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DOCUMENT 433/77

## Report

drawn up on behalf of the Committee on Energy and Research

on the ~~Second~~ Report from the Commission of the European Communities to the Council (Doc. 248/77) on the achievement of Community energy policy objectives for 1985, together with a draft Council Resolution

Rapporteur: Mr John H. OSBORN

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By letter of 18 August 1977 the President of the Council of the European Communities optionally requested the European Parliament, to deliver an opinion on the second report from the Commission of the European Communities to the Council on the achievement of Community energy policy objectives for 1985, together with a draft Council resolution.

The President of the European Parliament referred this to the Committee on Energy and Research as the committee responsible and to the Committee on Economic and Monetary Affairs for its opinion.

On 28 September 1977 the Committee on Energy and Research appointed Mr Osborn rapporteur.

It considered this **report** at its meetings of 19 October 1977, 22 November 1977 and 1 December 1977.

At its meeting of 1 December 1977 the committee unanimously adopted the motion for a resolution together with the explanatory statement.

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

Present: Mr Houdet, acting chairman; Mr Normanton, vice-chairman, deputising for the rapporteur; Mr De Clercq, Mr Ellis, Mr Fuchs, Mr Lamberts, Mr Noè, Mr Ripamonti, Mr Schwabe (deputising for Mr Adams), Mr Schyns (deputising for Mr Zeyer) and Mr Verhaegen.

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

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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

embodying the opinion of the European Parliament on the second report from the Commission of the European Communities to the Council on the achievement of Community energy policy objectives for 1985, together with a draft Council Resolution

The European Parliament,

- having regard to the report from the Commission of the European Communities to the Council and draft Council Resolution (COM(77) 395 final),
  - having been consulted by the Council (Doc. 248/77);
  - having regard to its previous resolution on the proposal from the Commission of the European Communities to the Council for a resolution on the objectives of a common energy policy<sup>1</sup>;
  - having regard to the report of the Committee on Energy and Research and the opinion of the Committee on Economic and Monetary Affairs (Doc.433/77);
1. Is appreciative of the Commission's efforts to adapt, in the light of recent developments, the means by which the energy objectives for 1985 can be attained;
  2. Emphasises the importance of
    - restricting the Community's dependence on imported sources of energy to not more than 50% by 1985
    - diversifying the sources and nature of energy imports
    - reducing the proportion of imported oil consumed in the Community;
  3. Believes that the Commission's proposals can be put into effect only if the Community's own action vis-à-vis the Member States becomes more incisive and effective as regards the more rational use of energy, the use of solid fuels, the development of nuclear energy and research into development of alternative energy sources.

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<sup>1</sup>OJ No. C 76 of 7.4.1975, p.30

4. Is acutely aware that, without an adequate nuclear sector, the Community would face a serious shortfall in energy supplies which would have severe repercussions on the Community's economic well-being;
5. Draws attention to the difficulties that could face the Community's nuclear industry in the 1980s unless secure supplies of nuclear fuels can be ensured;
6. Believes that every effort must be made by the Community to ensure the safety of nuclear installations and to inform public opinion on this issue;
7. Urges the Commission, in consultation with the International Energy Agency and/or the Organisation for Economic Cooperation and Development to establish objectives for 1990 and provisional projections for 2000;
8. Believes that natural gas should not be used as a substitute for oil for electricity generation;
9. (a) is convinced of the importance of coal as the Community's largest indigenous source of energy,  
(b) considers that fuller use should be made of coal for electricity production;  
(c) believes that if installed nuclear capacity fails, despite the Commission's efforts, to reach the figures estimated for 1985, then solid fuels should be used, as far as is possible, to compensate for the delay in nuclear programmes,  
(d) requests the Commission and the Council to give practical encouragement to the production and consumption of Community coal, while not excluding coal imported from third countries,  
(e) calls on the Commission to develop a policy for coal imports consistent with both the requirements of Community coal consumers and the interests of Community coal producers;
10. Deplores the tendency, on the part of the governments of the Member States, to reduce investment in energy, and most noticeably in nuclear energy, for the period up to 1985;
11. Asks the Commission to consider, in conjunction with Community financial institutions, the financial means by which new and initially unprofitable sources of energy can be developed and operated;
12. Calls for the creation of a full common market in energy, and for unrestricted intra-Community trade in energy sources, including the

removal of technical barriers to trade;

13. Approves the Commission's proposals, subject to these observations.





EXPLANATORY STATEMENTI. Introduction

1. Initially the Community energy policy objectives for 1985 were adopted by the Council in its resolution of 17 December 1974<sup>1</sup>. The Commission proposal on which this resolution was based had earlier been approved by this Committee (report by Mr Pintat<sup>2</sup> (Doc. 524/74)) and by the European Parliament.

2. At the beginning of 1976 the Commission published a first report on the achievement of these objectives.

3. The Document (Doc. 248/77) being considered at present is the second report on the achievement of these objectives, and is accompanied by a draft Council resolution.

