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COMMISSION OF THE EUROPEAN COMMUNITIES

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MEMBER STATES' ENERGY POLICIES: MAIN ISSUES FOR THE FUTURE

(Communication from the Commission to the Council)

COM(84) 693 final

MEMBER STATES' ENERGY POLICIES: MAIN ISSUES FOR THE FUTURE

Communication from the Commission to the Council following the Examination of the Commission's In-Depth Review

1. In February 1984 the Commission presented to the Council the results of an in-depth review of Member States' energy policies within the framework of the objectives and guidelines for 1990 set by the Council in 1980¹. At its 929th meeting on 22 May 1984 the (Energy) Council had a wide-ranging first debate on the issues raised in the Commission's report, noting the considerable progress made by the Community towards its 1990 objectives and emphasising the value of the Commission's monitoring exercise. It then called on COREPER to analyse the Commission's report in more detail, examining:
 - (a) how far national energy policies were contributing in a harmonised and balanced fashion to the Community's common objectives;
 - (b) the conclusions to be drawn at Community level about priorities for action; and
 - (c) new guidelines for 1995.
2. The first part of the mandate given to COREPER is now completed. Since the meeting of the Council in May, officials from all Member States have participated for the first time in a detailed examination **in common** of each others' energy policies. The Commission believe this to have been a highly beneficial exercise. In the first place, the discussions served to up-date the information presented in the Commission's report, particularly with reference to policy developments that have occurred in some Member States since the report was prepared. Secondly, and more importantly, they enabled each Member State to explain its energy policy to the other members of the Community in a more structured and comprehensive way than before. These explanations within a Community framework have served to improve understanding of individual energy situations and of the achievements of policy to date, and to identify the main preoccupations of Member States for the future. This improved mutual understanding should make a positive contribution to future discussions in the Council on the further development of a common energy strategy that takes fully into account the special features of each Member State's situation.

¹ COM(84)87 and COM(84)88 final.

3. The Commission believes that an in-depth review of the kind undertaken this year, including the examination by Member States of each others' energy policies should become an essential feature of the monitoring process in the future. It may not prove necessary or practicable to go through the process every year but it must be done on a regular basis as an important tool in the definition of requirements for Community action and as an aid to national policy-making. These views were endorsed by the Council at its 966th session devoted to energy on 13 November 1984.
4. The note that follows summarises the Commission's own Conclusions from this year's review exercise, concentrating on the main questions for the future facing each Member State. It is not intended as a new review of Member States' energy programmes; it seeks only to synthesise the key issues identified in the debates. It follows the analysis already made available to the Council in the Commission Staff Report SEC 1658 issued on 30 October 1984.

The General Context

5. A new analysis of the areas of concern and priorities for future action would clearly be premature pending discussion of the Commission's forthcoming study on energy supply and demand possibilities to the year 2000. But the discussions that have taken place among Member States already have helped the Commission to identify some questions about the **general context** in which Member States' policies for the future will be pursued, and specifically about the trends and outlook for the energy sector as a whole.
6. There are signs from a number of Member States that energy demand this year will increase slightly for the first time since 1980. But the increase will be from a very low base and an increasing degree of **uncertainty** now prevails among forecasters about the likely future of energy demand. Uncertainty has been the feature of the energy scene for some time; it was highlighted in the Commission's review of Community energy strategy last year². But the uncertainty is now seen as more acute. In general, projections of energy demand for the medium- and long-term have been falling, partly because of downward revisions to assumptions about GDP growth and partly because of greater optimism about the continuing momentum of restructuring in the energy sector. But there are some important differences amongst forecasters about the durability of the decoupling of GDP and energy demand that has occurred, about the conditions that will be required to sustain progress, and about the future evolution of energy prices. Different rates of evolution of energy demand will have different implications both for overall energy supplies and for the competition between individual fuels. The degree of uncertainty that currently prevails underlines the importance of adequate flexibility in the energy system to respond to possible changes in energy conditions during the remainder of this century. The forthcoming study by the Commission staff of energy supply and demand to 2000 will provide one important basis for a thorough review of these issues before the Council is asked to make policy choices for the 1990s.

²COM(83)305 final.

