

Statement by François-Xavier Ortoli (Washington, 11 February 1974)

Caption: At the opening of the Washington energy conference held from 11 to 13 February 1974, François-Xavier Ortoli, President of the European Commission, describes the international repercussions of the oil crisis.

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The events of October revealed an energy crisis which has been brewing for some time.

This crisis has a considerable effect on the European Community: in order to understand this one only has to know that oil will probably continue to represent about 60% of its energy supplies over the next few years. This figure gives you some idea of the size of our problem and shows how our problems differ from those of other less dependent consumer countries.

At the moment we are facing a problem of quantity. All things being equal we may by 1974 have to meet a deficit of 50 million metric tons, i.e. 10% of our oil requirements, and 3% of our energy requirements. The present situation is causing everyone, and perhaps us more than others, balance-of-payments problems because of the spectacular increase in the price of crude oil.

Faced with this situation, the Member States have in the short term introduced energy-saving measures in the sphere of private rather than industrial consumption. They have also begun to exploit the possibilities of substituting other fuels (coal and natural gas) for oil in power stations and specific branches of industry such as steel, cement and non-ferrous metals.

These same Member States are aware of the general effects of the crisis which are well-known: immediate disruption of the terms of trade between consumer and producer countries, a marked increase of revenue from oil exports, major changes in international trade and capital movements.

I would stress in this connection that, depending on their degree of dependence on imported oil, the consumer countries will feel the increase in oil prices in very different ways. Certainly the effects on the trade balance of the United States are not inconsiderable, but Japan, Europe and the developing countries will feel a much greater effect: in the short term because their dependence on imported oil is that much greater and has a more direct effect on their industrial costs; in the longer term because it will be far harder for them, without their own resources, to increase their self-sufficiency. But even more vulnerable are the developing countries where the cost of importing oil will be greater than the amount of official development assistance which they have been receiving over the past few years, assistance which has already scarcely covered their current payments deficit.

Our Community is particularly aware of this aspect of the problem, and not merely because of the economic ties it has with the developing countries for which it is both a major outlet and a very large supplier. It feels that it is particularly important that we stress here that all our positions take due account of the grave anxieties which the present energy situation is causing the third world. We must seek the most appropriate means of associating the non-oil-producing developing countries as closely as possible with cooperation on energy matters.

To come back to the Community, the increased price of oil will have a variety of effects in the immediate future. The effect on general price levels may be estimated at 2% for direct effects and 3% if we add indirect effects. The slowing down in production could be 1.5% by 1976 and economic growth in real terms would then be between 2 and 3%, with effects on employment.

Finally, balance-of-payments forecasts show very clearly the deterioration of the terms of trade of the European Community. Even supposing that there were a 10% reduction in oil imports in 1974, the additional net cost of them could be 17.5 billion dollars, which represents 1.5% of the Community's gross product or 17% of its exports.

The new situation created by the abrupt and substantial increase in the price of oil led us to outline for ourselves, in Copenhagen, the five main directions to be followed in a common energy policy:

(a) the organization of an orderly functioning of the common energy market;

- (b) a more efficient use of energy and a reduction of wastage: incidentally for us this is a major topic for the future and we must approach it with unfailing understanding and purpose;
- (c) the definition of a comprehensive Community programme for developing alternative sources of energy — indigenous sources of oil and gas, coal, nuclear energy and unconventional fuels;
- (d) the effect of this will be to intensify efforts in the field of research and development. The Commission of which I am President will make far-reaching proposals for Community policy, and we also know that here there is scope for developing international cooperation;
- (e) the pursuit of extensive cooperation with the producer countries, for their economic and industrial development and for stable supplies at reasonable prices;
- (f) the study with other oil-consuming countries — under the auspices of the OECD — of means of dealing with the common long-term energy problems which arise.

