

Master's thesis

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## The European Community's first confrontations with Energy Security

A study on the first efforts of the Commission to develop a common approach on energy policy

Master's thesis in European Studies

Supervisor: Hans Otto Frøland

Trondheim, May 2017

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Nikolai Hassel

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## List of Abbreviations

DG Energy – Directorate-General for Energy

ECSC – European Coal and Steel Community

EEC – European Economic Community

EU – European Union

IEA – International Energy Agency

IEP – International Energy Program

OAPEC – Organisation of Arab Petroleum Exporting Countries

OECD – Organisation for Economic Co-operation and Development

OPEC – Organisation of the Petroleum Exporting Countries

T.c.e – Tonne of coal equivalent



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# 1. Introduction: On EU energy security

*The whole European Integration process has been a process of attempts, experiments, successes and failures. This applies to many single European initiatives and policies, including the common energy policy.*<sup>1</sup>

*Alberto Tonini, 2016*

Since the 1950s, the European Union (EU) and its predecessor institutions have been the heart of European integration and several competences have been transferred from its Member States to its own institutions. What started as the creation of a common market in coal and steel between the original six Member States has developed into a union with wide ranging competences. One of the major policy fields in Europe during the existence of the EU has been energy. John S. Duffield and Vicki L. Birchfield, however, emphasises that even though two of the three original treaties on which the EU is based explicitly concerned sources of energy, its competences regarding this area has remained relatively limited over the years. It was not before 2007 and the adaption of the European Commission's communication "An Energy Policy for Europe" that the progress towards the creation of a common energy policy really took off. Two years later, in 2009 energy policy became a formal competence of the EU, as the Lisbon Treaty went into force.

Duffield and Birchfield state that one could indeed argue that the EU began with a common energy policy, but that this gradually lost its relevance. While the structure within the area of energy and the needs of the Member States changed over the years, the initial institutional arrangements remained the same. Focusing first and foremost on internal trade barriers and production conditions, the first initiatives in the 1950s were targeted towards the creation of a free and integrated market.<sup>2</sup> The institutions of the Community, which later developed into the EU, were, however, not given any general competence in the area of energy policy. In the following years, rapid developments in the supply structure and a considerable shift in the mix of energy sources took place. The institutional powers of the Community were, however, not updated to reflect these changes and thus, the Community lost influence with energy affairs.<sup>3</sup>

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<sup>1</sup> Tonini, "The EEC Commission and European Energy Policy: A historical Appraisal", p.13.

<sup>2</sup> McGowan, "Conflicting Objectives in European Energy Policy", p.122.

<sup>3</sup> Duffield & Birchfield, "The Recent Upheaval in EU Energy Policy", p.3.

The emerging challenges that faced the energy situation within the Community had therefore largely to be regarded as the Member States' own responsibility.<sup>4</sup>

Despite limited influence with energy affairs, the Community came to make several attempts to develop a common energy policy. In 1980, Edward N. Krapels confirmed this in his book *Oil Crisis Management*, as he stated that the Community had made several attempts to coordinate its members' energy activities. Regarding the lack of competence within the field, however, he underlined that this task was formidable because the national energy markets differed so widely.<sup>5</sup> The energy mix in the different Member States was and have remained varied, and national priorities have differed thereafter. Alberto Tonini nevertheless argues that despite differences in the Member States' energy mixes, they predominantly depend on fossil fuels and rely on foreign oil and gas imports. According to him, common solutions in the field of energy is important if the EU is to succeed in increasing its global competitiveness and rise the living standard among its citizens. Growing dependence on imports from Russia and the Middle East could according to him threaten the situation with sufficient supplies of energy in the future. He further argues that this concern underlines the importance of the principle of speaking with one voice on energy matters.<sup>6</sup> The relevance of this argument is confirmed as Kanellakis, Martinopoulos and Zachariadis summarises European energy policy. They emphasise that the main pillar of common energy policy since the very beginning of European integration has been security of supply.<sup>7</sup> This thesis will investigate this topic further and clarify both how security of supply made "energy security" an important issue within Europe, and how the Community dealt with it.