7. The discussions of the Commission's Review highlighted a number of questions about the **natural gas** market. In several Community countries current demand from the domestic and general industrial markets is low in relation to supplies contracted in the 1970s when demand expectations were higher. How much is this a short-term problem? What can be done to alleviate it and what will be the implications in the medium-term for the level of natural gas use in power stations? What are the supply implications for the longer-term? The Commission has recently transmitted to the Council a Communication on natural gas policy addressing these questions³.
8. Discussions have suggested greater confidence among Member States about the prospects in the **electricity sector**. Electricity demand has picked up in the past year with the upturn in economic growth; and although expectations of electricity demand in the medium- and long-term in some Member States remain generally more modest than at the beginning of the decade, this is not seen as a reason for major rethinking of power station investment programmes. Important questions remain, however, about the long-term balance between fuels in the power station sector on different growth and capacity assumptions. The long-term share of hard coal is particularly uncertain as nuclear power programmes progress in Member States. A further complicating factor here is the growing public concern about the environmental aspects of solid fuels combustion.
9. Underlying many of the differences among forecasters are questions about the rate at which the scope for **energy savings** will be exploited and specifically about rates of investment in a more relaxed energy environment. Lower oil prices have followed from diversification to other energy sources and energy savings. The trends could be reversed if the commendable efforts by energy users in the selection and efficient use of energy sources are not sustained. Energy savings remains therefore a high policy priority throughout the Community, although there are continuing differences of approach and emphasis among Member States. Some Member States with less developed programmes have recently given renewed emphasis to energy savings policies; while others, with historically high levels of expenditure on energy saving, are tending to narrow and to sharpen the focus of their programmes. At its meeting on 13 November the Council agreed a new Resolution on energy savings policy which provides an up-to-date framework for action and should discourage any relaxation of efforts.
10. **Pricing policy** will be vital in the latter context. Discussions of the Review underlined the importance attached generally by Member States to energy pricing as a stimulus to rational energy use, but also illustrated the short-term financial pressures facing some of the energy industries. The Commission staff report on the application of energy pricing principles in Member States⁴ is currently providing the basis for more detailed examination of these issues by the Council.

³COM(84)583 final.

⁴COM(84)490 final.

The Main Preoccupations of Member States

Belgium

11. Four areas of Belgian energy policy were identified by the Commission as particularly important for the coming years:
- i) the new impetus given to policies for **rational energy use**, including energy saving. Belgian officials underlined the importance attached by the Government to this sector and its optimism about the speed at which the unrealised potential will be exploited;
 - ii) the implications of potential excess supplies of **gas** in the medium-term. Natural gas demand has recently increased slightly, but high prices are an evident constraint on rapid market penetration. The place of natural gas in the energy balance in the medium- and long-term remains, therefore, subject to a degree of uncertainty;
 - iii) the difficulties facing the Belgian **coal industry**. Since the Commission published its report one further coalmine has been closed. The existing arrangements for financial support for the industry from **central** Government are due to come to an end in 1986; but the regional and social aspects of developments in the industry are bound to be an important preoccupation of the competent Belgian institutions over the coming years;
 - iv) the long-term ordering programme of the **electricity industry**. Decisions have already been taken on participation in the French nuclear station at Chooz; further decisions on capacity options will await the presentation of a new Equipment Plan by the electricity industry in 1985. A key issue in that context will be the choice for the long-term between new coal and nuclear plant. Whatever the precise balance between the two fuels, however, Belgium is likely to enjoy a steady increase in the combined share of nuclear and solid fuels in electricity generation.

Denmark

12. **Danish energy savings policy** has been highly successful, notably in the residential sector. It is expected to remain a high policy priority, although the scale of financial support may fall over the coming years.
13. The Commission noted in its report on Denmark the difficulties (both present and potential) faced by the Danish Government in **integrating natural gas supplies into the energy system**. The scope for natural gas use has been reduced by the success of Danish energy savings policy and by the availability of other competing heat supplies. Projections of the speed at which gas can be absorbed into the domestic heating system and into the industrial sector have been revised downwards this year and it now seems likely that demand for gas in these two sectors will be well below contracted supplies up to the end of this decade. The situation should then ease. In order to alleviate the difficulties in the short- and medium-term, the Danish

Government has, since the publication of the Commission's report, authorised the burning of natural gas in power stations on a limited scale and on a temporary basis. It is clear, against that background, that the outlook for the natural gas market will remain a continuing preoccupation of the Government over the coming years.

14. Denmark has made an impressive shift away from oil to coal in the **electricity generating** sector, complemented by access to cheap electricity supplies derived from hydropower and nuclear energy from the Nordic Grid. This seems likely to remain the pattern for the foreseeable future, probably without any indigenous nuclear contribution. The question of the long-term power station mix remains, however, an important issue to be faced by the Danish authorities in the coming years; the next revision to the Danish Energy Plan expected to be published in 1986 is expected to provide an appropriate framework for further discussion of the options, including the implications of new and more stringent environmental legislation and, possibly, further examination of the nuclear option.

