

SECURITY OF SUPPLY

INTRODUCTION

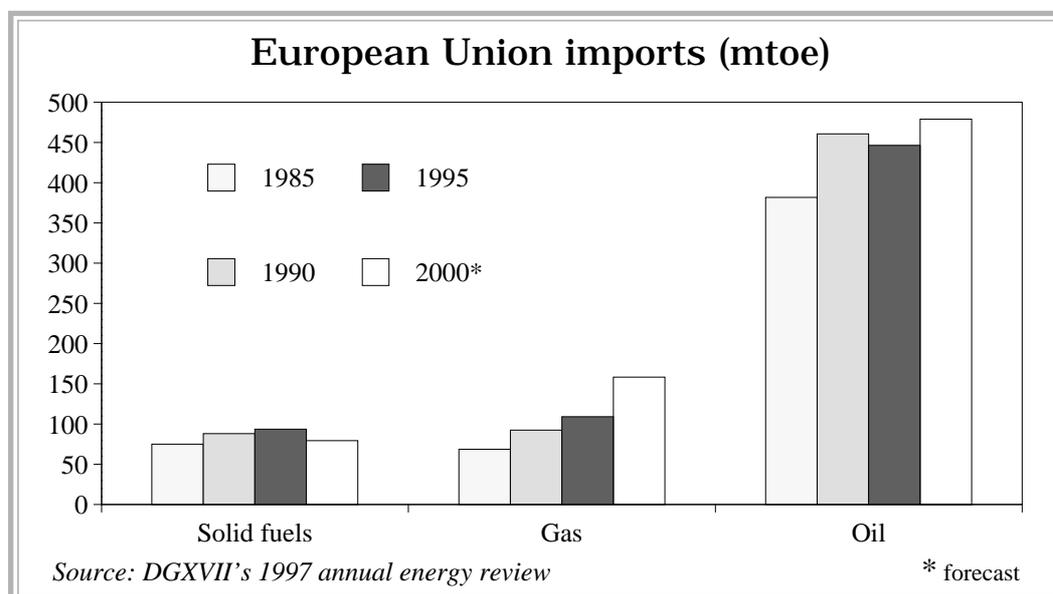
Just over a decade ago, in 1986, when the Council agreed energy objectives aimed at 1995, security of supply was still the driving force of energy policy. At the time, the Council said the aim was “to enable the consumer to have adequate and secure supplies of energy under satisfactory conditions, which is one of the prerequisites for competitive structures and satisfactory economic growth”. However, by the early 1990s, with world energy supplies abundant and cheap, security of supply had taken second place to competitiveness and environmental goals.

It was not until the 1996 white paper, “An energy policy for the EU”, that the Commission defined for the Community a revised security of supply objective. The white paper said: “*The growing dependency of the Community should be a point of concern given the political risks in some important supplier countries and growing world energy consumption. However, although security of supply in all its aspects, both physical and economic, needs to be kept under review, it does not currently justify new crisis measures. On the other hand there is scope for strengthening security of supply measures by effective internal policy corrections to market rules, by encouraging fuel diversification, by enlarging choices with the promotion of energy efficiency, renewables and by putting in place a careful surveillance of the energy situation.*”

The white paper and the Treaty framework which underpins the Community’s legislative abilities and responsibilities for dealing with security of supply are dealt with more fully in Chapter Two. Specifically, security of supply policies can be divided into two broad categories. There are initiatives implemented in the international arena with a predominant security of supply theme, such as relations with the Gulf oil producing countries and the international Synergy programme; and other international endeavours, such as the Energy Charter, Phare and Tacis, which have an important, but not a major, emphasis on security of supply aspects. These policies generally fall under the banner of external relations and are covered in Chapters Nine and Ten.

Secondly, there are policies and measures implemented by the Community internally, which are not directed primarily at security of supply, but which do support the objective. Many of the Single Market and environment measures, discussed in earlier chapters, clearly have a positive impact on supply security: the internal market makes for more flexibility and more rapid diversification, while the promotion of energy efficiency and renewables helps reduce the need for imports.

The adjustment of indirect taxation to ensure equality of opportunity between substitutable fuels would favour increased flexibility of energy use in the future (Chapter Three). Moreover, the EU’s strategy to develop the trans-European networks (Chapter Six) is a key component: by aiding the development of the Single Market, networks improve security of supply and by developing the delivery mechanisms they also help with diversification.