### 1.1. Research question and relevance of the study

The importance of energy supplies was highlighted in the 1970's, when two oil crises struck the global energy market. According to Tonini, these brought energy to the fore as a crucial concern as countries that imported oil faced two related threats: increases in price and reduction in supply.<sup>8</sup> Duffield writes that the 1970s was the decade when the advanced industrialised democracies first experienced a truly degree of common insecurity of energy supplies. This was the result of decisions taken beyond their borders and demonstrated the consisting risk of external threats to the security of supplies, mentioned by Tonini. The threat of external

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<sup>4</sup> Willenborg, Tönjes & Perlot, *Europe's oil defences*, p.30.

<sup>5</sup> Krapels, *Oil Crisis Management*, p.86-87.

<sup>6</sup> Tonini, "The EEC Commission and European Energy Policy: A historical Appraisal", p.14.

<sup>7</sup> Kanellakis, Martinopoulos & Zachariadis, "European energy policy—A review", p.1026.

<sup>8</sup> Tonini, "The EEC Commission and European Energy Policy: A historical Appraisal", 2016, p.16.

disruptions in the Community's energy supply had evolved gradually since the 1950s, leading to several attempts of promoting a common Community approach. Frequent proposals by the Commission sought to coordinate the energy policy of the Community, but in the lack of possessing substantive instruments, it had to rely on the willingness of its Member States.<sup>9</sup> The first comprehensive effort by the Commission was presented in 1968 and was followed by several others in the following years.

The rise of oil after World War II had made the Community dependent on energy imports and the Commission sought to improve both the long-term and short-term security of energy supplies. An overview of oil products in the EU, presented by Eurostat in 2016, confirms that this situation remains relevant. In 2014, the EU relied on net imports for 87 per cent of the oil products consumed in the Union. This was the highest level attained in the 25 year history covered by Eurostat's data series.<sup>10</sup> When the Community faced the first major security threat in 1973, however, the degree of dependence on outside sources for oil supplies was as high as 98 per cent.<sup>11</sup> The crisis caused the price of oil to rise significantly and thereby caused a tense supply situation which came to characterise the supply situation in the Community until the price decreased in the mid 1980s. Considering the crucial energy situation in the 1970s and the early 1980s, this thesis will seek to investigate the Commission's efforts in improving the energy security in the Community. Proposals and measures from the first comprehensive effort was published in 1968, until the tense supply situation of oil abated in 1985 will be highlighted to present the Commission's achievements. The research question of this thesis is therefore:

*How did the Commission try to develop a common approach to improve the Community's energy security in the period from 1968 to 1985?*

## 1.2 Energy Security

To investigate the research question further, it is necessary to define the concept of energy security and its relevance for the Community. The concept was highlighted by scholars especially in the 1970s and the 1980s and has been widely debated within the field of security studies. After the Second World War, the term International Security Studies occurred out of debates concerning how to protect states against external and internal threats. The term has no universal definition and has been interpreted differently depending on scholars and historical

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<sup>9</sup> Duffield, *Fuels Paradise*, p.25.

<sup>10</sup> Eurostat, "Oil and petroleum products – a statistical overview"

<sup>11</sup> EC Commission, 1974, COM (74) 550, p.10a

trends.<sup>12</sup> Professor in international relations, Stephen Walt for example, argued in one of his articles that the focus of security studies has been - and should be - the phenomenon of war.<sup>13</sup> Other scholars, however, have criticised this focus of being too narrow and have called for more attention to non-military aspects of security.<sup>14</sup> Researcher on European energy policy, Francis McGowan, emphasises that energy has been considered as a matter of security for a long time. He underlines the importance for nations of ensuring access and sometimes control over energy resources to safeguard their own economies, the comfort of their citizens and thereby their own internal stability.<sup>15</sup> Having these aspects of energy in mind, Richard Ullmans conception of national security offers an obvious link to energy security. He proposed a broader definition of security studies giving non-military aspects of security more attention:

