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### Report

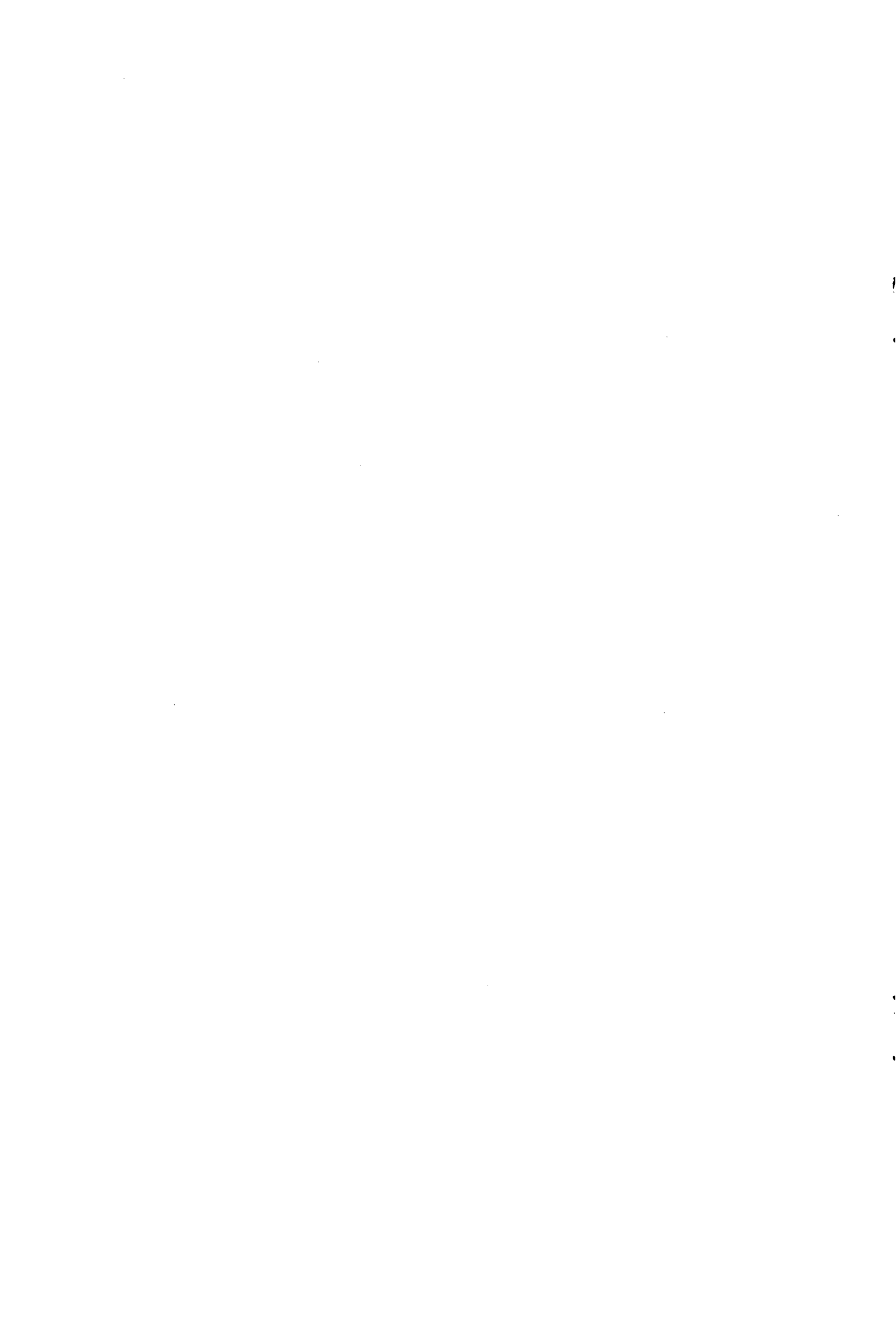
drawn up on behalf of the Committee on Energy, Research and Technology

on the proposal from the Commission of the European Communities to the Council (Doc. 175/72-e) for a directive concerning measures designed to attenuate the effects of the difficulties inherent in hydrocarbon supplies

Rapporteur: Mr N. HOUGARDY

PE 31.972/fin.

EP: 1513-1574 : 32/73



By letter of 2 November 1972 the President of the Council of the European Communities, exercising his discretionary powers, requested the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a directive on measures to alleviate the effects of hydrocarbon supply difficulties.

