepared a number of Communications to the Council ⁽¹⁾.

(1) e.g. "Community approach to the refining problems of the Community COM (77) 71 fin".

"Problems connected with the profitability of the refining industry in the Community and on ways of resolving them" (COM (78) 71 fin).

"Developments in the refining sector of the Community oil industry" (COM (78) 697 fir

20. In the second of these Communications, in particular ⁽²⁾, the Commission was clearly considering some form of direct involvement "... the present situation requires more specific initiatives on the part of the Community ..." (paragraph 3). "The initiatives under consideration leave a major responsibility to the industry, but if its response is not adequate, binding measures will have to be considered." (paragraph 3) "...The Commission has the intention of organising consultations with the companies by the Commission aimed at rationalisation through the closure of distillation units" (paragraph 8).

21. The Commission has continued to keep the situation under review, and has prepared a number of further reports on the current state of the oil refining industry ⁽³⁾. The specific actions envisaged by the Commission in the earlier documents, however, have not been taken, and the tone of the recent documents seems less geared to possible intervention. The Commission has recommended in fact that the necessary "process of adaptation at Community level could and should be left to the companies themselves provided neither regional security of supply, nor freedom of competition was affected (page 1, paragraph 1 of its latest document, COM (82) 360 fin.) The Commission's role, instead, has been limited to one of monitoring changes in the situation.

Adequacy of the Commission's response

22. Your rapporteur recognizes that, in the present circumstances, there is no need for major Community intervention in the oil refining sector. Nevertheless, while he welcomes the idea of periodic Commission reports on the changing

(2) op.cit. (COM (78) 71 fin)

(3) e.g. "problems affecting the oil refining industry in the Community" (COM (81) 534 fin), "problems of the oil refining industry : progress report" (COM (82) 360 fin).

situation in the industry, he believes that these reports need to be more detailed.

While the information provided in the latest report, for instance, is helpful in so far as it goes, it is still inadequate in terms of the details provided.

The Commission should provide more information on:

- how exactly it reaches its estimates for the necessary decline in capacity within the sector;
- what level of Community refining capacity it considers to be essential in strategic terms, in view of its statements that restructuring should be left to the industry, itself provided that regional security of supply is not put at risk;
- the national and regional impact of closures: the Commission states rather blandly (in paragraph 11 of its latest report) that "this reduction in total Community capacity is distributed fairly evenly among all the larger member states ...". Much more detail should be provided;
- the number of jobs that are likely to be affected: only a few vague and tentative statements are made, and no attempt is made at quantification;
- the current competitive situation in the sector;
- the impacts of enlargement, in view, in particular, of the fact that there has been a programme of expansion in refining capacity in Spain that is well above the level of demand;
- the current situation of the oil refining industry, not just within the Community but worldwide, and, in particular, developments in the United States, Japan, the oil producing developing countries, and the rapidly industrializing developing countries.

Community Measures

23. The importance of receiving the more detailed information requested above is that it would give a much clearer indication of if and when Community measures are required.
24. Already it is clear that certain localities will be particularly hit by closures, and assistance from the Regional and Social Funds may well be necessary to alleviate the effects on those employed in the sector. Such assistance should aim, in particular, at:
- diversification of product employment in the areas concerned, leading to the provision of alternative jobs;
 - programmes of meaningful retraining for those made permanently redundant, and also to enhance the skills of those made temporarily redundant;
25. One other point should be made, however, with respect to possible Community instruments. The motion for a resolution (Doc. 1-467/81) which has been referred to the Committee draws attention to the proposed Council regulation on Community aid for industrial restructuring and conversion operations. This proposal, which was approved by the Parliament, was clearly envisaged by the Commission as providing assistance in such circumstances as these. Yet it has now been withdrawn by the Commission, and without any in-depth debate. The Commission should explain why it has withdrawn the proposals, and state whether it considers that the Regional and Social Funds, (or other Community instruments) are adequate to meet the gap left by this withdrawal.

MOTION FOR A RESOLUTION tabled by Mr PATTERSON (Doc. 1-467/81)
pursuant to Rule 47 of the Rules of Procedure
on alternative job opportunities for workers made redundant

The European Parliament,

- having regard to the Community's continuing policy of reducing its dependence on imported energy;
 - having regard also to the Communication of the Commission to the Council of 22 February 1978 (COM(78)71 final), concerning the consequent need to restructure the Community's oil refining capacity;
 - recalling that, in its further Communication to the Council of the 7 December 1978 (COM(78) 697 final), the Commission clearly pointed to the need for Community finance 'to provide alternative job opportunities for workers made redundant' by refinery closures;
 - drawing attention to the proposal for a Council Regulation on Community aid for industrial restructuring and conversion operations of 31 October 1978 (COM(78) 532 final);
1. Notes with alarm the announced closure by British Petroleum of substantial refining capacity in three Member States, including 40% of its U.K. capacity;
 2. Believes that such closures, in part the result of the Community's energy import policy, will in current economic circumstances have catastrophic effects upon employment in the areas affected;
 3. Therefore calls upon the Commission and the Council to re-open discussions, as a matter of urgency, on the proposed financial mechanisms to provide alternative jobs; and to implement them before the end of 1982;
 4. Instructs its President to forward this resolution to the Council and Commission of the European Communities.