*A threat to national security is an action or sequence of events that (1) threatens drastically and over a relatively brief span of time to degrade the quality of life for the inhabitants of a state, or (2) threatens significantly to narrow the range of policy choices available to the government of a state or to private, nongovernmental entities (persons, groups, corporations) within the state.*<sup>16</sup>

The influence of energy resources most certainly fit in with Ullmans conception of national security and although they are not necessarily associated with military power and war, history has shown an obvious link here as well. The importance of energy has made control, disruption or destruction of energy resources to essential elements of war strategies causing several energy crises throughout time. This has contributed to the interest in energy security as a subject within the security studies community. The interest in the topic, however, have tended to be episodic, increasing with each new energy crisis before waning as soon as the crisis has passed. This is why the concept gained much attention in the 1970s and early 1980s, whereas the period since the end of the 1980s, which was characterised by a lower policy profile for energy security, was matched by a decline in scholarly attention. In the recent period, McGowan finds the interest to be increasing again and argues that the “resource war” has become a feature of international politics.<sup>17</sup>

### 1.2.1 Dimensions of energy security

What energy security means and what it includes is, however, not something one can easily generalise. It is related to several different energy sources and energy insecurity can take many

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<sup>12</sup> Buzan & Hansen, *The Evolution of Internal Security Studies*, p.8

<sup>13</sup> Walt, S. M., “The Renaissance of Security Studies”, 1991, p. 212

<sup>14</sup> Duffield, *Fuels Paradise*, p.20.

<sup>15</sup> McGowan, ”Putting Energy Insecurity into Historical Context”, p.490

<sup>16</sup> Duffield, *Fuels Paradise*, p.20

<sup>17</sup> McGowan, ”Putting Energy Insecurity into Historical Context”, p.491

different forms, making the conception of energy security unique for each country, depending on their mix of energy supplies and their sources. Daniel Yergin uses this simplified description of energy security in his book *The Quest*: “The usual definition of energy security is pretty straightforward: the availability of sufficient supplies at affordable prices”.<sup>18</sup> In his book Yergin draws attention to the importance of the global energy system and how the whole society relies on it to be functioning. Insufficient supplies can have dramatic consequences, and vulnerabilities for energy infrastructure around the world has made the potential costs of unreliability high. To explain the different perceptions of energy security, Duffield distinguishes between energy-importing countries and energy exporters. There are few developed countries which are self-sufficient in energy, and they are therefore depending on imports from other countries. Two different objectives arise from this interdependence: 1) importers want to secure access to foreign energy sources or security of supply, 2) exporters want to assure long term sales and fair prices of their production.<sup>19</sup> Yergin has a similar approach, distinguishing between security of supply and security of demand. Given the fact that Europe is an energy importing area, this thesis will focus on security of supply.

Yergin's brief description of energy security is useful, but it contains several dimensions which are relevant for understanding the complexity related to the issue. Scholars distinguish between four important dimensions related to Yergin's summarized description of energy security. The first dimension involves sufficiency, whether the total volume of energy supply is enough to meet present and future needs? The second dimension involves the unreliability associated with energy supplies. Are energy supplies potentially subject to disruptions and interruptions? This dimension accentuates the observation that energy security involves an important element of risk. The third dimension considers the price level of energy and the risk of high prices undermining economies and thereby threatening a state's national security. The fourth and last dimension involves all other ways in which dependence on foreign energy supplies might threaten one's national security. This implies that supplies must be available without involving acceptance of political conditions that might limit a state's political independence and freedom of action. Environmental considerations have also come to play a more important role when it comes to obtaining energy supplies from various sources abroad or at home. According to Duffield, the result of deficits in any of these four dimensions can be energy insecurity.