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Moreover, technological research, development and demonstration (Chapter Eight) is a fundamental instrument for developing sustainable production/consumption of coal, and the safe use of nuclear energy. Both sources of electricity - coal and nuclear energy - are under threat, but both are considered, by the Commission, to be important aspects of the EU's need for diversified energy supplies. RTD is also vital for improving energy efficiency in industry, transport and in the home.

There are, though, some laws and initiatives at Community level aimed specifically at security of supply issues for individual energy sources, and these are dealt with in this chapter. There are harmonised measures, in case of an oil crisis, and there are EU requirements for oil stocks. Moreover, the Commission regularly publishes reports on the refining industry. With the expansion of natural gas as a heating fuel and as a source for electricity production, the Commission has begun to examine carefully the long-term prospects for the gas market, and the consequences of there being only limited supply sources.

This chapter also includes, albeit rather briefly, a look at the issue of public service obligations. For the grid-based fuels (electricity and gas), security of supply has become an issue, not only in terms of external dependence, but in terms of the liberal markets' ability to guarantee the customer an uninterrupted and satisfactory service.

STOCKS AND CRISIS MEASURES - THE LEGACY OF THE 1970s

One concrete area of EU security of supply policy concerns oil crisis measures and oil stock-holding obligations. These have been in place for over 20 years and work in parallel with the International Energy Agency (IEA) crisis measures. Although there were a number of peripheral rules adopted during and after the oil crises, there were two main pieces of legislation which remain current.

The 1968/1972 oil stocks Directives

The first of these was adopted in 1968 and obliged Member States to hold 65 days (based on the average daily internal consumption in the preceding year) of crude oil/oil products reserves. This was increased to 90 days by a Council Directive in December 1972. Each Member State is obliged to submit a quarterly report to the Commission on the state of its stocks. The second Directive on crisis measures, adopted in July 1973, required Member States to appoint a responsible body to draw up intervention plans in the event of difficulties arising with regard the supply of crude oil and products. It also provided for a rapid consultation between the States and the Commission in the case of one or more Member State finding itself with a supply difficulty.

As the power of Opec waned in the 1980s and the oil market stabilised at lower levels, the oil supply policies slipped down the political agenda. It was only with the Gulf crisis in 1990 that the European Commission tried to bring in new legislation. It proposed a package of measures: the Community's membership of the IEA (so that the Commission could speak for the Member States with one voice), and a strengthening of the crisis and stocks measures to meet the requirements of the Single Market.

Commission's 1991 proposals rejected by Council

These proposals proved too ambitious and were eventually rejected by the Member States. In 1991, the Council stated that "a new approach is necessary in the field of oil crisis management" but noted that "decisions on the qualifications of the situation as well as the fixing of objectives, involving stock draw, demand restraint and other responses, will be adopted in the framework of the IEA". The Council also invited the Commission to revise its proposed mandate for negotiating accession to the IEA "based upon an overview of competences of the Community and Member States in all fields relevant in the framework of the IEA", including non-crisis matters.

The Commission returned to the subject in the 1996 energy policy white paper. It said oil crisis measures should be adapted to the reality of a Community without internal borders, and that it was important to achieve consistency with the rules and obligations of the IEA. The updated measures would need to ensure equitable treatment for all consumers, it said, and added: "*The aim should be to ensure an appropriate Community coordination during crises, a reduction in the cost of security measures and an effective management of stocks. Two stages may be necessary: first, the updating of compulsory oil stock obligations; second, the coordination of stocks management measures ensuring their compatibility with the internal market.*"

Updating the Community rules on oil stocks

Following in-depth discussions with industry and the Member States, the Commission embarked on the first stage with a proposal, in mid-April 1998, to update the rules on stocks. It proposed the permissible reduction in stockholding requirements for oil producers (the UK and Denmark in

effect) should be raised from 15% to 25%. (At the time the original Directive was agreed no Member State was in a position to utilise this derogation but, in the late 1990s, the UK and Denmark between them account for around 25% of the EU's production, and the Commission believes this is a suitable level for the revised permissible derogation).

The Commission said that the stocks must be available and accessible at all times, and it argued that such criteria are respected in a more efficient way in those Member States which possess the legal and administrative powers to put security stocks and stockdraw procedures under government control. Thus, efficient accounting and control mechanisms are necessary, the Commission declared, together with an enforcement procedure including "effective, proportional and dissuasive" sanctions for those not respecting their legal stockholding obligations. Moreover, the Commission said the costs of compulsory oil storage should be identified.