On 13 November 1972 the President of the European Parliament referred this proposal to the Committee on Energy, Research and Technology as the committee responsible and to the Economic Affairs Committee, the Committee for Finance and Budgets, the Transport Committee and the Committee on External Trade Relations for their opinions.

On 23 November 1972 the Committee on Energy, Research and Technology appointed Mr HOUGARDY rapporteur. The committee considered this proposal at its meeting of 4 December 1972 and 6 March 1973.

At its meeting of 3 April 1973 the Committee on Energy, Research and Technology unanimously adopted the motion for a resolution and explanatory statement.

The following were present: Mr SPRINGORUM, chairman; Mr BOUSCH, vice-chairman; Mr HOUGARDY, rapporteur; the Earl of BESSBOROUGH, Mr de BROGLIE, Mr BURGBACHER, Mr COVELLI, Mr FLAMIG, Mr GLESENER, Mr JAKOBSEN, Mr KRALL, Miss LULLING (deputizing for Mr LAUTENSCHLAGER), Mr NOE, Mr NORMANTON, Mr PETERSEN and Mrs WALZ.

The opinions of the Committee on Economic and Monetary Affairs, the Committee on External Economic Relations, the Committee on Budgets and the Committee on Regional Policy and Transport will be published separately.

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

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a directive on measures to alleviate the effects of hydrocarbon supply difficulties.

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council<sup>1</sup>;
  - having been consulted by the Council (Doc. 175/72e) in an instance where consultation was not obligatory;
  - having regard to the report by the Committee on Energy, Research and Technology (Doc. 32/73) and the opinions of the Committee on Economic and Monetary Affairs, the Committee on Budgets, the Committee on Regional Policy and Transport and the Committee on External Economic Relations,
1. Stresses the serious risks to the Community of hydrocarbon supply difficulties, given the nature of such supplies;
  2. Rejects the view of the Commission of the European Communities that in order to forestall such an eventuality it is sufficient for the Member States to assume the powers necessary to alleviate the effects of a supply crisis;
  3. Considers therefore that, in order to be effective, the measures thus laid down by the Member States must be coordinated at Community level;
  4. Requests that the Commission's proposed directive should take account of these requirements;
  5. Regrets that the scope of the proposed directive is restricted by imprecision and gaps in the implementing arrangements;
  6. Shares the Commission's view that the limitations of the proposal are due to the embryonic state of the common energy policy;

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1 OJ No. C 134, 27 December 1972, p.23

7. Requests, however, the Commission of the European Communities to submit, as soon as progress in Community energy policy so allows, a proposal for a regulation conferring the necessary powers on the institutions of the Community to enable the latter, acting in collaboration with all the interested circles, to alleviate the effects of hydrocarbon supply difficulties;
8. Invites the Commission of the Communities to study the possibility of establishing a common purchasing organization, membership of which should be open to third countries;
9. Instructs its President to forward this resolution and the report of its committee to the Council and the Commission of the European Communities.

EXPLANATORY STATEMENTI. Introduction

1. 'An essential feature of the Community's energy supply situation is the importance of petroleum in meeting overall requirements and the heavy dependence on imports; more than 65% of the Community's energy supplies come from external sources'. This introduction to the explanatory memorandum accompanying the proposed directive, submitted by the Commission of the Communities to the Council of Ministers, sums up the Community's energy situation perfectly. It indicates the background of the proposals now submitted for examination by the European Parliament.

2. These proposals are not intended to reduce the vulnerability of the Community's energy situation by improving the security of its supplies. Details of the action to be taken in this connection have already been given in the Commission's communication on problems and resources of energy policy for the period 1975 to 1985<sup>1</sup>. On the contrary, the proposed directive submitted to us today proceeds from the assumption of a crisis in the Community's hydrocarbon supplies and its aim is to eliminate, or at least lessen, the effects of this crisis.

3. In the same spirit, the Council of the OECD adopted, on 14 November 1972, a decision 'concerning plans, emergency measures and the allocation of available supplies of petroleum in the European zone of the OECD in the event of a crisis'. According to this decision, the Petroleum Committee and the Council of the OECD could, if a crisis occurs, distribute 10% of the available petroleum products in the form of special allocations to member countries.

The measures proposed by the Commission supplement those worked out in OECD. Decisions will be taken on how the resources shared among the Member States of OECD within which the Member States of the Community take common action (Art. 116 EEC), will be allocated to the different consumer categories pursuant to the proposed directive.

