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EHG(B)(82)12 Revise 2

COPY NO

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25 MARCH 1982

EUROPEAN COUNCIL, BRUSSELS

29/30 MARCH

ENERGY

Joint Brief by FCO/Department of Energy

OBJECTIVES

1. To exchange views on recent developments in the oil market.
2. To draw attention to the recent reductions in North Sea oil prices, and the beneficial effects of lower oil prices on output and inflation in the Community.
3. To refer in low key to progress in EC discussions of energy matters.

POINTS TO MAKE

World Oil market

4. A combination of weak demand, the desire of producers to increase output to secure much-needed revenues, and the desire of oil companies to run down stocks is putting downward pressure on prices. It remains to be seen how significant will be the effect of OPEC's recent decision to reduce production, but some further weakening of prices seems likely in the short term, albeit more probably in the form of discounts than revision in official prices.
5. Lower oil prices should help to move world economy out of recession, reducing unemployment and inflationary expectations.

North Sea oil prices

6. Although a producer as well as a consumer, we see an overall net advantage in lower world oil prices. However North Sea oil

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price is determined by market forces. Hence recent reductions. Lower North Sea oil prices are obviously welcome to industry in Community: more than half of total UKCS oil exports go to our Community partners.

Community energy matters

7. The 16 March Energy Council had preliminary discussions about the role of coal, nuclear energy, and investment in rational energy use, and reached general conclusions on security of natural gas supplies. UK looks forward to taking these issues further at the next Energy Council and will continue to play a constructive part in development of realistic Community policies on energy.

8. Important that momentum is maintained in ensuring that Member States' policies on energy pricing are consistent with pricing principles already agreed by Community.

9. (If raised) To be effective, any measures to deal with oil supply shortfall must involve all major Western consumers. Further consideration of such measures (including size and use of obligatory stocks) has to proceed in step with wider international discussion in framework of IEA.

Energy pricing [defensive]

10. Measures announced in recent Budget are consistent with principles of economic energy pricing. Adjustments in price structures are intended to ensure more efficient use of energy, particularly by industry. No question of UK industry being given unfair advantage. Indeed, large UK consumers of electricity still pay more than most Community counterparts.

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BACKGROUND

Reference A: Conclusions of 16 March Energy Council

World Oil Market

11. World oil demand in 1982 is likely to remain about one million barrels per day (MBD) below 1981 levels. Department of Energy believes the market is likely to continue weak for a few months at least.
12. Oil stocks, despite being drawn down at some 4 mbd, are still higher than companies would like, and companies are therefore not committing themselves to new contracts, in the expectation that future prices will be lower.
13. Lower demand due to a combination of world recession and structural change in energy consumption (conservation, more efficient energy use). The likely depth and duration of the US recession now an increasingly important factor.
14. OPEC producers have been slow to come to terms with the situation. The marker price for Arabian light crude has remained at \$34 per barrel since last autumn. Iran, needing foreign exchange, has broken ranks and reduced its asking price by \$4. Other OPEC oil is being traded below official prices. At their meeting on 19 March OPEC countries decided to limit non-Saudi production to 10.5 mbd. At the same time Saudi Arabia announced a cut in its production from 7.5 to 7.0 mbd. This is not likely to be sufficient to firm up the market, but Saudi Arabia's threat to make further reductions, if implemented, could do so. OPEC now accounts for well under half total free world oil production.
15. Continuing decline in oil prices would affect the financial position of OPEC countries. Some (eg Gulf States) may have to draw on reserves and cut back development plans and aid programmes. Others (Nigeria and Venezuela) may increase their borrowing.

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16. Soviet Union may be obliged to export more oil to the West to make up for loss of hard currency earnings resulting from a lower oil (and gold) price. Effect on oil price may be to some extent offset by Eastern European countries being forced to supplement USSR oil with supplies from elsewhere. The net effect of this likely to be some reduction of total Soviet bloc non-oil imports from the West.