According to the Commission the aims of its report and resolution are:

- (i) to highlight any shortcomings of national programmes in respect of progress towards the objectives;
- (ii) to reveal areas of common interest;
- (iii) to indicate sectors where Community action could help in the achievement of the objectives.

The report makes a comparison between:

- the situation forecast by the Member States for 1985;
- the objectives for 1985 as set out in the Council Resolution of December 1974, and
- the 1976 Commission Report.

4. As far as the objectives for 1985 as set out in the December 1974 Council Resolution are concerned, it should be noted that only the 50% level of dependence on imported energy is retained, the previous 40% level having been abandoned as being too optimistic.

5. For the year 1985 the Commission's report comes to the following conclusions:

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<sup>1</sup>OJ No. 153 of 9 July 1975, p.2

<sup>2</sup>OJ No. C 76 of 7 April 1975, p.30

- (i) the main objectives can be reduced to three:
- oil imports should not exceed 500 m tonnes;
  - the proportion of oil in gross energy consumption should be reduced significantly;
  - the Community's dependence on imported sources of energy should not exceed 50%.
- (ii) these objectives would involve the following five basic policies:
- the continuation and intensification of policies for the rational use of energy;
  - continuing efforts to carry out nuclear programmes;
  - the production of at least 140 m tonnes of oil within the Community (mainly North Sea) by 1985;
  - the consumption of additional natural gas (some 10 - 25 m t.o.e. more) as a substitute for extra oil consumption;
  - increased consumption by about 20 m t.o.e., of coal in power stations, in view of the probable slow down in the installation of nuclear capacity. Both Community and imported coal would be needed to provide these additional requirements.

The Commission's document also contains four annexes.

Annex I consists of the draft Council resolution,

Annex II is a factual analysis of Member States' energy forecasts for 1985,

Annex III gives the energy balances of the Community and the Member States for 1973 and 1976, with forecasts for 1980 and 1985,

Annex IV consists of a table giving investment in the main sectors of energy for the period 1976 - 1985, as forecast for each Member State on 1 January 1976 and 1 January 1977.

## II. Principal features of the Commission's Report:

6. The Commission, using national estimates, points out that current forecasts of domestic energy production are about 10% lower than the estimates made at the end of 1975, but states that this drop is proportional to the expected fall in demand.

7. The Commission is critical of the tendency to seek national solutions to the problems caused by developments on the world energy market, and maintains that solidarity of interest in the fact of a difficult future, both in regards energy and the economy in general, makes a joint effort by all Member States more necessary than ever.

8. However, it is noted that all Member States are in agreement on the fundamental need to reduce dependence on imported sources of energy, particularly oil, and to use energy more rationally in view of increased energy costs. Thus current national programmes are in general agreement with the principle of increased indigenous energy capacity, a principle embodied in the Council's resolution of 1974, although substantive decisions to achieve the target necessary for the resumption of normal economic growth are lacking. Similarly, a real awareness of the need to conserve energy has been shown by all Member States. The Commission believes that extra efforts must be made to measure more accurately the real effects of energy-saving measures.

III. Brief outline of policy for 1985 in the main energy sectors:

9. (i) Oil: Recent analyses of future trends on the world oil market indicate risks of important price increases and possible shortages of supply which would result from a sustained high level of demand. Thus the Commission maintains that net imports of oil into the Community should not exceed 500 m t.o.e. (i.e. 10 million barrels per day) in 1985. The Commission believes that this figure should be regarded as a compulsory target and form the basis of the Community's energy strategy. At the same time, Community-produced oil should come to 140 m t.o.e. in 1985. The target limit of net oil imports of 500 m tonnes, together with the necessity of limiting energy dependence to 50%, and the commitment to reduce the contribution of oil in gross energy consumption to 50%, would produce, according to the Commission's estimates, the following energy supply structure in 1985:

Gross energy consumption	1280 m t.o.e.	
50% imported energy	640 m t.o.e.	
(of which oil = 500 m t.o.e.)		)
		)
Indigenous energy 50%	640 m t.o.e.	) Oil 640 m t.o.e. i.c.
(of which oil = 140 m t.o.e.)		) 50%
		)

10. (ii) Nuclear energy: The situation in the nuclear sector is particularly worrying. Delays in construction caused by doubts among some sections of public opinion as to the safety of nuclear installations, and, to a certain extent, by lower growth prospects in electricity demand, could lead to higher consumption of hydrocarbons, mainly oil, for electricity generation.