Germany

15. Since the Commission's report was published, the results of a major exercise in **energy projections** commissioned by the German Government have become available. These suggest that the process of restructuring in the energy sector should not only continue but be intensified through to the end of the century in Germany, with only modest growth in overall energy demand to 1990 followed by a stabilisation and decline in the 1990s, **even if steady economic growth is achieved**. The projections also suggest a much lower future level of demand for gas and oil than projected earlier, with coal demand fluctuating around its present level and only nuclear power experiencing a significant increase in contribution. The assumptions underlying these projections are currently being examined further by the German administration and some aspects have been contested by some of the energy industries. They rest heavily on expectations of rapid changes in industrial structure and more optimistic assumptions about the rate of turnover of the capital stock and the penetration of new technologies than those of other forecasters. This has important implications in the context of **energy savings** policy. In addition they have served to highlight other important policy issues in the energy sector, notably:

- i) the balancing of supply and demand for **natural gas** in a smaller energy market. The German administration is confident, however, that sufficient flexibility exists to ensure an appropriate market response;
- ii) the long-term rôle for **coal**, both in the energy economy as a whole and in electricity generation in particular (its largest sector of consumption);
- iii) the future for the **hard coal mining industry**, where a process of adjustment is already underway and which could be further affected by a more depressed market outlook. An outstanding and difficult question against that background is the scope for increased imports of coal from third countries.

16. The German administration considers that a central issue for energy policy in the coming years is the response to public concern about **pollution**. Important legislation is being introduced to reduce air pollution. This will have significant implications for the electricity and oil industries.

Greece

17. Greece has a special energy situation as an industrialising country with the lowest overall level of energy demand per capita in the Community. As industrialisation proceeds and GDP grows, energy consumption in industry is expected to increase, while households will seek higher comfort levels in the home. The Greek Government recognises the importance of **energy savings policy** in both the industrial and domestic sectors using regulations, incentives, pricing policy and information efforts.
18. On the supply side, a major investment effort is underway to develop domestic resources, notably **lignite**, as a substitute for imported oil. A main preoccupation for the future will be the availability of financial and technical resources for the implementation of this programme, which will significantly contribute to the reduction in dependence on imported energy.

Other specific policy preoccupations are:

- i) to ensure the success of Greek efforts to promote **exploration and development of hydrocarbon resources**. Preparations are in hand to set a new legislative framework for this sector;
- ii) efforts to promote **new and renewable sources** in a country where many could have particularly good chances of success. The progress of the Greek programme will be of great interest in a wider Community context;
- iii) in the longer term, the possible introduction of **natural gas** into the Greek energy system. A number of options are under review. The experience of other Member States in this respect is clearly of considerable relevance.

France

19. Over the coming years France expects to consolidate the progress made through nuclear power and more rational energy use. But there are difficult questions in the short- and medium-term:
- i) **energy savings policy**. Considerable financial resources have been devoted to this sector. The French Government continues to regard energy savings as of great importance and it is optimistic about the rate at which savings potential will be exploited. A question remains, however, about the contradictory effect of the short- and medium-term pressures facing the gas and electricity industries in particular (iii) below).

- ii) the **scale of the future nuclear ordering programme** against a background of downward revision to forecast growth in energy demand. A related issue of relevance in the Community context is the scope for exports of nuclear electricity;
- iii) both **Electricité de France** and **Gaz de France** face an uncertain financial outlook despite the progress made to date, partly because of reduced expectations of energy demand. A key preoccupation for the future is how to ensure the return of both these industries to sustained financial health against the background of possible increased price competition between them in a less buoyant market situation. Pricing policy will be particularly important;
- iv) the contribution of the **French coal industry** to the future energy balance. The Government's aim is to reduce steadily in real terms the subsidies that are paid. The social and regional consequences of the situation will be a continuing source of attention by the Government;

Ireland

20. The Irish administration is facing three main questions in the energy sector:

- i) **energy savings policy.** In a climate of budgetary stringency the financial resources for energy saving have been cut back considerably. Regulatory measures are rather limited. Pricing policy will therefore have to bear a particularly heavy responsibility for influencing the behaviour of consumers and investors. The pricing of domestic energy resources is certain to remain a continuing preoccupation;
- ii) **the development of premium markets for natural gas supplies.** Natural gas use in power stations should phase down as the new coal-fired power station at Moneypoint comes into operation in 1986. But the rate at which this can be achieved will depend on the expansion of the domestic and industrial markets for gas within Ireland and on future possibilities of exports. Negotiations between Ireland and the United Kingdom on exports to Northern Ireland have recently broken down;
- iii) the overall structure of the **electricity supply system.** Solid fuels will be used to meet base load electricity requirements when Moneypoint comes on stream. There should be scope in the coming years for some conversions from oil to solid fuel-fired stations so as to meet additional and peak demand. Environmental considerations will also need to be taken into account in the future decisions that are taken.