Efficient accounting and transparent costs

The Commission said it was keen to extend the Directive's flexibility towards Member States that wish to meet their stockholding obligations in another State, and therefore, proposed a mechanism of framework agreements for Member States, to allow contracts between undertakings for holding stocks elsewhere in the Community. According to the draft Directive, these agreements should take account of the quality of stockholding mechanisms in the host country, ensure the repatriation of stocks, and be notified to the Commission.

Flexibility to be introduced by new rules

The new proposal, among other changes, would bring in alterations to the statistical requirements. These largely reflect the existing rules agreed through the IEA, or the EC's own statistical organisation Eurostat. A new reporting timetable would require submission of statistical summaries by the 25th day of the second month after the month to be reported. The annual consumption, upon which the stock levels are calculated, would change on 31 March each year, according to the proposed rules.

Deregulation of peripheral oil crisis rules

Some of the more peripheral legislation, enacted in the 1970s and 1980s in response to the oil crises, has now been dismantled as part of an ongoing deregulation exercise, prompted initially by the calls for subsidiarity. Two Commission proposals for streamlining oil (and energy saving) legislation were put forward in 1995-96. As a result, the Council repealed, in 1996, several anachronistic Regulations regarding the notification of gas and oil imports and exports, and two Directives relating to power stations (see below); a Decision regarding controls on oil and oil product exports was finally abolished by the Council in June 1997.

In the deregulation proposals, the Commission also justified keeping other ageing laws (not least those relating to stocks and crisis measures - as above). A Council Directive, dating from 1976, remained useful, it said, because it continued to help make costs and prices of petroleum products more transparent which, in turn, enhanced the smooth operation of the market and free movement of goods. The Commission said it would simplify the reporting mechanisms but that the following information requirements would be continued:

Simplification of reporting rules promised

- "crude oil supply cost (cif), imports and local production";
- "inland market net sales proceeds and ex-refinery netback including distribution costs";
- "consumer prices of petroleum products on the 15th of the month (including taxes)".

In addition, on the basis of a proposal from the Commission in September 1995, the Council approved a Regulation "introducing registration for crude oil imports and deliveries in the Community" in December the same year. It requires importers to communicate to the Member State concerned monthly information on the designation of imported crude oil, the quantity, the cif price and the percentage sulphur content. Each State is then required to pass on the same information along with the number of companies reporting to the Commission within a further month. The Commission's responsibility is to analyse the information and communicate it to other Member States, while ensuring the information relating to individual companies remains confidential.

Monitoring the state of the refinery markets

Occasionally, DGXVII produces a report on the state of the refinery market; the most recent was in 1996. The objective was, the Commission said, to identify and explore key issues concerning the oil sector - notably refining industry performance, the environment, security of supply and the internal market - and "where appropriate comment on the implications for the Community". The report confirmed that oil remained the largest component of gross energy consumption in the Community and that oil use would continue to grow, even though the overall share may drop from 42% to 36-38% over the next 25 years.

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The oil sector represents a major partner in the Community economy, the report said, and therefore the successful performance of its different segments (notably refining and marketing) “has been and will continue to be of strategic importance for the Community in the field of energy, and both economically and socially”. It noted, moreover, that the refining sector has consistently provided the Community with secure supplies of oil products at competitive prices and continued to improve its environmental performance. However, it warned that trends in refining profitability could have a negative impact on the industry’s capacity to continue this role.

Three principle problems with the refining market

The report called attention to the fact that individual refiners were only recovering their operating costs: margins on the most basic refining processes were nil and were too low on the upgrading process. It identified three principle elements of the problem: an excess of capacity on the refining and demand side (due to capacity creep and inaccurate forecasts); a switch towards lighter crude oils on the supply side, and pressures from the regulatory framework (especially environmental laws and uncertain fiscal regimes).

The combination of these three elements, the report said, had caused “a mismatch between refining capacity and product demand which had led to reduced differentials between light and heavy products which have led in turn to poor returns on investment”. The Commission predicted refinery closures and said that, as in the 1980s, individual refiners must make their decisions in the most cost-effective way and satisfy the competition rules of the Community.