17. Benefit to LDC countries will vary. Their balance of payments and credit worthiness likely to improve. But the impact of earlier oil price rises will be long lasting for many of them, even if prices continue to fall now. Unlikely therefore to be a dramatic change in their situation.

North Sea Prices

18. Spot market prices continue to move downwards. On 8 March BNOB reduced prices by \$4 per barrel bringing the price for Forties crude down to \$31 per barrel.

Energy Council

A

19. Conclusions of 16 March Energy Council are attached.

UK Energy Policy and the Community (for use if raised)

20. For July - December 1981, the UK exported to other EC countries about 595,000 barrels per day of crude oil. This represented 52% of our total oil exports, and 32.5% of total UKCS production. Furthermore, non-UK EC companies hold interests in 21 of 43 production licenses covering areas of the UKCS where petroleum is being produced or where fields are under development.

UK Energy Prices: Budget announcements

21. Changes in UK energy prices were announced in the Budget on 9 March:

- (a) Electricity supply industry will enable industrial consumers ready to enter 3-year commitment on load management (ie to reduce demand on request) to pay reduced charges.

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The commitment enables savings to be made by reduction in the plant required to cover peaks;

- (b) Gas Until the end of 1982 BGC will hold the price of gas at 1 April 1982 levels for industrial and commercial users. This freeze applies to supplies after the first 25,000 therms taken in the contract year. This is not a subsidy - industrial gas sales will still be at a profit to BGC - nor is it an extension of last year's freeze - industrial contract prices rose by 3% on 1 March.
- (c) Foundry coke HMG has asked NCB to review measures taken last year to avoid further increases in the list price of foundry coke until winter of 1982. NEDC Task Force Report of November 1981 identified gap between price of NCB foundry coke and foundry coke from France which we believe to be due in part to high subsidies in these countries; and NCB suspect Belgians of dumping foundry coke in order to establish themselves in the UK market.

DEPARTMENT OF ENERGY/
FOREIGN AND COMMONWEALTH OFFICE

25 MARCH 1982

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COUNCIL OF THE EUROPEAN COMMUNITIES
GENERAL SECRETARIAT

PRESS RELEASE

5594/82 (Presse 29)

759th meeting of the Council.

- Energy -

Brussels, 16 March 1982

President: Mr Etienne KNOOPS,
State Secretary for Energy
of the Kingdom of Belgium

Presse 29 - G

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The Governments of the Member States and the Commission of the European Communities were represented as follows:

Belgium:

Mr Etienne KNOOPS
State Secretary for Energy

Germany:

Mr Dieter von WURZEN
State Secretary,
Federal Ministry of Economic
Affairs

France:

Mr Edmond HERVE
Minister delegate to the
Ministry of Industry with
responsibility for Energy

Italy:

Mr Enrico NOVELLINI
State Secretary,
Ministry of Industry

Netherlands:

Mr J.C. TERLOUW
Deputy Prime Minister,
Minister for Economic Affairs

Denmark:

Mr Poul NIELSEN
Minister for Energy

Greece:

Mr A. PEPONIS
Minister for Industry and Energy

Ireland:

Mr Andrew O'ROURKE
Ambassador
Permanent Representative

Luxembourg:

Mr Josy BARTHEL
Minister for Energy

United Kingdom:

Mr John MOORE
Parliamentary
Under-Secretary of State
for Energy

Commission:

Viscount Etienne DAVIGNON
Vice-President

SITUATION OF ENERGY SUPPLIES

The Council examined the current picture on the energy market. It found that, according to the Commission's figures, the 1980 falls in energy consumption (- 4.2%) and in the demand for petroleum product (- 8%) had continued in 1981 (- 3.9% and - 8.3% respectively) (*). It also noted the fall in the world market price for petroleum, and the level of stocks.

The Council agreed that the situation should not lead to any relaxation of the efforts to use energy more efficiently and to diversify supplies.

Although the fall in consumption was partly due to changes in the consumption structure and to more efficient use of energy, it was also partly due to a decline in economic activity and an economic up-turn could trigger an increase in the demand for energy.

