

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S
GOVERNMENT

EHG (V) (80) 8

1

5 June 1980

EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

ENERGY

Brief by the Department of Energy

OBJECTIVE

- (i) to prepare for the Venice Economic Summit by promoting a discussion focussing on long-term energy problems ;
- (ii) to let the non-Summit Member States have their say on preparations for Venice Economic Summit.

POINTS TO MAKE

1. Venice Economic Summit

Energy problems intimately linked with wider economic problems of 1980s. Doubling of oil prices last year a severe shock to world economic growth. OECD have calculated that by 1981 loss to Western economies will be \$300 - 400 billion or \$1,500 - \$2,000 per family. Vital to avoid a situation where energy supplies become a permanent constraint on economic growth.

2. World oil production probably close to its peak. Production increasing in North Sea and Mexico, but falling elsewhere (eg US). Unlikely that OPEC production will rise much above its present level in 1980s.

Key long-term objective must be restructuring of energy economy, particularly to reduce dependence on oil. Venice Economic Summit should focus on policy measures needed to achieve this. Must recognise that some hard political decisions may be necessary. Setting targets not enough. Firm commitments to action needed at national and international level. Welcome work done in EEC and IEA to define long-term objectives as positive

/input

CONFIDENTIAL

input to Economic Summit.

4. Main weight of restructuring energy economy must lie with national programmes, complemented by collaboration within Community and on wider international basis. Community has valuable role in ensuring convergence of national programmes to meet agreed objectives. We shall also co-operate fully in current studies of possible scope for further action at Community level.

5. UK playing its part in massive Community-wide effort by Member States to reduce Community's oil dependence, eg through new impetus to UK nuclear developments, and by support for UK coal production which helps reduce dependence of Community as a whole on imported oil. In North Sea oil, ^{£18 billion (at 1980 prices)} ~~£15 billion~~ has so far been invested. In the first quarter of 1980, other Community countries took two thirds of our total oil exports - one third of total UKCS production.

6. Important to give consumers clear and consistent price signals. Domestic energy prices must reflect world prices. Economic Summit should also give impetus to vigorous programmes to exploit coal and nuclear power, and help gain public acceptance for these.

7. Difficult short term problems of oil prices too. OPEC countries have shown in past few months that they are able to push prices up even in slack market. Must recognise that there are limits to what governments can do, and that tinkering with established market mechanisms unlikely to help. But governments must keep situation under review, and be prepared to consider further measures if situation worsens. Must press ahead with examination of new approaches to stock policies. Must permit price mechanism to play full role in process of adjustment.

Commission Paper

8. Useful summary of recent discussions at Luxembourg and 13 May Energy Council. Welcome progress made in establishing

CONFIDENTIAL

strategy for 1990. Look forward to further discussion in Energy Council once present studies completed.

(If necessary) Further consideration should now await outcome of various studies commissioned by 13 May Energy Council for its September meeting.

9. 13 May Energy Council

Helped to pave the way for satisfactory outcome of IEA discussion of oil market situation and 1990 energy objectives. Should also be useful groundwork for Venice Economic Summit. Council should continue monitoring development at Community level against wider international background.

10. Community Energy Initiative (If necessary)

Preparation of precise Commission proposals on any one of the components of this complex subject will take time. Ready to participate constructively in discussion of need for Community assistance, on the basis of examination of national planned investment programmes.

BACKGROUND

1. Oil Market Outlook

The oil market in 1980 - 81 is likely to be in balance, in the sense that there will be no general pressure on oil supplies. Demand for oil has fallen because of slowdown in world economic activity, itself largely a consequence of last year's doubling of prices. Consumers can 'walk away' from high prices by individual producers (eg Iran) and have done so, but not from OPEC as a whole; OPEC countries have raised prices by \$2 per barrel twice this year, despite slack market, following Saudi attempts to bring their prices into line.

2. Projections for 1980s bound to be uncertain. On some assumptions - favourable but not impossible - oil market in 1985 could balance at real price not much above present price.

3.

/But

CONFIDENTIAL

But downside risks are large. In particular, supplies remain vulnerable to political accidents; and Gulf producers may cut production, because they do not need the revenue immediately, and may conclude that oil in the ground is more valuable than money in the bank. Outlook for late 1980s even more uncertain but could be even less favourable than for early part of decade.

3. Venice Economic Summit

Preparations for Venice Economic Summit have produced broad agreement on energy issues. Summit should focus on long-term policy measures to reduce consumption of oil in individual sectors (electricity generation, industry, domestic, transport etc), and promote production and use of alternatives to oil, particularly coal and nuclear power. We and Germans have argued successfully against setting of new targets, but Americans will want some quantified guidelines. We can accept reiteration of guidelines agreed at 13 May Energy Council and 21/22 May IEA Ministerial (see paragraph 4 below).

4. International Energy Targets: IEA Ministerial

Following Luxembourg European Council conclusions the 13 May Energy Council adopted the following Community energy objectives for 1990: to reduce to 0-7 the ratio of growth in gross primary energy consumption to growth in GDP; to reduce oil's share of total primary energy consumption to approximately 40%; to cover 70 -75% of primary energy requirements for electricity generation from coal and nuclear sources; to encourage the use of renewable energies; to pursue appropriate energy pricing policies. The 21/22 May IEA Ministerial agreed the following objectives for the IEA as a whole in 1990: 40% oil share objective; reduction of energy coefficient to about 0.6. In a compromise on US demands the IEA Ministerial also agreed: for 1980 - 81, to meet at short notice, if tight market conditions threatened to decide on the need for demand restraint measures and on the use of individual oil import ceilings; for 1985, that IEA countries as a group should substantially undershoot the existing 1985 group oil import objective of 26.2 mbpd. (IEA Secretariat estimate by 4 mbpd). IEA Ministers also considered

the use of stocks above the 90 day emergency reserve requirement and of normal working stocks to respond to oil market conditions. They endorsed the report of the International Energy Technology Group.

