

Address given by Henri Simonet (27 March 1973)

Caption: On 27 March 1973, addressing the Flemish Economic Federation (VEV), Henri Simonet, Vice President of the European Commission, discusses the Nine's energy supply problems.

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For some months now, the debate on energy questions has no longer belonged solely in the realm of specialists. Public opinion, through articles, conferences and statements by politicians, is beginning to be informed about what certain somewhat alarmist persons have called the "energy crisis". There has even been talk of "panic" about the shortage of energy in the USA and it has to be admitted that the conjunction of certain difficulties currently being experienced by most energy consuming countries in respect of ensuring their supply security and, above all, of limiting the rise in the cost of energy, places us in a climate of uncertainty as to the development of the situation in this field.

Have we really come to an energy crisis? How did we arrive at this situation and what are the prospects for the future? What is Europe's place in the world debate which has to be started between producing and consuming countries?

These are the questions for which I shall be attempting to provide, not a reply, but a certain amount of food for thought.

Have we come to an energy crisis and what are the prospects?

I feel that little stress has been laid on the specificity of energy products. Coal, gas, oil, nuclear fuels, are not similar to other products. It is true that their relative rarity gives them their value, as is the case for everything. Yet they are much more than raw materials: they are bearers of fire, they are a source of heat and energy, they are creators of power. He who is in possession of energy products, is in possession of power. And this literally as well as figuratively, from the technical and from the economic and political viewpoint. The technical units of power (horse power) which all quantities of energy products really contain correspond to another value which is in the hands of the owner of these products. This value is of a strategic and political kind. The oil-producing countries realised this fact some years ago: in their subsoil they possess a good part of the means for the economic progress of the industrialised countries. If we imagine what our situation would be in the event of a complete halt to deliveries of oil from the Middle East, we can gain a better idea of why oil is a source of life. In fact, at the present time, oil provides for 60% of Europe's energy requirements; almost all of this oil is imported and of these imports more than 3/4 of the quantities of imported crude oil come from Middle Eastern countries! This situation of dependence cannot fail to grow in the future and it is anticipated that Europe will be using oil to provide for 68% of its energy requirements by 1985. It is not until after that date that the hopes placed in the development of nuclear energy can possibly be answered.

Like the USA and to quite a similar extent, Europe will, in the future, represent the largest consumption market in the world. With the reduction in their reserves, the USA, which, until recently, provided for the major part of their consumption by their own production, will also weigh on world energy demand in the years to come. Japan, whose situation of dependence for its energy on the rest of the world is even more exaggerated than that of Europe, is just as concerned by the extent of its future oil requirements.

These facts present the first structural aspect of a situation which could lead to a crisis: the three most important areas for energy consumption depend and, above all, will depend to an increasing extent on foreign sources of oil for their supplies. Despite the intensive research effort which has been made in all parts of the world (North Sea - Alaska - Africa), the greater part of these supplies will have to come from Middle Eastern countries: Arabia, Kuwait, India, Iraq and the emirates of the Persian Gulf (Abu Dhabi).

When the situation is described in these terms, one immediately understands the possible risk of conflicts of interests, of outbidding and even of blackmail.

The second structural element which defines the situation in which we find ourselves is that, in the short term, it is impossible to discover substitutes for this situation of the dependence of consuming countries for their supplies on a small number of oil producing countries.

In the realm of oil, as I have already noted, research is continuing, but it is becoming increasingly costly. There are numerous difficulties in connection with the exploitation of deposits which have been discovered in "safe areas" such as the North Sea and Alaska, and the cost of oil from these sources will remain very high. We should add that the hoped-for quantities are at all events extremely limited, reserves which have been proved to exist in Alaska covering the requirements of the USA for scarcely three years.

Gas offers slightly more encouraging prospects, although in this case too dependence (the USSR and Algeria) is very considerable and the anticipated proportion of gas in the overall energy supply will, at all events, remain extremely limited.

There is renewed interest in coal but mining of it in Europe will come to an end in 20 years from now and neither the conditions nor the cost of mining permit one to imagine that one can reasonably count on European coal as a substitute for our energy deficit. However, for certain reasons (electric power stations, coking coal) it is important to maintain production of it in our regions. We draw attention to the fact that the USA seem to be going in the direction of the rediscovery of coal. On account of pollution and, more especially, because oil gives more for less effort, coal has been neglected there. The size of coal mines in the USA and other parts of the world, the possibilities of gasification, and above all the fear of ever increasing dependence on imported oil are now inducing the Americans to stress and expand coal production in mines.

Nuclear energy, in which a good deal of hope was placed in the fifties, is not succeeding in carving out a very large part for itself in the satisfaction of demand, despite the fact of its doubtless being the only possibility for industrialised areas like Europe ever being able to assure their energy autonomy.

We note that, at present, Europe is still totally dependent on the USA for the supplies of enriched uranium needed for its nuclear reactors. The Commission has just taken a step forward by proposing the creation of a community uranium enrichment capacity. This decision could lead the Member States to accept a procedure and to choose production techniques such as to cover part of Europe's requirements in 1980. The horizon selected and the uncertainty which still hangs over the choice of techniques are sufficient proof of the fact that the nuclear field is hardly out of the experimental stage. We also recall that the hopes placed in a nuclear "merger" do not entitle us to hope for energy independence in this field before the beginning of the next century.