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<sup>18</sup> Yergin, *The Quest*, p.266

<sup>19</sup> Duffield, *Fuels Paradise*, p.20



### 1.2.2. Political weapon

Energy insecurity mainly seems to occur from disruptions or interruptions in foreign energy supplies and trade. This dimension of energy security, together with the third dimension, involving price inflation of energy supplies, were also emphasised when the European Communities expressed their concerns related to security of energy supplies in a report from 1962. Here the problems related to security of supply are simplified to include: “..the risk of political disturbances in oil-producing areas – which might result in the partial interruption of supplies for some time – and secondly, the risk of an artificial increase in prices”.<sup>20</sup> Both these two dimensions of energy security, as well as the risk of possible depletion of energy reserves and the occurrence of regional supply shortfalls, could challenge the energy security in Europe. Because of a close relation between energy consumption and economic development this could have a huge effect on the European economy and challenge the political independence in Europe.

Sanam Haghighi emphasises that different energy sources have different characteristics from the perspective of energy security. In this thesis, oil will be the main energy source of concern, due to its huge impact on the energy market and Europe’s sudden dependence on external oil supplies after World War II. Although other energy sources, like for example uranium and gas increased their relevance during the period, their importance in this thesis is being overshadowed by that of oil. Oil has been the far most prominent energy source imported by the Community in the decades following the war and it is among other characterised by the unproblematic possibility to store it. It is also an energy source which is easy and inexpensive to transport. This has both advantages and disadvantages. On one side, low transport costs are positive for the energy prices, but since there is no physical transport link between producer and consumer, the producer is given a great amount of flexibility as transports easily can be redirected to different destinations. Because of this, Haghighi argues that the oil market is global, unlike for example the gas market, which she describes as regional. It is in turn characterized by higher transport costs and physical links between producer and consumer. The global dimension of the oil market implies that a disruption of oil supply in one part of the world may affect the rest of the world.<sup>21</sup> Yergin highlights the influence of oil as a matter of energy security in his book: “Even as the dimension of energy security have become wider, the

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<sup>20</sup> EU Commission Brochure, Energy policy in the European Community, 1963, p.6.

<sup>21</sup> Haghighi, *Energy Security*, p.13.

world's concerns always seem to circle back to oil, and that means, as it has for so many years, back to the Middle East and the Persian Gulf".<sup>22</sup>

Over the years, several examples have given oil the characteristic of being a possible political weapon. Since 1950, seven cases of oil disruption, all caused by purely political rather than physical reasons, have been reported. One example of this was the oil crisis that struck large parts of the western world in 1973, an event that will be further explained later in this thesis. One of the things that makes the supply security related to oil particularly vulnerable is the fact that oil as an energy source is irreplaceable in many sectors. Energy demand can often be met by different forms of energy sources, but when it comes to oil, this is not always the case. There are several sectors, like for example transport, where no other energy sources can substitute for oil. Because of this, an interruption in the oil supply will paralyze the whole sector and affect other parts of the economy.

### 1.3 Existing research

There has been published several research works within topics of the Community's approach on a common energy policy. Sanam S. Haghighi published a book in 2007 which offers a broad presentation of key issues related to the EU's energy security. She gives a well-arranged overview of the history of external security of energy supply in Europe. Having background from law studies, Haghighi offers a detailed examination of the legal basis of the topic, while she explains both internal and external developments and how these have affected the European approach. Political researcher, Francis McGowan, has also published works which illustrates how events beyond the Community's borders have triggered the Community to seek measures to coordinate its energy policy, although he finds these to have been rather unsuccessful. How the Community gradually lost influence on energy matters is described brief, but concise by Duffield and Birchfield, while Tonini has published a research which contains a broader presentation of the Commission's role in developing a Community approach. His work also analyses some of the national differences that have complicated the process of coordinating the Community. The topic of energy is also addressed in the two-volume book series *History and Memories of an Institution*, published by the Commission on its own history. These provide a broad but limited overview on approaches to energy policy by the Commission in the period from 1958-1986.