11. The 1974 Council resolution gave, as its objective, installed nuclear capacity totalling 160 GW for 1985. Forecasts prepared in 1975/76 indicated installed capacity of 150/160 GW by 1985, which was reduced to 125 GW in the middle of 1976. Present national programmes point to a figure of 102.5 GW installed by 1985, though the Commission, in line with the International Energy Agency in its World Energy Outlook, feels that installed nuclear capacity will not exceed 90 GW (approximately 120 m t.o.e. production) in 1985. This would amount to 20 m t.o.e. less than the forecasts derived from the 1977 national programmes, and the Commission maintains that this 20 m t.o.e. shortfall should under no circumstances be met by increasing oil imports. Where possible, solid fuel should be used for electricity generation to compensate for this shortfall in nuclear capacity. If coal were used for this purpose, total consumption of solid fuels would rise from 220 to 240 m t.o.e., or from 315 to 345 m t.c.e.

12. (iii) Solid fuels: In its Resolution of December 1974, the Council's objectives for 1985 amounted to 250 m t.o.e. solid fuels. National programmes in 1977 indicate a figure of 220 m t.o.e. for 1985, which should be increased to 240 m t.o.e. if it would be necessary to make up for the expected nuclear shortfall. The Commission maintains that this will mean continuing dependence on imported coal for a proportion of solid fuel requirements, and envisages imports amounting to some 35-55 m t.o.e. (50 - 80 m t.c.e.) in 1985. This, however, could lead to problems of thermal power station capacity, and to difficulties, on grounds of cost, of marketing Community coal in non-coal-producing Member States. This must be balanced against future trends in the market for oil.

13. (iv) Natural Gas: It is assumed that, in 1985, gross consumption of natural gas in the Community will amount to 245 m t.o.e., being broken down as follows:

Community production of 150 - 160 m t.o.e. (forecasts of Member States 143 - 158 m t.o.e.), and net imports of 85 - 95 m t.o.e. (forecasts of Member States 79 m t.o.e.).

This would involve increased production of natural gas in the Community without which more oil would have to be imported.

#### IV. The Commission's conclusions

14. In the report at present under consideration, the Commission draws the following conclusions:

- (i) Energy conservation must be intensified so as not to exceed the present 1985 demand forecast of 1280 m t.o.e.
- (ii) The use of heavy fuel oil in conventional power stations must be restricted. This would involve
  - implementation of nuclear programmes
  - reduction of the proportion of heavy fractions in refinery production by building cracking plants (this is in line with the recommendations contained in Mr Normanton's report on oil supply and processing policy)
  - promoting the construction of new solid-fuel power stations
  - encouraging the use of coal in existing power stations (both of these points were advocated in Lord Bessborough's report Doc. 45/77).
- (iii) Nuclear programmes should go ahead without further delays. For this reason the Commission has sent to the Council, or will send in the near future, communications and/or proposals on

the following aspects:

- the siting of nuclear power stations
  - supply of nuclear fuels
  - reprocessing
  - nuclear waste disposal
  - fast breeders,
- and the Commission is to launch an open debate on nuclear energy.
- (iv) Coal should play a greater part in electricity production. Two options are proposed. Either the Community could make the best possible use of Community coal, with imports from third countries being regarded as complementary, or greater reliance could be placed on imports. The Committee on Energy and Research has consistently favoured the greatest possible use of Community coal, while not excluding exports. In view of the current level of coal stocks in the Community, it seems probable that the Committee would endorse the first of these two options.
  - (v) In 1985 the Community should produce at least 140 m t.o.e. of oil and 160 m toe of natural gas. These figures should, however, be compatible with the rational management of resources.

- (vi) An increase in intra-Community energy trade would improve overall security of supply, while in some cases permitting fuller use of production capacities. This implies infrastructure development, economic conditions for trade and investment. The Committee on Energy and Research has repeatedly called for the creation of a full common market in energy. Moreover this would strengthen the negotiating position of the Community and each Member State when dealing with energy suppliers.
- (vii) Imports of natural gas will have to be increased. Such an increase would necessitate the encouragement of purchasing consortia, the setting up of infrastructure for gas collection and transmission, and the safety of gas storage installations.
- (viii) Relations with third countries supplying energy must be satisfactory. Special attention should be paid to the possibilities of importing oil and natural gas from Norway. Also cooperation with other energy consumers, either industrialised or developing, is very important.
- (ix) Longer-term energy policy guidelines, for example to 1990, should be drawn up.

The Commission's report concludes with the statement that the objectives and guidelines for 1985 are both attainable and reasonable.

V. Comments on the Commission's proposals

15. The draft Council Resolution appears to be a reasonable, if somewhat timid, attempt to achieve those objectives already approved in principle by the Committee on Energy and Research<sup>1</sup>. It should also be noted that the figure of 50% energy independence is a psychological figure, and should not be regarded as a numerically precise target for 1985.

16. The Commission's proposals, as contained in the Draft Council resolution, are based on forecasts provided by the Member States. As has been evident over the last ten years, even medium-term forecasts of growth and energy uses have frequently erred considerably. Because of this, it is vitally important that all proposals in the energy sector be able to adapt to possible changes in circumstances in the energy market. Against this, the length of time required to plan and put a power plant or a coal mine into operation must also be borne in mind. The Commission is faced with a difficult task, finding a nice balance between flexibility and planning with a realistic time-scale.