Specifically on security of supply, the Commission said conditions had changed substantially from the crisis and sub-crisis situations of 20 years ago: *“Nevertheless, because the Community will continue to depend heavily on imported crude oil there is an ongoing need for vigilance in both the short and long term. More than three-quarters of proven oil reserves are located in potentially unstable areas from a political and/or economic point of view and this highlights the continuing requirement for measures, adapted where necessary to changing market circumstances, to meet the possibility of sudden supply disruptions which would be highly damaging for world and Community economies.”*

The EU needs a strong and competitive refining industry

The existence of a strong and competitive refining sector in the Community is of strategic importance, the Commission said. In this respect, it stressed the importance of the ongoing producer-consumer dialogue and the need to encourage mutual investment and operational arrangements. It noted that upstream investment possibilities in both Opec and non-Opec producer countries were beginning to open up for Community companies, and producer investment in the Community downstream sector was continuing.

NATURAL GAS - THE FOCUS FOR SUPPLY CONCERNS OF THE FUTURE

The rapid increase in consumption of natural gas in the EU, and forecasts of a dramatic rise in external dependency prompted an examination of security of supply issues at Community level. A first ever Communication on the subject was published by the Commission in October 1995. It quantified the increase in demand (due in part to the use of gas for power generation), the reduction in production, and a consequent rapid increase in dependency, possibly to 75% by 2020. A section in the report looked at market developments and described the trend towards small gas-fired power plants, partially driven by environmental considerations.

A further section on vertical integration along the gas chain made reference to external suppliers investing in the EU during the 1990s. It may be argued, the Commission said, that security of supply benefits from vertical integration, downstream and upstream: *“The added value derived from downstream and upstream investment indicates a greater commitment to the market in question and therefore to providing it with a regular and reliable supply of gas. However, downstream investment by external suppliers could carry risks if not counterbalanced by the presence of alternative suppliers.”*

Definition of gas security of supply

The Commission defined gas security of supply as “the ability of the gas system to provide a continuous and reliable supply of gas to customers on an economic basis and to cope with interruptions whether of a technical, economic or political nature”. In the report, the Commission calculated that the EU could withstand an interruption in supplies from Russia for a period of nine months, and one from Algeria for 20 months. A shortfall from both simultaneously would reduce the security period to five months, but full cross-border security measures would be needed to ensure this level of security.

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The paper explained how countries have very different levels of production, diversification of imports, and degrees of integration into the EC network; and how they are different with regard to

storage systems, market segmentation, and share of interruptible supplies. Security measures taken at national level vary as a function of these, the Commission said. Nevertheless, it was satisfied “at least qualitatively, that the current operational practices, contractual arrangements and supply infrastructure are adequate to cope in the short term with a major shortfall in supplies to one external supply source, at least in the more mature European gas markets”.

Possible future actions concerning natural gas security

The elements of an EC cooperation policy, geared to minimising the effects on consumers of a major interruption, the Commission suggested, would involve the use of a range of measures: demand reduction through the use of interruptible contracts, production flexibility, and use of storage facilities. In order to exploit fully such measures, the integration of the EC gas system and the Community’s policy on trans-European networks were a prerequisite, the Commission said, especially for the most vulnerable Member States such as Finland, Portugal and Greece.

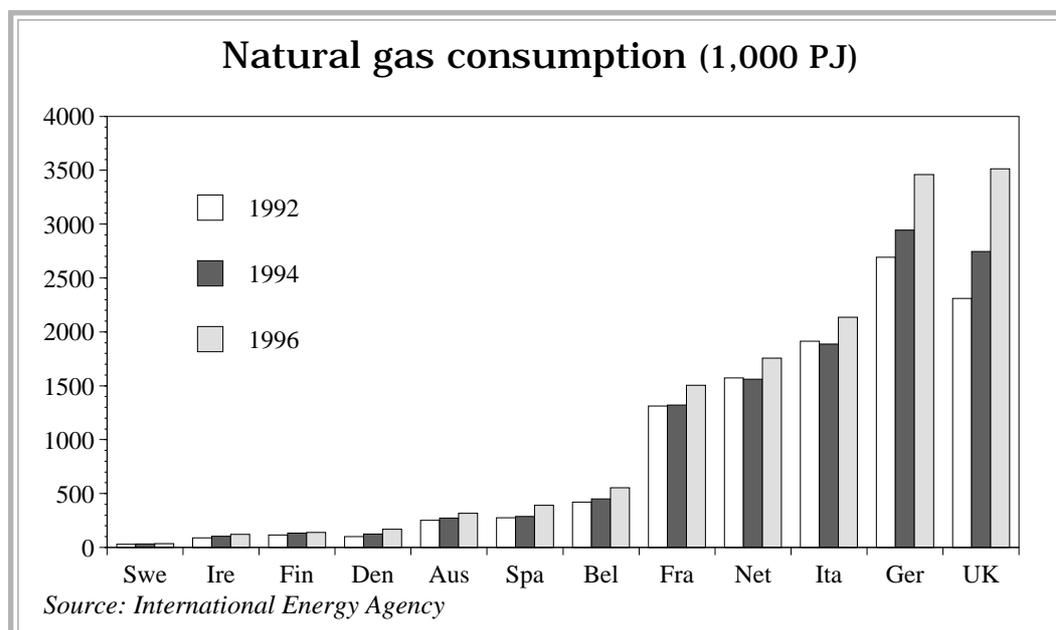
The Commission also put forward, for the first time, a number of concrete suggestions, implementation of which would depend on the reaction of the Member States, industry and other interested organisations. The measures proposed included:

- an analysis of the costs/benefits of creating more storage capacity to cope with increased demand and reduced flexibility of the supply system;
- an in-depth study on the interruptibility of supply;
- the sharing of energy between gas and electricity utilities during periods of shortage for either energy source;
- the investigation of “security targets” for Member States which could be differentiated provided the overall security objective is assured. Such security targets could be established using the optimal mix of security measures including improved cross-border cooperation, and might aim for sufficient back-up for the six winter months, or to establish the provision of a given number of days of total gas consumption. This approach would require an investigation into which were the most vulnerable Member States and what were the potential damages in case of gas loss;
- emergency guidelines to provide a common language and emergency priorities when dealing with a major gas interruption;
- the optimisation of existing “mutual assistance agreements” between gas firms;
- a continued analysis of the evolving balance of all factors affecting security of supply at EC and Member State level, taking into account costs and benefits, implementation of TENs, liberalisation, and external relations such as the European Energy Charter.

List of concrete suggestions for policies and studies

The Council limits short-term action to studies

In May 1996, the Energy Council responded cautiously to the Commission’s report. In Conclusions, it acknowledged the contribution made by natural gas to the Community’s diversification of energy supplies, to energy efficiency, and to the environmental well-being of the Community. It noted that the increasingly integrated gas network would create more interdependence and cooperation which, in turn, would contribute to security of supply. Some



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Member States, nevertheless, are still insufficiently interconnected with the rest of the Community and for them “security of supply remains a first priority”, it added.

The Council Conclusions noted the growing dependence on imports from third countries and the need for substantial investment in gas projects, both in the EC and in the supplying and transit countries, in order to make available secure, diversified and competitive gas supplies to the EC energy market in the long term. They also drew attention to “the high level of security provided by the European gas industry” and the fact that the gas security situation for the Community as a whole is “reasonably assured at the present time by a mix of security measures including storage, the use of interruptible contracts, flexible indigenous production, supply contract flexibility and cross-border mutual assistance agreements”. Nevertheless, ministers recognised the need for vigilance.

The Council confirmed the need for further development and interconnection of the gas network and the Single Market, and the need to promote closer relations with producing and transit countries. It asked the Commission:

“i) to examine in depth the various issues raised in the Communication, including a more accurate assessment of supply security in a way meaningful to all Member States, to examine the implications at EC level of the diversity of supply situations of Member States and to investigate ways and means of encouraging solidarity and improving cooperation between Member States to improve their ability to react to a supply shortfall;
ii) to examine the overall security of the EC’s gas system, making proposals to strengthen it if necessary;
iii) to identify the relevant conditions which would make the development of networks possible and improve security of supply efficiently;
iv) to submit a progress report to the Council in two years time.”

Council
Conclusions call
for a number of
studies

However, it stressed the actions should be based on the following: the role of all parties concerned, including the gas industry, in the security of supply; cost-benefit analyses, where appropriate; and the principle of subsidiarity (including consultation with States and industry).

MEPs concerned about pipeline dependency and renewables

The Parliament took until November 1996 to respond to the Commission’s Communication. It supported both the Commission’s efforts to develop an internal gas market and to undertake further analysis on security of supply issues. In particular, it proposed that the Commission “deepens the analysis of the role of the EU, the Member States and the gas sellers and buyers in safeguarding the gas deliveries and financing the safety costs; and compares the efficiency and costs of alternative ways of safeguarding the gas deliveries to Europe”. It also said the EU and its Member States should be aware of the risks of over-dependence on gas and it suggested that “25% of total energy supply constitutes the threshold which should trigger a review by the Commission”.