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<sup>22</sup> Yergin, *The Quest*, p.284

Georges Brondel and Noel Morton published an examination in 1977 on how the Commission stressed a basic philosophy which included future objectives to improve the energy security within the Community. Offering a perspective from the period which is analysed in this thesis, their research contains helpful conclusions on the shortcomings of the Commission within the energy field. The lack of Community influence is also highlighted in publications concerning the stockpiling policy of the Community. Krapels for example analyses the oil crisis in 1973-74 where he illustrates how Member States sought to seek their own solutions regarding stockpiles. A. C. Evans also highlights limitations in the Community's stockpiling policy in his research from 1981, as he primarily illustrates how Member States sought global and intergovernmental frameworks at the expense of the Community.

For the historical context of this thesis, a variety of works are relevant for the coverage of the shift from coal to oil and the establishment of the Organisation of the Petroleum Exporting Countries (OPEC). These include Ruggero Ranieris detailed presentation on how oil to a large extent replaced coal and the link between energy consumption and economic growth. He also gives attention to the international oil market and the emergence of the OPEC. Ian Skeets published a book in 1988 where he analyses the first years of this organisation. This work provides even greater access to relevant information for understanding the shift of power within the energy sector. The emergence of OPEC as a decisive actor in international politics is also examined in detail in the works by Yergin. This development came to trigger several attempts on developing a common energy policy within the Community and Yergin illustrates how the concept of energy security gained attention.

## 1.4. Method and sources

### 1.4.1. Method

The method used in this thesis will be document analysis, relying on both primary sources and previous studies. Following the lines of a qualitative research, the thesis will analyse and examine data to gain understanding and elicit meaning to answer the research question. The use of previous studies will contribute to gain understanding of the context and the relevance of findings from the primary sources. Glenn A. Bowen emphasises the value of previous studies as a source of data, but underlines that the use of such sources will require the researcher to rely on the descriptions and interpretations composed by others. This is one of the limitations of previous sources and findings might suffer from decreased credibility because of this. However, Bowen argues that the use of different sources to find convergence of information will increase

the trustworthiness of the findings. This thesis will therefore strive to use different sources of previous research to best possible substantiate its descriptions and conclusions.<sup>23</sup>

Where the existence of previous research is limited, the thesis will depend on findings from primary sources. These offer empirical data and provide various information from the period relevant for this thesis. Bowen highlights the advantage of this, as these sources makes it possible to track changes and developments by comparing them. Looking primarily on Commission communications, which is the policy document used by the Commission to set out its own thinking on a topical issue, the thesis will investigate how proposals and measures evolve over time<sup>24</sup>. This will be done both by gathering concrete information found in the documents and by uncovering meaning relevant to the research question. There are, however, several limitations associated with primary sources highlighted by Bowen. As the documents are produced for other purposes than research, they might provide less information than sufficient for answering the research question. Another limitation emphasised by Bowen which is relevant for this thesis, considering the selection of documents, is what he calls ‘biased selectivity’. Available documents from the Commission are likely to be aligned with the policies and procedures of the institution and might only partial reflect the actual affairs.<sup>25</sup>

#### 1.4.2. Sources

The historical context and the developments leading up to the Commission’s first comprehensive efforts in developing a common energy policy will be covered mainly by examining previous research. Especially the works of Haghghi, Ranieri and Skeet will be used to describe the shift in the energy market in the 1950s and the 1960s. However, to complement the previous research, primary sources from the Community will also be used. These sources are available electronically and are gathered from the *Archive of European Integration* of the University Library System of the University of Pittsburgh (<http://aei.pitt.edu>), the EU’s archive on European Union law, *EUR-Lex* (<http://eur-lex.europa.eu>) and the *Historical Archives of the Commission* ([http://ec.europa.eu/historical\\_archives/index\\_en.htm](http://ec.europa.eu/historical_archives/index_en.htm)). The primary sources include an extensive report (Europe and Energy) published in 1967, which outlined the current energy situation in the Community and the first Commission communication on the attainment of a Community energy policy (COM (68) 1040). The development following the communication published in 1968 will widely be covered by investigating Commission

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<sup>23</sup> Bowen, ”Document Analysis as a Qualitative Research Method”, p.27-30.