17. As it takes some ten years or more to design and build a nuclear power station, or to plan and open up a major coal mine, the time scale late 1977 to 1985 is already inadequate. It is vital that provisional objectives for, at least, 1990 and if possible, for the end of the century be formulated. Commission representatives have informed the Committee on Energy and Research that only one country provided the Commission with complete estimates for 1990, some countries having incomplete figures, others having made no estimates. The Committee on Energy and Research stresses the importance of longer-term planning in the energy sector in view of the length of time it takes to make plans operational. Because of this delay, the minimum time scale for a medium term plan must be for the 1990s.

18. Careful studies of the effects of energy conservation measures must be undertaken. At present the results expected from the rational use of energy varies from country to country.

19. The report on the achievement of Community energy policy objectives for 1985 and Draft Council Resolution, though laudable in their intentions merit certain criticism and comments, particularly with regard to the Commission's position on nuclear energy.

20. The development of nuclear energy is not, at present, making satisfactory progress. Much of the delay must be attributed to opposition in some quarters caused by fear of possible damage to the environment coupled with uncertainty concerning the safety of installations. Public opinion

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<sup>1</sup>Report of Mr Pintat, Doc. 524/74 - 15 -

has proved itself more willing to listen to opponents of nuclear energy, some of whom are ill-informed, rather than to the nuclear experts of the Member States. Other sectors of the public appear to be unaware of the probable consequences of a halt in the construction of further nuclear power stations. The well-being of Western Europe's economy, and with it, the standard of living and the quality of life and work to which citizens of the Community have become accustomed, would disappear as oil resources were exhausted, unless a viable alternative were developed. At present, the only viable alternative for the 1990s appears to be nuclear energy used in conjunction with coal. On the medium term, in the period up to 1985, any further slow-down in the development of nuclear programmes would inevitably lead to increased dependence on imported hydrocarbons, with its concomitant political and economic insecurity. It appears probable that oil prices will continue to rise, and oil supplies are subject to political vicissitudes, as was seen in 1973.

21. The Commission has, in the documents at present under examination, come out in favour of certain targets in the nuclear sector. Yet these are only the diluted, downward-adjusted expectations of the Member States for 1985, which the Commission has not seriously influenced in any positive manner. The Commission has prepared papers on specific problems affecting the nuclear sector, including reprocessing, siting, fast breeders, uranium supplies and fusion, yet it has failed, as a corporate body with influence in Europe, to come down sufficiently heavily in favour of nuclear energy. A more active, vigorous approach by the Commission in favour of nuclear energy, accompanied by a programme for the diffusion of information concerning the importance for the future, and the safety record, of the nuclear industry, could have a positive effect on public opinion.

22. It is essential to demonstrate as transparently as possible the Community's commitment to the employment of nuclear energy for peaceful purposes. To this end the establishment of enrichment and reprocessing facilities of the right capacity in the Community must meet internal needs and those of nations which represent secure markets for conventional and future types of nuclear generators, and are subject to control by the International Atomic Energy Agency.



23. Any consideration of current and future nuclear generating capacity requirements would be incomplete without forming a judgement on the availability of nuclear fuel and its enrichment. The Community is principally dependent on uranium ore supplies situated in politically sensitive areas of the world and transported along shipping lanes which are long and exposed. It is essential that the Community should seek indigenous uranium ore sources and locate additional sources of supply from countries favourably disposed to the development of a relationship with the Community. The Committee gives its warm support to the Commission's programmes for uranium exploration in the Community and for programmes concerned with improved techniques for uranium exploration and extraction. It is regrettable that the Commission's Second Report, at present under consideration, made no reference to the Community's imported uranium dependence which, if left unchecked, could become as critical a factor as the Community's oil dependence. In this context every encouragement must be given to the development of the Fast Breeder Reactor.

24. Some of the difficulties at present facing Community coal producers should be alleviated if the action proposed by the Commission is adopted. Nevertheless all possible should be done to encourage Community producers of coal, brown coal and peat, currently facing intense competition from imported coal.

25. Your rapporteur appreciates the Commission's omission of reference to thermonuclear fusion in the present communication, as fusion will not be able to play a role in the period up to 1985, though its possible significance in the long term could be enormous. The same may be true for hydrogen as an energy carrier.

26. It is to be regretted that no references to new sources of energy are to be found in the main body of the Commission's report though a paragraph on new energy sources has been included in Annex II, and the importance of research into new energy sources has been emphasised in the Draft Council Resolution. The European Parliament has expressed considerable interest in new energy sources, particularly solar energy. Solar and geothermal energy, wind-power, and energy from waves and tides could make a small but useful contribution to the Community's energy independence.