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<sup>1</sup> Doc. 175/72

## II. The need for coordination at Community level of measures to be taken in the event of a crisis

4. There is a real risk that in years to come the Community may be faced with a hydrocarbon supply crisis. The reason for this, as explained in the Commission's communication referred to above, is the profound change which has taken place in the structure of the energy market. 'Whilst the predominant position of petroleum in meeting overall demand has now been firmly established, the supply situation is tending to become more difficult. Furthermore, forecasts of world demand show that the Community will find itself competing with other buyers (principally Japan and the United States) both for traditional supplies and when new sources of supply are discovered.'

5. In the event of a crisis in the Community's hydrocarbon supply, the existing situation in which Member States have at their disposal a range of measures differing greatly both in kind and in their manner of application, could lead to a break-up of the common market.

The Commission of the Communities therefore believes that measures to be taken in the event of a crisis should be coordinated at Community level.

6. To make this coordination possible, the proposed directive, based on Article 103 EEC, provides, firstly, for all Member States to acquire the powers necessary for intervention and secondly, for these powers to be harmonized to the extent of comprising a number of specific measures which will be as uniform as possible.

7. The decisive consideration in the Commission's view is the present lack of uniformity between the regulations and procedures in individual member countries. Some of them have already enacted special legislation for emergencies, while in others fuel supply shortages are covered only by existing laws or unofficial agreements.

## III. Scope of the proposed directive

8. The Committee on Energy, Research and Technology has considered the efficacy of the provisions laid down in the proposed directive. It believes that a certain lack of precision in the text may endanger the effectiveness of its application.

Besides these formal criticisms, the Committee on Energy, Research and Technology regrets that, in the virtually total absence of a Community energy policy, the Commission of the Communities was unable to present a proposal for a regulation providing the Community institutions with effective means of intervention in the event of a hydrocarbon supply crisis.



9. The Committee on Energy, Research and Technology realizes that it would be impossible for the Commission to make provision for every conceivable type of crisis in advance. Nevertheless it would have been useful if the scope of the proposed directive had been defined more precisely. For example the principal categories of potential supply problems should have been listed. Your committee has in mind the risks resulting from events outside the Community, such as temporary production stoppages, embargos, shortages of sea transport capacity, or political sanctions; on the other hand, difficulties could be created in the Community itself by dock strikes, or strikes bringing the operation of major pipelines to a standstill, or interruptions in the supply of other types of energy.

10. It is not only necessary to consider the various potential causes of supply difficulties; it must also be recognized that the flow of petroleum may be interrupted for several other reasons. It is conceivable, for instance, that a fuel supply crisis might not affect the whole Community; events may well occur affecting only one or two Member States or even certain oil companies which make a vital contribution to the Community's supplies.

It would be advisable in situations of this kind if all Member States would act in a spirit of solidarity. However, given that the Community is still far short of a political union, the question arises as to whether the directive should not include a declaration binding Member States to come to each others' aid. This would accord, not only with the spirit of the Treaty of Rome, but also with the need for the Community to form a united front if oil supply difficulties arise.

11. In its communications on the need for progress in the Community energy policy and on problems and resources of energy policy for the period 1975 to 1985<sup>1</sup>, the Commission of the Communities noted the changing relationship between the oil exporting and oil consuming countries.

Obviously, this process is not confined to the Community, but is at work in all the major oil consuming areas, such as Western Europe and Japan.

Consequently the effectiveness of specific Community rules to combat supply crises, may be doubted. A crisis on this scale can only be met if the emergency measures in question are coordinated with similar action in other oil consuming areas, such as the United States and Japan. Coordination of this kind was in fact recommended by the Commission of the Communities under the Community's new general energy policy.

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<sup>1</sup>Doc. 175/72

12. Article 1 of the proposed directive lays down a series of measures for Member States to apply in the event of a crisis. Two of these measures relate to withdrawals from security stocks determined by Council Directive 68/414<sup>1</sup> and to the allocation of these stocks to consumers.

Pursuant to Directive 68/414, withdrawals from security stocks can only be made after consultation between Member States. The proposed directive is simply intended to oblige Member States to assume the necessary powers for distributing the agreed allocations among consumers.

13. The two following points concern measures to be taken with a view to controlling consumption or applying rationing systems. The committee considers that these points, or at least the first of them, have been drafted in a manner liable to give rise to misunderstandings: according to the text, 'petroleum undertakings shall be required to give priority to certain categories of consumers in the allocation of their products'. If Member States' governments decide to control and ration internal consumption of petroleum products, such decisions would normally be announced in relevant regulations. The oil companies, however, are merely executive bodies and can no more be held responsible for the application of rationing systems than for the administration of any other internal government measures.