In addition to energy problems proper, we should pay particular attention to the repercussions of the energy situation on world economy as a whole, particularly on monetary stability. In this area we must avoid dangerously conflicting policies. We must realize that competitive devaluation is not a remedy, we must avoid overbidding, we must guard against commercial protectionism. Consideration should be given — in appropriate forums — both to ways of avoiding disturbances due to the appearance of considerable additional liquidities and to ways of assisting the recycling and better use of the international capital thus created, taking particular account of the capital requirements of non-producing developing countries, which will experience additional changes, likely to completely upset their development plans. This is a problem for the whole international community.

Discussing the reasons and the attitudes which led to the present energy situation and its repercussions on world economic balances could be useless unless the exercise serves to clarify — and it is this which interests us — the future responsibilities of everyone, taking differing situations into account.

The *consumer countries*, reassured by a past in which energy was abundant and cheap, generally neglected the energy problem, while world inflation and the erosion of monetary values — which largely originated in the consumer countries — confirmed the impression of the producer countries that they were being taken for a ride.

The *oil industry* was unable to anticipate and to adapt itself fully to an irreversible historical development, which became increasingly rapid and which led, by various means, to the gradual appropriations by the producer countries of their natural resources.

Finally, the *producer countries*, which are now acting with increased general solidarity, have raised their prices sharply over a short period. They must now determine how their decisions can fit in with the desire to prolong the expansion of the international economy and particularly to meet the legitimate growth requirements of the developing countries which do not possess energy, resources and raw materials.

For tomorrow, responsibilities are also shared: the problem of better energy supplies is a worldwide one.

This is of interest to:

- (i) Firstly, *all the consumer countries* which need adequate energy supplies at reasonable prices to plan their economic growth, to maintain the balance of international trade and to make their contribution to the development of the poorer countries, and which must also know how to practice restraint in the use of energy.
- (ii) Secondly, the *oil industry* whose future role cannot but be different with regard to the prerogatives it enjoyed in times which have now gone by. It will no longer be alone in fulfilling the role which it used to

play. It must accept this and adapt. Inasmuch as it will often retain ‘technical tasks’ of research, production, refining and distribution of hydrocarbons, the transparency of its management should be improved so that its financial needs, the way in which it deploys its financial resources, and its contribution to the best and fairest balance of the market are more apparent.

(iii) Thirdly, *the producer countries* which also have their own problems and responsibilities. The harmonious development of their economies depend on the ordered use of their resources, compatible with the gradual and necessary transition to alternative sources of energy; they must help to avoid the profound economic and monetary imbalances which will also affect them. It is obviously not in their interest to hinder the growth of the world economy, or even to slow it down.

Among *the consumer countries*, as I have already indicated, the situations differ. Some of them — and this is the case of the Community and Japan for example — have no hope of significantly and rapidly remedying their naturally imposed dependence on external sources of energy. Avoiding overbidding, they must pay particular attention to their supplies, which should moreover include access to new resources created in other less dependent industrialized countries. In any case, specific answers must definitely be found for these special situations. I shall not dwell at any length on the problems of the ‘fourth world’: they must be in all our thoughts, because we must prevent a situation in which the attempts of the poorest countries to launch out are irrevocably compromised and the difference between their standard of living and that of other parts of the world is accentuated.

Within *the oil industry* itself there are differences and perhaps — to avoid regrettable but understandable overbidding — we should think about means of reducing the *de facto* discrimination which exists among the companies, between those which have direct access to oil and those which do not. This is an important problem, but the development of the policy of producer countries and a proposal for talks between consumer and producer countries perhaps afford the possibility of a solution.

Finally, it would not be realistic to ignore the differences between producer countries, whether they are differences of the extent and duration of resources available to them or of the economic and demographic problems which they must face.

This analysis has been brief and does not claim to be original. Basically, it seems to me that the task ahead is too great to be based on a black-and-white, simplistic assessment of individual roles and responsibilities. The challenge which we all face — producer and consumer countries alike — will have its effects on our patterns of development and our civilization. An answer will only be found through flexible concertation [sic] in which the interests of all be set forth and given consideration. It is our hope that the Washington Conference will be one element, among others, in helping to solve this problem.