27. This Committee requests the Council and Commission of the European Communities to follow the example of President Carter of the United States in making the use of oil and natural gas more costly. They are also asked to consider the advantages and disadvantages of imposing levies on these politically unstable sources of energy, in order to promote specific pilot projects for encouraging the greater use of electricity, particularly in transportation, as well as research into the liquefaction of solid fuels and hydrogen as an energy carrier. At the same time it is to be hoped that natural gas will not be used as a substitute for oil in the generation of electricity, which would constitute a waste of a valuable, and finite, energy source.

28. Your rapporteur was shocked to note that, as shown in Annex IV of Doc. 248/77 "expenditure on investment in the energy sector 1976-1985", the forecast for overall expenditure in the nine Member States on investment in energy for the period 1976-1985 decreased from 254,990 m EUA made in 1976 to an estimate of 228,020 m EUA made in 1977. This retrogressive trend is particularly noticeable in the nuclear sector, where the estimate of 75,490 m EUA made in 1976 was reduced to 55,520 m EUA in 1977. This tendency towards reduced investment in the nuclear sector was noticeable in France, Italy, Belgium and, most particularly, in the United Kingdom where forecasts were down from 9,810 m EUA made in 1976 to 3,400 m EUA made in 1977. This drop in investment, while taking account of probable broad economic trends and estimates of electricity requirements, nevertheless is worrying and attention should be drawn, both by the Commission and by the European Parliament, to this dangerous tendency implying a complacency that Europe can ill afford at this time.

29. Though the Commission's proposals may be reasonable and attainable, they are not sufficiently activist, in particular as far as nuclear energy is concerned.

## VI. Conclusions

30. Your rapporteur welcomes the Commission's efforts to bring the urgency of the energy situation to the attention of the governments of the Member States and to the Council. While deploring the abandonment of the original target of 40% independence by 1985, your rapporteur feels that the present proposals can help the Community to attain the 50% target.

31. Though it is in general agreement with the aims of the Commission the Committee feels that the Commission's approach has been excessively passive particularly with regard to nuclear energy. The Commission is accordingly requested to declare itself unequivocally in favour of nuclear energy, and to do all in its power to encourage its development. Furthermore, attention must be drawn to the difficulties that could face the Community's nuclear industry in the 1980s unless secure supplies of nuclear fuels can be ensured. This would involve both prospection for uranium within the Community and the conclusion of satisfactory agreements with third countries to supply nuclear fuels in the required quantities.

32. Because of the imprecise nature of energy forecasts all energy objectives must have a certain built-in flexibility, and must be reviewed at periodic intervals. The Commission's report at present under consideration constitutes such a review.

33. In view of the length of time required for new energy producing installations to become operational it is vitally important that provisional energy objectives over a longer time-limit (minimum 1990) be formulated.

34. The Committee on Energy and Research is convinced of the importance of coal as the Community's largest indigenous source of energy, and has repeatedly expressed the belief that fuller use should be made of coal for electricity production. It believes that if installed nuclear capacity fails, despite the Commission's efforts, to reach the figures estimated for 1985, then solid fuels should be used, as far as is possible, to compensate for delays in nuclear programmes. The Commission and the Council are requested to give practical encouragement to the production and consumption of Community coal, while not excluding coal imported from third countries. This is important as the present high level of coal stocks is unlikely to last, and demand for coal is likely to increase after 1980.

35. This Committee deplores the tendency, on the part of the governments of the Member States, to reduce investment in energy and most noticeably in nuclear energy, for the period up to 1985. This implies a level of complacency which the Community can ill-afford at this time.

It is also necessary for the Commission, in conjunction with the Community's financial institutions, to consider the financial means by which new and initially unprofitable sources of energy can be developed and operated.

36. The Committee on Energy and Research reiterates its belief in the importance of effective energy saving measures, and hopes that these will be standardised, as far as is possible, while taking into account all economic and climatic differences, throughout the Member States of the Community. The Committee calls for the creation of a full Community market in energy and for unrestricted intra-Community trade in energy sources. The increase of trade between member countries can lead to better use of the Community's own resources, greater solidarity and a reduced level of dependence on energy imported from third countries.

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Draftsman: Mr H. HAASE

On 21 September 1977 the Committee on Economic and Monetary Affairs appointed Mr Haase draftsman.

It considered the draft opinion at its meeting of 1 December 1977 and adopted it unanimously with one abstention.

Present: Sir Brandon Rhys Williams, acting chairman; Mr Notenboom, vice-chairman; Mr Haase, draftsman; Lord Ardwick, Mr Carpentier, Mrs Dahlerup, Mr Dalyell (deputizing for Lord Bruce of Donington), Mr Lange, Mr Ripamonti and Mr Stetter.

1. The Committee on Economic and Monetary Affairs would like to emphasize at the outset the difficulty of forecasting the energy demand, supply and price situation. There are significant differences between the present forecast and the forecast drawn up at the beginning of 1976, not to mention the differences between forecasts made before the 1973-74 oil crisis and immediately after its onset. In the same way it is quite possible that drastic changes may take place in present forecasts before 1985.