A major uncertainty is the outlook for new **hydrocarbon resources** from the Celtic Sea. A large programme of exploration is being undertaken by the oil companies and a new exploration round is underway. The discovery of a commercial oil find could have a major impact on Ireland's energy supply position.

Italy

21. The absence of indigenous energy resources on a large scale is a major constraint on Italian energy policy. The Italian Government is committed to the introduction of nuclear power and coal into the electricity generation system as rapidly as possible in substitution for imported oil, within the context of a long-term strategic Energy Plan. The aim also is to diversify energy supply and demand by greater recourse to natural gas in the domestic and general industrial sectors. On the demand side, the Italian Government recognises the considerable scope for continuing improvements in energy efficiency and it expects to see major progress in this field during the coming years. Key policy preoccupations seem likely to be:
- i) the pace of implementation at the regional and local level of legislation on **energy savings**. New legislation approved by the Italian Parliament in 1983 has so far made only a limited impact because of administrative and legislative difficulties at the regional level. It is clearly a major concern of central Government that the remaining obstacles should be overcome.
 - ii) the pace at which agreements can be reached between the electricity supply industry and regional and local authorities on the **siting of new nuclear and coal-fired stations**. There are encouraging signs. The prospects should be further enhanced as new legislation giving important financial advantages to the affected local authorities begins to bite. Future progress could also be affected, however, by environmental pressures;
 - iii) the evolution of the **natural gas** market. As in some other Community countries, the domestic and general industrial sectors in Italy are currently unable to absorb all the gas available on the market despite progress in developing the distribution and transmission system. Some additional quantities of gas are therefore being burned in power stations on a temporary basis in substitution for oil. The future outlook for gas use in electricity generation depends clearly on the pace of development of premium markets and on the rate of progress in the power station construction programmes referred to above;
 - iv) continuing attention to **rational energy prices** so as to ensure sustained financial health for the energy industries and encourage the process of substitution and conversion.

Luxembourg

22. Luxembourg depends almost totally on imports for its energy supplies, while its consumption of energy is very heavily influenced by trends in the iron and steel industry. The main preoccupations for the coming years are:

- i) widening the scope of **energy savings policy**. The energy efficiency of the iron and steel industry has already improved considerably. Draft legislation involving tax incentives is now before Parliament to encourage increased efforts in other industries. In the domestic sector the Government is considering whether to make recommendations for higher standards in new buildings;
- ii) the conclusion of satisfactory new long-term contracts for **electricity** and **gas** supplies from neighbouring countries;
- iii) the scope for extending the **natural gas network** for the domestic consumer in particular, so as to encourage greater substitution of gas for oil in heating.

The Netherlands

23. The Netherlands has a situation of particular importance in a Community context as a major gas producer and exporter. Since the Commission's report on the Netherlands was published a number of aspects of Dutch energy policy have been under further review. Pending the conclusions of that review and further Parliamentary debate, the main issues facing the Netherlands for the coming years seem likely to be:
- i) the scope and nature of future **energy savings policy**. In the past few years the Dutch Government has devoted considerable financial resources to energy savings. The programmes of financial subsidy have recently been under scrutiny. The precise rôle for policy in this area can be expected to be clarified shortly;
 - ii) the overall place of **gas** in the energy economy. Dutch gas reserves have been revalued upwards and there is now greater potential export availability. At home the intention is to reduce gas (and oil) use in power stations in the medium- and long-term so as both to lower the costs of electricity generation and to improve energy security. But the rate at which this will occur will be affected by
 - iii) the long-term **power station ordering programme**. The Government will shortly give its reply to the report of the Steering Committee on (Nuclear) Energy and indicate its own plans with respect to the place of nuclear and solid fuels in electricity generation in the 1990s.

The United Kingdom

24. Discussion of the UK programme highlighted the following main preoccupations for the coming years:

- i) encouraging industry and the domestic consumer to exploit the large potential for **energy savings**. The UK Government considers that this can best be done through improved information and the stimulus of rational energy prices rather than through wide-ranging financial inducements or regulations. In those circumstances **energy pricing policy** will therefore be of critical importance;
- ii) the maintenance of satisfactory conditions for the **exploitation and development of hydrocarbons** in the North Sea. The tax changes of 1983 have been followed by an upsurge in activity and there are signs of optimism on the part of the companies about the scope for maintaining North Sea oil production at high levels up to at least the end of the century. This is important not only to the UK but to the supply situation of the whole of the Community. It is linked also to the question of long-term gas supplies, gas trade and gas security;
- iii) the outlook for the **coal** industry and its contribution to the overall energy balance in the coming decade;
- iv) the shape of the future **nuclear** programme in the United Kingdom, in the light of the results of the enquiry into the proposed PWR reactor at Sizewell, which should be available early next year.

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