<sup>24</sup> European Commission, “Glossary.”

<sup>25</sup> Bowen, “Document Analysis as a Qualitative Research Method”, p.32.

communications from the period relevant for this thesis. 14 different communications from 1972 until 1985 will be used to analyse the Commission's efforts of implementing energy objectives for the period. These objectives were mainly based on two communications from 1974 (COM (74) 550 final/2 and COM (74) 1960), and the analysis will to a large part be based on these. Another 6 communications will be used to analyse the Commission's efforts in developing a Community stockpiling policy. Both in the examination of the energy objectives and of the stockpiling policy, documents by the Council as well as previous research will be used to strengthen findings and to clarify the historical context.

### 1.5. Thesis structure and main argument

The thesis will address efforts regarding both long-term and short-term security of energy supplies. This will be done by examining the measures regarded as most relevant for these objectives in two separate chapters, namely chapter 3 and 4. Firstly chapter 2 will present the Community's evolution from being an energy exporting economy to becoming an energy importing economy. The international context that emerged gradually over the 1950s and the 1960s is important for the understanding of the Community actions investigated later in the thesis. Secondly, chapter 3 will look at the Commission's role in the attainment of specific energy objectives outlined in 1974, and analyse developments in the Community's energy structure. This was regarded as the Commission's most extensive effort of enhancing the long-term security of energy supplies in the period. When it comes to efforts on improving the short-term security of energy supplies, chapter 4 will investigate the occurrence of a stockpiling policy for the Community. It will clarify how the Commission took initiatives to improve the short-term security in case of sudden and temporary supply disruptions.

Despite frequent efforts by the Commission on developing a common approach on energy policies within the Community between 1968 and 1985, the lack of legitimate power characterises its achievements. The proposal including objectives emphasised as a necessity for the long-term security were only approved by the Council after having been reformulated as far less ambitious and even then, they were not binding for the Member States. When it comes to the stockpiling policy, the adopted policy proved to be inadequate during the First Oil Crisis and the Community framework thereafter lost relevance at the expense of the newly established International Energy Agency (IEA).

## 2. Towards oil dependency

The years following the end of World War II marked a rapid change in the energy situation in Europe. Coal was rooted as the main energy source on the continent and before the outbreak of war, 90 per cent of the energy demand in Europe was met by coal. The fact that coal was being obtained in Europe, made Europe into an energy exporting economy. After the war, however, the position of coal was challenged mainly by oil, and within a short period of time Europe was transformed to an energy importing economy. Decreased productivity of coal mines and cheap oil prices made the coal industry unattractive and Europe became dependent on bilateral and multilateral relations with third countries to meet its energy demands. In the period between 1950 and 1955, the consumption of crude oil increased by 90 per cent in Europe. Despite this development, Haghghi claims in her book about energy security, that it was not until the Suez Canal Crisis in 1956, that the reality of energy dependence struck Europeans.<sup>26</sup> Others, however, like Alberto Tonini, argues that it took even longer before energy was regarded as an issue of great concern, claiming that this first became a case from the early 1970s.<sup>27</sup> This chapter will look into how energy policy developed as a policy topic within the European Community leading to a common strategy published by the Commission in 1968. It will also address the shift from coal to oil and Europe's rising supply dependency.