This should not of course be taken to mean that the drawing up of a common energy policy within the European Communities is unnecessary or rests on weak foundations. It is the uncertainty surrounding the future and the ability of third countries to exploit the Community's dependence on imported sources of energy which emphasizes the need for the Community to strengthen its own position as an energy producer and to present a united front to these third countries; this can only be done if the Member States accept a common energy policy.

2. The Committee on Economic and Monetary Affairs is able to give its agreement in principle to the Commission's report. The Commission's report and analyses contain a great deal of factual information and elucidate - although often quite indirectly<sup>1</sup> - many important but also politically difficult aspects of the overall energy problem.

The committee would however warn against over-optimistic expectations of the practical results of the adoption of the proposed Council resolution. The Communities will continue to have only minimal opportunities to influence developments in the individual Member States. The decisive element will be what concrete measures the Council will be able to agree on at a later date.

In this connection attention should be drawn to the fact that the report shows that the future increase in production of the Community's own energy resources have been estimated more pessimistically from one programme to another and that in practice the individual Member States see the importation of oil as a way of meeting otherwise unsatisfied demand. The Committee on Economic and Monetary Affairs therefore fears that later reports will show that the expectations of the present programme are also over-optimistic in this regard.

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<sup>1</sup> One of the aspects which is elucidated only indirectly is the variety of the interests of the Member States with regard to the creation of a common energy policy, e.g. as regards the production and marketing of coal

### Economic growth, energy demand and prices

3. The Commission emphasizes<sup>1</sup> that the national programmes assume that 'oil prices will follow the general movement in prices' and that economic growth for the period 1976-1980 'is in line with the assumption made in the "fourth medium-term economic policy programme"'.

In the committee's opinion the results obtained so far from efforts to save energy do not justify any special optimism with regard to the possible reduction of the energy/GDP elasticity coefficient<sup>2</sup>; other things being equal, this means that the forecast figure for energy demand in 1985 may turn out to be too low. On the other hand it is reasonably certain that it will not be possible to reach the estimated figure for economic growth up to the year 1980. Indeed economic growth between 1980 and 1985 is completely uncertain. The committee can for this reason only conjecture what the total effects of this will be on the figure advanced by the Commission for energy demand in 1985.

At the same time it is evident that developments in energy prices play a crucial role. A low energy price will lessen efforts to save energy and the propensity to invest in the energy sectors; a high energy price will produce considerable problems of a general economic nature. The Commission in its report does not, however, make any assessment of the future development of energy prices with reference inter alia to a possible growing shortage of energy sources and it does not make an assessment of what consequences this may be expected to have on, for example, the Member States' balances of trade and international competitive position.

The Committee on Economic and Monetary Affairs believes that the general shortage of primary energy sources and the use of oil as a raw material in the manufacture of various industrial products will ensure that energy prices do not 'follow the general movement in prices'. Everything points to energy prices - including oil prices - increasing faster than prices in general.

The basic assumptions for the forecast of energy demand in 1985 are thus subject to great uncertainty.

4. On the other hand the committee wishes to point out that, in a situation where it is difficult to achieve the desired economic growth and independence with regard to imported sources of energy, it should be obvious what prospects are opened by an increase in investment in the development of the Community's

<sup>1</sup> Section I.4 of the Communication

<sup>2</sup> Annex 2, Section I.1 of the Communication

own energy sources. It is this unsatisfactory economic growth and the consequently unused resources of production which present the Community and the Member States with an opportunity to reduce the Community's dependence on imported energy and to boost economic growth by increasing investment in the energy sector.

The main objectives for 1985

5. The Commission has set out three main objectives<sup>1</sup> for the Community's energy policy:

- oil imports must not exceed 500 Mtoe<sup>2</sup>;
- the share of oil in Community energy consumption must be cut significantly;
- the Community's external energy dependence must be reduced to 50%

The Commission emphasizes that the realization of these objectives presupposes certain changes in the Member States' programmes; it is not clear from the draft Council resolution what changes individual Member States ought to have in view. The draft Council resolution is regrettably vague on this point; on the other hand the proposed figure for e.g. the Community's own oil and natural gas production is extremely exact. The Committee on Economic and Monetary Affairs is aware that this specification of figures in the Council resolution will meet with opposition from certain Member States. The Committee does however feel that the more precise the terms of the Community's energy policy, the greater the likelihood of reaching the objectives which are set.

6. The committee will examine below particular aspects involved in achieving the main objectives, but wishes to emphasize the general point that there is a considerable risk that the objectives set will not be attained. This is due particularly to the fact that the programme is essentially a synthesis of Member States' existing programmes; with this in mind the Commission draws attention to the changes which are necessary if the Community's main objectives are to be attained. These changes are feasible, viewed in isolation.