5. 13 May Energy Council

Discussed matters referred to it by Luxembourg European Council, especially oil market situation and 1990 energy strategy. Agreed Resolutions on 1990 Energy Objectives and New Lines of Action in Energy Saving. Asked Commission to report in September on Community Energy Initiative, and possible additional measures to cope with oil supply difficulties including discouraging high prices; improved consultation on stocks and pricing; scope for sub-crisis formal oil-sharing; possibilities of increasing oil and gas production. (In further discussion of scope for increasing UKCS oil production in supply difficulties, other Member States have so far appeared to accept that practical scope is extremely limited).

Commission Paper on Energy

6. The Commission paper, dated 23 May, merely recalls the conclusions reached on energy at the Luxembourg European Council, and the outcome of the 13 May Energy Council. It welcomes the progress made, and asserts that the agreements reached should be helpful in respect of the Venice Economic Summit. No contentious issues are raised, and there is no need to comment specifically on the paper, which is unlikely itself to be the subject of substantive discussion.

Community Energy Initiative

7. Commission has made proposals for a Community energy initiative based on: price and tax harmonisation; enhanced energy investment with Community support; funded by Community energy taxes, probably including oil import levy and production tax. Initial reactions of our partners suggest this may be generally regarded as ambitious. The Energy Council welcomed the Commission's intention to start at the beginning - with a study of need for further Community action - before considering

/how

CONFIDENTIAL

how funds might be raised.

Possible French Initiative on Spot Markets

8. It is possible that the French will repeat proposals, made earlier in the Energy Council, for additional measures to monitor high price transactions in the oil market - with the objective of exercising some control over spot markets. We are very sceptical about the practical value of their proposals for an accelerated price reporting system and a 'hotline' between administrations. We are, however, happy for existing reporting systems to continue.

Department of Energy

5 June 1980

6.

CONFIDENTIAL

COMMUNITY PROGRESS IN THE ENERGY FIELD

Report to the European Council in Venice

1. At its meeting in Luxembourg on 27 and 28 April, the European Council considered ideas put forward by the Commission for a new Community initiative as part of a Community strategy for energy (COM(80)130 of 20 March). The Commission drew particular attention to the need to undertake progressive harmonization of energy prices and taxes; to promote an investment programme to support the efforts of Member States to encourage energy saving, the substitution of oil by energy from other sources, the reduction of dependence on foreign suppliers, and the development of other renewable sources; and to examine various possibilities for financing such a programme. In its conclusions the European Council invited the Council of Ministers to consider as a matter of urgency the steps proposed by the Commission to stimulate the development of a coherent energy policy within the Community.
2. Against the background of continuing uncertainties on the world oil market, the Council of Energy Ministers was also invited to consider what further action was now required to meet the possibility of short-term oil supply difficulties.
3. At its meeting on 13 May, the Council of Energy Ministers considered some of these questions. Progress was made. The main conclusions were as follows.
4. First, after a preliminary discussion of the Commission's new proposals, the Council agreed that further work was needed as a matter of urgency on energy investment in the Community. The Council will revert to this issue at its next meeting. It will then have before it the result of an examination by the Commission of energy programmes in each of the Member States. This examination, which aims to identify the areas where extra investment is required and to explore the scope for Community support, is already under way through bilateral consultations between individual Member States and the Commission.

5. Secondly the Council approved a Resolution on Community Energy Objectives for 1990 and Convergence of the Policies of the Member States. This called for an annual report by the Commission on energy programmes up to 1990 in each of the Member States to determine how far they are in line with the Community's energy policy objectives. In preparing its report, the Commission will take into account the following guidelines for 1990 for the Community as a whole :

- reducing to 0.7 or less the ratio between the rate of growth in energy consumption and the rate of economic growth
(the present objective for 1985 is 0.8);
- reducing oil consumption in the Community to about 40 % of total energy consumption
(the present level is about 55 %);
- raising the share of coal and nuclear in electricity generation to 70-75 %
(this compares with about 50 % at present and will mean considerably speeding up coal firing conversion and new capacity and the ordering and commissioning of nuclear plants);
- encouraging an increase in renewable energy sources;
- the pursuit of energy pricing policies geared to attaining Community energy objectives (see paragraph 6 below).

The Commission will aim to produce its first report to the Council by early 1981.

6. Thirdly the Council approved a Resolution on New Lines of Action by the Community in the Field of Energy Saving. This called for the further development of energy savings programmes in Member States covering all the main sectors of energy use. It was agreed that, if comparable effects are to be achieved throughout the Community, these programmes should be based on a number of guidelines proposed by the Commission including, notably, three key principles of energy pricing :

- (i) consumer prices should reflect representative conditions on the world market, taking account of longer-term trends;
- (ii) one of the factors determining consumer prices should be the cost of replacing and developing energy resources;
- (iii) energy prices on the market should be characterised by the greatest possible degree of transparency.

The Commission has been invited to monitor and report on progress.

- 7. Finally the Council called for an urgent examination of a number of areas where action could help to stabilise oil markets and could improve the Community's emergency planning arrangements. This examination will be conducted by the Commission in consultation with Member States. The Commission has been asked to report results to the Council by September.
- 8. The Commission welcomes the progress so far made by the Council of Energy Ministers. The agreements reached should be helpful to the representatives of the Community in Venice on 22 and 23 June. The experience of the Tokyo Summit of 1979 shows the value of prior Community decisions in discussion at the Summit among our major industrial partners.

28 May 1980