EP support for
IEA conclusions

Interestingly, the Parliament said the Commission had not paid enough attention to competing demand for gas from other parts of the world, particularly Asia; and it had not analysed sufficiently the possibly negative effect that promoting gas might have on investment for renewables. The Resolution also drew attention to an important IEA study (published in October 1995) and supported its conclusion on security of supply: “[The IEA] sees very little scope for coordinated international action to improve security, sees risk management as being central to the gas business and primarily a matter for suppliers and their customers, and favours market mechanisms wherever possible as the basis for security decisions”.

Fears about
excessive
development
of gas network

It is worth noting also that, in a Resolution on the external dimension of the TENs, adopted in October 1997 (Chapter Six), the EP warned that “excessive development of pan-European natural gas networks increases the Community’s dependence on one energy source” and that “the supply policy will in the long term lead to higher costs to the final user of what is an inherently expensive resource”. In the Resolution, the EP argued that long-distance transport costs can exceed actual production costs, and that, in certain circumstances, “a virtual network for the supply of natural gas in liquid form represents a better proposition than a gas pipeline network”.

Moreover, the Parliament suggested the EU’s negotiations with third countries should be accompanied by measures which would prevent virtually monopolistic supremacy on the part of one or more suppliers, safeguard against political instability, particularly in territories crossed by long-distance networks, and increase the flexibility of supply contracts. The Resolution asked the Commission to regulate the use of EU funds - from Phare, Tacis, Meda, Synergy, EIB loans and

EIF loan guarantees - for the promotion of energy networks according to “the criterion of increasing the Community’s security of supply under the quantity, quality and price conditions which most closely meet the requirements of economic policy”.

PUBLIC SERVICE OBLIGATIONS AND THE GRID-BASED ENERGIES

Traditionally, security of supply has been an issue related to the fear of a crisis in fuel supply from external sources. Thus, it is no coincidence that the most concrete measures at EU level are those for oil, which came in response to the very real emergencies created by the Opec cartel in the 1970s. Because of the link between fuel supply and electricity production, these measures not only related to the oil market per se, but to power station business as well. Several of these measures were dismantled in the 1990s.

Under pressure from industry and Member States alike, the Council repealed, in 1991, a Directive restricting the use of gas in power stations. Five years later, in 1996, the Commission proposed abolishing two further Directives which, respectively, required authorisations for the building of oil-fired power stations and obliged Member States to require electricity producers to maintain a minimum of 30 days stocks of fossil fuels. Both Directives had fallen into disuse because of very different market conditions, the Commission said, and they would not be of much use in any future crisis. The Council acted promptly and repealed them both in December the same year.

Deregulation of power station restrictions

The new and liberal market conditions have, however, given rise to new security of supply concerns, those relating directly to the consumer. France, in particular, has been the strongest voice calling for legislative recognition of the general service interest and public service obligations. In the past, such duties were clearly the responsibility of the state monopoly, but, with a fragmented market, the obligation to supply, for example, or to maintain reasonable price levels, needed some form of intervention, France and others argued. In fact, public service obligations embrace a wider network of concerns that just ensuring a secure supply for the customer - pricing and environmental controls, for example. Nevertheless, security of supply is considered one of the most fundamental of the obligations.

Throughout the 1990s and the expansion of the Single Market, policies to deal with public service obligations developed at different levels (and were central to several Court cases - Chapter Three A). Under some pressure from France for an alteration to Article 90 of the Treaty (which defines the balance between competition and exclusive rights granted by governments to public or other undertakings), to take account of public service obligations in the run-up to the Amsterdam Treaty negotiations, the Commission put forward a short Communication on the subject in 1996.

French calls for an alteration to the Treaties

The Commission agreed that the provision of public interest services was central to a European model of society and the values upon which it is based. However, it insisted that there was no conflict between competition policy and the promotion of the general interest of the public and the defence of general interest services. It argued against any alteration to Article 90 because its worth, in fully guaranteeing the beneficial interaction between liberalisation and general interest, had been proved.

Recognition of general economic interests in Treaty

Instead, the Commission suggested the IGC should add a single phrase to Article 3 of the Treaty on European Union. This Article, as it stands, sets out a whole series of activities which the Community is to undertake such as: an internal market; the strengthening of economic and social cohesion; a policy in the sphere of the environment; and measures in the spheres of energy, civil protection and tourism; among others. The Commission wanted simply to add “a contribution to the promotion of services of general interest”, but this was not considered sufficient.