<sup>1</sup> See Section 5a of the Communication and Annex 1, paragraphs 1 and 2 of the draft Council resolution

<sup>2</sup> Mtoe = million tonnes of oil equivalent



The question is, however, to what extent the Member States' programmes are realistic. The Commission has expressed its doubt on how far the Member States' expectations regarding the increase in nuclear power stations are realistic.

The Communication moreover contains only general and to a certain extent unclear suggestions of how the 'gaps' referred to can be filled and what the consequences will be if the Member States do not attain the objectives they themselves have set.

The Committee on Economic and Monetary Affairs takes the view that the report has a defect in that it rarely gives the causes of the sometimes quite considerable differences between the Member States' latest programmes and their earlier ones. The differences cannot simply be explained in terms of cyclical economic difficulties and the political problems connected with the use of nuclear energy in certain Member States. The committee calls upon the Commission to give, in future reports, an account of the reasons in cases where the Member States have not been able to pursue their earlier objectives.

#### Restriction of oil imports to 500 Mtoe and of the share of oil in energy consumption

7. The Committee on Economic and Monetary Affairs draws attention to the fact that the share of oil in total energy supplies in 1985 is now reckoned by five Member States to be greater than was forecast in early 1976. This changed assessment is not offset by improved prospects of crude oil production within the Community. It must be repeated that a review of the individual national programmes shows that the share of oil in total energy supplies is seen in residual terms, i.e. as that share of energy supplies which is not expected to be covered by other energy sources. With this in mind it seems highly uncertain whether the Member States will in practice feel themselves obliged to keep within the Commission's proposed ceiling on oil imports for 1985; the committee would point to the need for the 1985 ceiling to be supplemented in later reports by ceilings for oil imports until then at a level which the Commission considers feasible. Only in this way will it be possible to keep a running check on the extent to which the Member States' efforts to reduce the use of imported oil bear practical results.

8. In view of the structure of the oil market and the need to preserve free trade between the Member States, it is nevertheless difficult to lay down firm ceilings for individual Member States' oil imports from third countries. Also it would not be right to practice discrimination on the internal market in either crude oil or refined oil products according to their origin (producing country). The Committee on Economic and Monetary Affairs

therefore takes a critical view at the outset of the Commission's idea<sup>1</sup> of setting limits on individual Member States' net imports of crude oil.

The Community's practical ability to ensure the observance of the limits set will thus mainly depend on its ability to influence Member States' planning, the ability to make a prompt record of external and internal trade in oil products and of the Member States' will to comply in practice with the Community's energy policy. Council resolutions must be seen in this context to be an unsuitable form of legislation.

9. The Commission states in the Communication<sup>2</sup> that the achievement of the objectives set in 1974 for Community production of crude oil - 180 Mtoe in 1985 - must now be considered unattainable. The latest forecast, corresponding to the 1976 forecast, is for a production of 111-161 Mtoe. The Commission feels that it will be possible to attain 140 Mtoe in 1985 and suggests furthermore that the Community should take suitable initiatives to increase production in 1985 to approximately 160 Mtoe.

The draftsman would have liked to have consulted energy experts in order to be able to assess the background and consequences of these plans, including whether the increase of oil production in the North Sea could affect natural gas and coal production, particularly in Great Britain. Other important questions are the probable cost and volume of production of North Sea oil. The Bureau of the European Parliament, however, did not accept the premise of the Committee on Economic and Monetary Affairs that there was a need for such information.

10. The Committee on Economic and Monetary Affairs is aware that a report such as the present one cannot of course treat all aspects of the common energy policy. In view of the importance which one must attach to a rational and economic use of energy in order to attain the main objectives, the committee will, however, use this opportunity to request information on new energy conservation initiatives from the Commission.

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The committee requests answers to the following questions:

- What opportunities are there, within the context of possible measures to improve the rational and economic use of energy, for exerting some influence by way of administrative or market-induced price changes, national legislation or financial incentives?

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<sup>1</sup> See Annex 2, section 3.2. of the Communication

<sup>2</sup> See Annex 2, section 2.2. of the Communication

- To what extent does the imposition of taxes and other duties on energy consumption cause distortions of competition nationally and internationally and place a heavier burden on lower income groups?
- Is sufficient respect paid to the criterion of net utility in saving energy? Is there a conflict of aims between energy saving and certain environmental measures?
- When may the energy-saving measures applied to buildings, machines and plant be expected to yield significant results?

11. Traditionally, the committee has not seen it as its task to take a position on the sources and volume of energy the Community should rely on<sup>1</sup>. Nevertheless the committee wishes to emphasize the remark made in the report that there are only limited opportunities for increasing the Community's production of solid fuels, natural gas and oil to a greater extent than is foreseen in present programmes. The Community should, of course, further promote the marketing of domestically produced coal, and substantially reduce imports.

Nevertheless existing plans for the extension of nuclear power stations are necessary<sup>2</sup>.