The Council therefore remained convinced of the need not only for further progress towards attaining the objectives which the Community has set itself, which were to restructure demand in order to achieve more efficient use of energy, and to develop energy sources other than oil, and again to keep a constant watch on the results obtained by the Member States in these fields.

(*) provisional figures

ENCOURAGEMENT OF INVESTMENT IN THE RATIONAL USE OF ENERGY

The Council held an initial exchange of views on the Commission communication concerning investment in the rational use of energy.

The Council examined with interest the Commission document containing a useful analysis of the policies adopted and measures taken by the Member States in their efforts to attain the Community's objective, and of the difficulties and obstacles encountered in their attempts to use energy more rationally.

The Council agreed to encourage moves towards the attainment of the Community's objectives.

The Council accordingly instructed the Permanent Representatives Committee to examine in detail the draft Council recommendation to the Member States which was appended to the Commission communication, giving due weight to the views expressed within the Council, in order that decisions could be taken at the next meeting of the Council.

The Council noted that the Commission was soon to submit specific proposals on the action which public authorities could take to encourage further progress on certain selected types of investment in the energy field, which the Commission considered to be especially urgent.

THE NUCLEAR ASPECTS

The Council examined with great interest the Commission's communication concerning the nuclear aspects of the energy strategy; this document offers a comprehensive approach which could serve as a basis for a more detailed analysis of the problems arising in this field.

The Council decided to make a more thorough examination of these issues at its next meeting and instructed the Permanent Representative Committee to prepare the ground.

ROLE FOR SOLID FUEL IN THE COMMUNITY'S ENERGY STRATEGY

The Council examined a Commission communication on the role solid fuel could play in a Community energy strategy.

The Council recognized the outstanding importance of solid fuel in the diversification of primary energy sources.

The Council asked the Commission to consider the matter further in order that at its next meeting, the Council could continue its discussion of the matter.

It instructed the Permanent Representatives Committee to examine the Commission's proposals in the light of the day's discussions.

NATURAL GAS

The Council noted the growing contribution which natural gas was likely to make towards reducing the Community's dependence on oil and more broadly towards the diversification of supplies.

The Council also noted that the Commission was to carry out studies which would serve as a basis for appropriate proposals on the measures to be taken to strengthen the security of the Community's supplies of natural gas.

ENERGY PRICING

1. The Council is aware of the need for Member States to develop gradually a common approach on price formation in accordance with the Council's conclusions of 3 December 1981.
2. The Council considers that government policies must aim to reduce gradually the artificial obstacles which prevent reliable information from reaching the market.
3. The Council would encourage the Commission's efforts to improve price transparency, wherever necessary, and asks the Commission to report back on the results of these efforts.
4. The Council asks the Commission to examine pricing policies, sector by sector, for the purpose of ensuring that they conform to the principles adopted by the Council and, if appropriate, to submit to it proposals based on the results of that examination.

11.

LIMITED SHORTAGE OF OIL

The Council noted that the other industrialized countries had adopted measures similar to those contemplated by the Community and had undertaken to implement, if circumstances so required, the procedure and measures to cope with a limited oil shortage, as agreed by the Council on 27 October 1981.

It also noted, in this connection, the Commission's intention to submit in due course, and as agreed on 27 October 1981, a report on the level and use of stocks.

The Council invited the Member States to endeavour to maintain, in 1982, stocks of each category of petroleum product specified in Council Directive 68/414/EEC at a level equal to at least 90 days of the average daily internal consumption recorded in 1980.

INFORMATION ON THE ENERGY CONSUMPTION OF HOUSEHOLD APPLIANCES

The Council looked at the last remaining reservations on the three draft Directives applying the Directive on the indication by labelling of the energy consumption of domestic appliances to:

- electric washing machines;
- electric dishwashers with cold water supply only;
- electric refrigerators, frozen food cabinets, freezers and their combinations.

The Council agreed that talks would be held with the delegations involved in order that an overall agreement could be reached and the Directives adopted swiftly.