However, the IGC found a compromise for the Amsterdam Treaty, which involved adding a paragraph to Article 7 (which relates specifically to the Single Market), at the very end of Part 1 of the EC Treaty (which deals with the general principles of the Community). The paragraph reads: “*Without prejudice to Articles 77, 90 and 92, and given the place occupied by services of general economic interest in the shared values of the Union as well as their role in promoting social and territorial cohesion, the Community and the Member States, each within their respective powers and within the scope of the application of this Treaty, shall take care that such services operate on the basis of principles and conditions which enable them to fulfil their missions.*”

General economic interest recognised in Amsterdam Treaty

Far more specifically, and again on the insistence of the French, both the electricity and draft gas Directives include provisions which allow Member States to impose public service obligations, in

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the general economic interest, on those undertakings to which the Directives apply. These provisions, which are contained in Article 3 of both texts and are very similar, also allow derogations from the liberalisation rules, if necessary and with full regard to Article 90 of the Treaty. Such obligations must be “clearly defined, transparent, non-discriminatory and verifiable” and they must be published and notified to the Commission.

Parliament Resolution on general economic interests

In December 1997, long after the IGC had completed its work and the new Amsterdam Treaty had been agreed, the European Parliament adopted a Resolution in response to the Commission’s paper on general interest services. It welcomed the inclusion of a new Article in the Amsterdam Treaty and the Commission’s paper and noted that public services apply above all to the main network activities, including distribution of electricity and gas. It called on the Commission to define the scope and nature of such services more closely with regard to accomplishing EU objectives, to draw up a charter of principles, and to issue green and white papers with detailed plans for implementation of the Treaty’s aspirations.

ASSESSMENT

Security of energy supply is not top of the EU’s policy agenda, and nor should it be. There was an extended period, starting in the late 1960s and carrying through to the 1980s, when the control and threat of control over the oil markets exerted by the Opec cartel had such serious economic consequences that individual governments and the European Community gave security of supply policies a top priority. At the EC level, the Member States allowed a limited number of joint measures to combat the difficulties. There were energy saving measures, rules to encourage the use of fuels other than oil, and a practical policy of stock-holding and crisis measures. But, in 1986 when the oil crises were largely over, the EC did also sign up to some general and some specific energy objectives which had security of supply as the over-riding policy principle. The need to meet the specific targets for 1995 was largely forgotten as the world energy markets changed, and particularly as Opec lost its hold over the oil prices. They should have been revisited halfway through the period, but the Commission passed up on the opportunity.

However, it is interesting to look again at the general objectives, as defined by the Council in 1985. They were:

Revisiting the 1986 general objectives

- 1) - to maximise security of supply and reduce the risks of sudden fluctuations in energy prices through developing the EC’s own energy resources under satisfactory economic conditions;
- 2) - to diversify the Community’s external sources of supply;
- 3) - to improve the flexibility of energy systems and, inter alia, develop, as necessary, network link-ups;
- 4) - to develop effective crisis measures, particularly in the oil sector;
- 5) - to create a vigorous policy for energy saving and the rational use of energy, with diversification between the different forms of energy.

Most of these objectives are still valid today. Indeed, because some have been hijacked by other grand policy directions, and others have been soaked into the general fabric of Community activity, it is possible to underestimate the extent to which the Commission does still propagate a security of supply philosophy. It is worth looking briefly at each one of the five in turn.

1) Community support for the development of indigenous resources is now largely confined to the research and development programmes. In terms of oil and gas, there may have been a reluctance in the past to support technologies in such a rich industry, but there is now a growing realisation that new exploration and production technologies are often provided by smaller specialist companies which need solid backing in the early research stages. RTD is also recognised as the key to unlocking the continued clean use of coal and the safe use of nuclear energy.

2) The lesson of the Opec crises is now deeply embedded in EU policy thinking and the need to diversify supply sources, for both oil and gas, plays a significant, if not always a high profile, part in external relations. The importance of a stable energy supply (and demand), for example, partially underpins relations with the Gulf states, and the countries of North Africa, as well as with Russia and other NIS. The Commission would do well to produce a Communication looking specifically at energy imports and the implications for external relations on a region by region basis.

3) Since the objectives were agreed in 1986, the need for enhanced networks has become a top priority for the EU, not so much for security of supply reasons, but for all sorts of other reasons, such as the need to integrate the more distant regions, to make the Single Market more effective,

and to create employment. Security of supply was, though, one of the main justifications put forward by the Commission in a paper on developing external energy networks (Chapter Six).