#### The Community's dependence on imported energy

12. The uncertainty of the forecast energy demand in 1985 together with the prospects for the Community's own energy production naturally means that there is also considerable uncertainty about attaining the desired independence with regard to external energy supplies<sup>3</sup>.

13. Furthermore, the Committee on Economic and Monetary Affairs, in common with the Commission in its report, warns against not taking into account the relationship of dependence the Community may enter into with regard to uranium supplies. There are still three very open questions:

- to what extent will the Community continue to be almost completely dependent on imports of natural uranium?
- which of the uranium producers will become the Community's main suppliers<sup>4</sup>?
- what production, export and price policies will the uranium supplying countries adopt?

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<sup>1</sup> See the committee's report on the effect of increased energy prices on Member States' productivity and competitiveness (Doc. 431/75), points 8 and 28 of the explanatory statement

<sup>2</sup> All data suggest however that the price of electricity from nuclear power stations, if they are sufficiently widely used, will be competitive even in comparison with electricity production based on oil.

<sup>3</sup> In particular, there must be negotiations to review the current refusal of the USA to supply fissile materials to EURATOM

<sup>4</sup> Africa, Australia and China, too?

The present situation as regards the Community's ability to import uranium from third countries underlines its need to secure its long-term supplies of the material by international agreement. This point cannot be over-emphasized, as we cannot ignore the fact that, by relying more on nuclear energy, the Community will be going from one state of dependence to another, since it can never be self-sufficient in uranium. For many reasons, however, the general and long-term political and economic implications of dependence on external supplies of natural uranium must be regarded as less serious than dependence on external supplies of oil. Firstly, expenditure on raw materials forms a relatively small part of the total production costs of atomic power stations as compared with conventional power stations. Secondly, for technical reasons it would not be particularly difficult for the Community to build up relatively large stocks of uranium. And thirdly, the use of a broader spectrum of primary energy will in itself increase the Community's room for manoeuvre in any future crisis of supplies of primary energy sources.

#### Investment and research

14. The Commission states in its report<sup>1</sup> that there has been a relative drop in planned energy investment in comparison with the 1976 programme (from 1.8 to 1.5% of GDP). The Commission is right in calling this a 'worrying' trend.

The Committee on Economic and Monetary Affairs must draw attention to the fact that a continuing decline in energy investment within the Community may lead to a shortage of energy in the mid-1980's and a lower level of employment up to that time. A continuing delay in the implementation of investment programmes not only affects employment within the building industry but also, for example, order books in the mechanical engineering and other capital equipment industries. The possibility should also be borne in mind of an increase in energy investment resulting in an increase in economic growth<sup>2</sup>.

Furthermore, one should be aware that there is particularly keen competition in the supply of nuclear power stations to third countries. Too long a delay in building nuclear power stations within the Community would mean that consortia within the Community which are able to supply third countries with nuclear power stations would find themselves in an increasingly difficult competitive situation.

15. The Committee on Economic and Monetary Affairs also regrets that the report does not describe special needs as regards research into the production, use and saving of energy. In the committee's opinion research is particularly

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<sup>1</sup> See Annex 2(5) of the Report

<sup>2</sup> See point 6 above

urgent in uranium technology and the application of 'new' sources of energy (e.g. solar and geothermal energy).

In this situation, it is incomprehensible that the Council should have cut back drastically on the energy research proposed by the Commission in its original draft Community budget for 1978.

#### Cooperation with third countries

16. The Commission is requested to draw up a report as soon as possible on the importance of international cooperation on energy. This report should answer inter alia the following questions:

- What would be the advantages and disadvantages of having oil suppliers participate in the financing of the Community's energy investments and would the oil suppliers be interested in this?<sup>1</sup>
- What changes may occur in the attitude of the oil exporters towards the oil importing countries?
- What are the chances for attaining international agreements on future uranium supplies and what subjects should such an agreement cover?
- How and to what extent is the Community affected by the energy policies of other industrialized countries such as the USA and Japan?
- How large are the available reserves of natural gas and is there a tendency for natural-gas-producing countries to be increasingly reluctant at the present time to exploit their natural gas reserves?

#### Conclusions

The Committee on Economic and Monetary Affairs welcomes in principle the proposed draft resolution.

1. It looks to the Commission to make greater and more practical efforts to promote the marketing of coal produced in the Member States.
2. It calls upon the Commission to bring about as quickly as possible a safe solution, on the basis of agreements with the countries concerned, to the problems of procuring enriched uranium, particularly from the USA, and of questions connected with the intermediate storage of nuclear waste.

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<sup>1</sup> See the opinion drawn up by the Committee on Economic and Monetary Affairs for the Committee on Energy, Research and Technology on a system of basic prices for imported primary energy sources (Doc. 530/76)

3. It asks the Commission to exploit all possibilities for creating conditions under which France too could fully endorse a common energy policy.