14. The final provision of Article 1 of the proposed directive concerns measures to regulate prices in order to prevent increases due to speculation. The committee would like to know what specific measures this refers to. Since the common market has not yet been effectively established for petroleum products, price levels still depend on general economic policy and on the varying systems applied in individual Member States. Quite apart from this problem, however, it is to be feared that in those Member States in which price control systems are already in force, the Commission's proposal might be interpreted as meaning that these systems should be replaced by direct control and finally by a price-freeze. For this reason the Committee wishes to emphasize that if price controls became inevitable as a result of a serious interruption in oil supplies, the oil industry should be allowed a sufficient profit margin to recover the much higher costs which a situation of this kind would entail.

15. Article 1 does not explain how agreement is to be reached within the Community on the particular point at which 'supply difficulties' can be said to have occurred. The proposal simply mentions the possibility as such, without discussing the combined effects conceivable in certain circumstances.

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<sup>1</sup>OJ No. L 308 of 23.12.68, p. 14

When the committee was considering this text, the Commission stated that it had been though preferable not to define the nature of a 'crisis' in the proposal. A group of experts, convened at the request of a Member State or of the Commission itself, will have to decide whether the Community's supply situation, or that of one or more Member States, requires application of the special safeguard measures.

However, the procedure to be followed to determine whether a crisis exists could well have been made more explicit, particularly where the role of the national authorities and the Community institutions is concerned.

16. The committee agrees with the Commission that an administrative body appointed in advance, as proposed in Article 2, could be a useful instrument for rapid intervention in the event of a crisis. This body would analyse the nature and gravity of the situation and apply the most appropriate measures to alleviate the problems concerned. It would also be authorized to adapt the measures taken in the light of subsequent development of the crisis. This task could only be carried out effectively if those responsible are given exact information on available stocks of petroleum in the area affected. The committee also believes that Member States should be free to appoint appropriate administrative bodies of their own; the question of the cooperation of these bodies with the responsible sections should at least be mentioned in the text of Article 2.

17. Article 3 of the proposed directive provides that consultations between experts representing the Member States shall be organized to facilitate coordination of measures designed to meet specific supply problems. The committee believes that this could also be an appropriate procedure for agreeing on common action in the event of a supply interruption affecting only one Member State or oil company. This procedure would be particularly appropriate if the bodies with whom the experts are to confer were specified: with the EEC authorities, the Governments of Member States, the oil companies or with those affected by the proposed measures. Similarly, it would have been useful if more details had been given on how the measures taken at a national level could be coordinated in the event of a crisis.

18. It is true that certain objectives to be attained by coordinated efforts may prove rather difficult to define in advance. But the committee would at least ask the Commission to specify the criteria on which the group of experts must base its recommendation to individual Governments to apply emergency measures, designed to spread the consumption of available reserves over the longest possible period, avoid disparities between Member States and ensure that industry maintains its competitive position, etc.

On this subject, the committee wishes to emphasize that Member States may have difficulty in reaching unanimous agreement, because of differences between their oil policies, levels of autonomy, supply systems and ability to switch to other sources.

#### IV. Conclusions

19. The Committee on Energy, Research and Technology is well aware that at the present state of development of Community energy policy it is impossible for the Commission to propose any genuine Community action to alleviate the effects of a supply crisis. Such action would imply that Community institutions were competent to lay down appropriate measures in the event of a crisis.

20. The Committee on Energy, Research and Technology remains convinced, however, that a Community energy policy presupposes a regulation, binding in its entirety and directly applicable in all the Member States, designed to alleviate the effects of hydrocarbon supply difficulties. It invites the Commission of the Communities to move, as soon as possible, beyond the intermediate stage which its proposed directive represents by submitting a proposal for a regulation to the European Parliament and the Council.

21. Subject to the reservations set out above, the Committee on Energy, Research and Technology accepts the principle embodied in the proposed directive, i.e. the need to coordinate the measures to be taken by Member States in the event of a hydrocarbon supply crisis.

22. It must not be forgotten that we are concerned here with a proposal for a Council directive and that application of the measures proposed is a matter for the Member States themselves; however, a text giving more details both of the conditions for application of these measures and of their consequences would undoubtedly have greater force and consequently broader scope.