The third and final reason which characterises the crisis situation in which we live is of an economic and political nature. Yet it is chiefly the result of the first two reasons which explain the dependence of the industrialised nations on Middle Eastern oil sources and the way in which power is slipping from the hands of the oil companies into those of the producing countries.

The power to take decisions is no longer in the hands of the major oil companies, American for the most part, which, a short while ago, dictated their will to the Arab states and drew immense profits from their domination. It was not until about three years ago that the reign of the major companies began to totter. In fact, eight American and European oil companies, the holders of concessions valid until the end of the century, decided on investments and production and altered the pace of exploitation in accordance with requirements and their relationship with the leaders of the countries, who merely collected royalties.

They enjoyed their dominant position both in the producing countries, which were divided and badly organised, and in the consuming countries where, for a long time, the organisation of distribution and marketing circuits for refined products was scarcely criticised or controlled. In this connection, it has to be recognised that, with some exceptions (France and Italy), it is rare to find a country which has an oil policy, while enormous sums have been spent and a considerable effort made in the field of coal and nuclear energy in all the European countries.

Profound changes in oil firms' prospects for action have totally altered the aspect of their market both at the level of the producing countries and at that of the consuming nations.

Through their organisation within the OPEC, through the feats of Colonel Kadhafi in Libya and the Shah in

Iran and through the "agreements" which they imposed on the major companies in Teheran (January 1971) and in Tripoli (March 1971), the producing countries succeeded in upsetting the balance of power. They now lay down prices and the quantities produced, they are in a position of force for negotiating procedures for taking a majority holding in companies exploiting oil by dead-lines which are constantly brought forward (first dead-line 1982 and now 1979), they brandish the threat of nationalisation or go ahead with it (Iraq - Algeria). Also, one should not forget the power which they now have outside the realm of oil as such: their appearance on the monetary scene where they have sufficient means to endanger any system of international payments, as was shown by the latest monetary crises.

The "agreements" negotiated between the producing countries and the international firms are as many stages towards the complete domination of the market by the former.

At the level of the consuming countries, the situation of the oil companies is hardly more favourable. The competition which they are now required to establish amongst themselves, the price controls which most states (starting with the USA) have developed in the field of petroleum products and the suspicious attitude which some sectors of public opinion is beginning to have as far as multinational firms are concerned have not failed to limit their power of action and their freedom. Their means of profit are being reduced, just as prospecting, transportation and refining activities are calling for increasing quantities of capital. Caught between the attitude of the producing countries and that of the consuming states, the oil companies are going through a fundamental phase in their history: the period of the almost total self-financing of their development is coming to an end; from now on, they must turn to the capital market to finance their investments; they have to negotiate dearer selling prices for their products with the public authorities; they are no longer the leaders on the market; they will soon become the technical intermediaries between the producing and the consuming states.

In fact, I am convinced that the supplying of our countries with oil already no longer rests on the mechanisms set up by the oil companies. It is now necessary for consumers to find methods for support and for negotiation with the producing countries within their states. The energy policy of the states and of the Community has to become a reality.

What role can Europe play in this context?

I have already laid stress on the importance for Europe of its oil supplies. It is important that the states should be aware of the problem which is currently posed by the changes which have come about in the relationship between the producing countries and the oil companies.

Supply security and foreseeable increases in the cost of energy are the two factors which will be attracting attention in the months to come.

However, no energy policy which aims at guaranteeing a secure and long-lasting supply at economically bearable costs can be followed in isolation. It is evident that the states have everything to lose by protecting an outbidding policy in dealings with producers. Negotiations which took place in dispersed order, with each country defending its national interests, could not fail to lead to a deterioration in existing positions or/and to price increases.

This is why I feel it is important for the politicians responsible for energy in the countries of the Community to discuss the possibility of finding a coherent position:

- in relation to other consuming countries (particularly the USA and Japan);
- in relation to producing countries.

A Council of Ministers of the Community to discuss this matter will be held on 22 May next. The Commission hopes that it will be able to make the states aware not only of the scope of the problem and the need to find solutions to it, but also of the weight which Europe has in all the interests in question.

Relations with producing countries in this connection ought to be included in the general context of the

relations between the Community and third countries, particularly developing countries. Europe can play a part in the economic development of these countries, but it will then have to introduce into the negotiations the necessary link which exists between the trade in oil which it hopes to guarantee and general trading relations for which the producing countries might expect privileged conditions in the guise of reciprocity. It is true that the balance will not be in our favour but these countries might find it worthwhile practising a policy of equilibrium in their external relations with all their clients. In other words, and for the chief producing country in particular, Saudi Arabia, it might be advantageous to establish some links with countries other than the United States, for the latter, while offering political and military cover, it is true, could well introduce a dangerous factor of disequilibrium into the Middle East.

Such questions place us at the level of the world equilibrium of the great powers. This is no surprise: has it not been said that oil is 90% politics?