4) The Community's crisis measures are still in place but need to be updated in line with the Single Market (see below).

5) The vigorous policy for energy saving became the SAVE programme and, today, is largely justified for environmental reasons. It is also true that much of the energy RTD programme is focused on increased energy efficiency. Moreover, there is now a relatively strong push towards renewables, again for environmental reasons, which also acts in favour of diversification between different forms of energy, and a reduction in oil imports.

In terms of the specific oil market rules, the EU is surely ready to update the Directives on oil stocks and crisis measures. Without any potential price or supply crisis in sight, it has been difficult for the Commission to find the enthusiasm to deal with the matter, but, finally in spring 1998, it came forward with new proposals on stocks. The Community is now a very different creature from the one which agreed the original measures (although the legislative base in this area remains unchanged!). The Council should take the opportunity of allowing more cooperation between Member States and more flexibility in meeting the stockholding commitments, and of improving, although not necessarily strengthening, the crisis measures.

The Commission should also come forward with a proposal for the Community to become a member of the IEA - the Council agreed to the measure in principle as long ago as 1991. This is simply a question of delineating the competences which already fall to the Community, and preparing a draft negotiating mandate which would, on membership, allow the Commission to take over those specific responsibilities, while leaving the Member States the power over those areas where the EU has no competence. If the Commission's prevarication over preparing a new mandate (the 1989 proposal was roundly rejected) is because it still harbours ambitions to take over, for the Member States, some of the IEA's responsibilities or to take over some more competences for use within the IEA, then it seems a forlorn hope for the meantime. Not only has the Council stated clearly its desire to utilise the IEA system for the main crisis parameters, but, more recently, the Member States have refused to grant the EU any increased powers in the energy field.

Commission should not prevaricate over EU role in IEA

There is little the Commission or the Community can do to help resolve the critical financial conditions in the refining sector. DGXVII has a remit to study the situation every now and then, which it does. Its reports are a useful addition to an ongoing debate, but there is nothing in them the industry does not already know, and it is for the oil companies themselves to resolve how to cope with whatever difficulty is facing their business. Whereas in the past, with the Opec cartel, there was a justified concern over ownership of the Community's refining stock, today there is a growing degree of integration: EU companies are again being allowed into the previously closed oil producing countries, and external oil producers are investing in EU downstream businesses.

With the recent rapid increase in gas consumption, the Commission was right to launch a more intensive investigation of the long-term supply consequences. Gas supplies appear to be sufficient into the foreseeable future, so there is no need to hurry the studies. Nevertheless, it is necessary for the Commission to keep up a steady pace of research and to publicise its findings regularly to encourage debate on the longer term issues.

As the EU becomes more dependent on less predictable partners, such as Russia and Algeria, so the quality and depth of its analyses of the consequences of supply disruptions, and the potential responses for alleviating supply difficulties, will become increasingly important. This is because the EU must have the data by which it can assess the weight it should give to gas supply considerations in terms of its detailed external relations policy with each country. It is not impossible to imagine, for example, a foreign policy crisis with Algeria in which the EU's need for Algerian gas could compromise its political responses. The EU would need to know exactly how dependent it is on Algerian gas, and how a disruption in supply should be dealt with at Community level, so that disruption to the importing States is minimised.

EU needs to understand the implications of a gas crisis

Although public service obligations cover more sectors than just energy, and a wider range of obligations than supply security, this relatively recent addition to the EU's policy basket sits appropriately alongside other more traditional security of supply objectives. It may be that state-imposed environmental obligations are important for the gas and electricity companies, but,

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because access to power and gas supply is considered a universal right, and because cuts in that supply to industry and to the home are so politically unacceptable, it is the security of supply obligation that carries the strongest weight in this sector.

There is no doubt that France, and other Member States, have a genuine and deep-rooted interest in preserving public service obligations and that this becomes more complicated in a liberalised market. The Commission and all the Member States recognise these concerns and a new clause has been inserted in the Treaties. It is also true that some Member States, but particularly France, have utilised their concern over public service obligations to restrict the extent of the electricity and gas liberalisation rules. Their concerns not only slowed down the negotiation of the Directives but also resulted in derogations being written into the laws. It remains to be seen how much or how often France, for example, will be able to convince the Commission that it needs to impose such obligations.