### 2.1 The organisation of energy within the Community

In 1951 the European Coal and Steel Community (ECSC) was formed to create a common market for coal and steel between its six member states: France, Germany, Italy, Belgium, Luxembourg and the Netherlands. Haghghi writes that coal and steel were considered to be critically important for economic development, and within the ECSC, the member states committed themselves to abolish internal trade restrictions. As mentioned, however, the transition within the energy sector was already gaining momentum in the first years of the ECSC and already before the Suez Canal Crisis, nuclear energy received attention as a possible solution in overcoming Europe's emerging energy dependency. There was agreement among the ECSC members to cooperate in the nuclear field simultaneous as they wanted to extend the trade community to involve the abolishment of trade obstacles for all commodities. As a result of this aim, the Spaak report was presented in 1956, laying the foundation for further integration among the six Western European countries.<sup>28</sup>

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<sup>26</sup> Haghghi, *Energy Security*, p.38-40.

<sup>27</sup> Tonini, "The EEC Commission and European Energy Policy: A Historical Appraisal", p.14.

<sup>28</sup> Haghghi, *Energy Security*, p.38-40.

The report formed the basis for the Treaty on the European Economic Community (EEC) and the Euratom signed in March 1957, together referred to as the Treaty of Rome. It partly drew attention to the importance of other energy sources than oil, but when the Treaty was signed, energy was left out of the common market agreed upon in the EEC.<sup>29</sup> This was justified by the fact that the oil industry was controlled by large multinational corporations exceeding the bounds of Europe as well as the consideration of the electricity and gas sectors as peculiar sectors. Extension of the common market for coal and steel to other energy sources was therefore not seen as a priority objective.<sup>30</sup> Ruggero Ranieri nevertheless points to the fact that the report had signalled the importance of a common energy policy, but despite this fact, the topic was carefully avoided when the Treaty was signed.<sup>31</sup>

As a result of this, energy policy was not treated as a whole in the Treaty and no one was appointed to deal with the relationship between different forms of energy. There were, however, three different executives that were appointed the responsibility over energy issues. Each of them created proposals for different energy sources, the High Authority, representing ECSC on coal, the Euratom Commission on the nuclear sector, and the EEC Commission on oil and natural gas.<sup>32</sup> The nuclear sector was above all filled with great expectations and Ranieri writes about a short period with overwhelming confidence that the future would be nuclear. The Spaak Report had emphasised the need for the Six to collaborate on research and investment within nuclear energy and the need of developing nuclear energy to overcome the growing dependence on unreliable oil supplies gained attention.<sup>33</sup> The expectations were, however, soon overshadowed by cheap oil prices and the plentiful oil supplies and the commercial significance of nuclear energy faded in the background. Although nuclear energy was still an issue of topic, it very soon became something the member states saw as national rather than common endeavour. According to Ranieri, Euratom never really had an important voice in influencing Community policies on energy.<sup>34</sup>

It generally seemed difficult to develop anything like a common approach to energy policy for the Six. Fernand Spaak, the son of Paul-Henri Spaak who had the Spaak report named after himself, writes about how the organization of energy topics, enshrined in the Treaty, was problematic for the development of this policy area. According to him, the splitting of

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<sup>29</sup> Haghghi, *Energy Security*, p.41.

<sup>30</sup> Deschamps, *The Spaak Report*, p.6.

<sup>31</sup> Ranieri, "Adjusting Europe's Energy Policies in the 'Golden' Oil Years", p.26.

<sup>32</sup> *Ibid.*, p.26.

<sup>33</sup> Haghghi, *Energy Security*, p.42

<sup>34</sup> Ranieri, "Adjusting Europe's Energy Policies in the 'Golden' Oil Years", p.26

responsibilities between the ECSC, Euratom and the EEC, as well as the fact that the differences between the energy structures and policies of the member countries had major differences, had caused the EEC energy policy to run into numerous difficulties. He nevertheless claimed that the Community had taken some steps to define a Community energy policy. This included a protocol of agreements adapted by the member governments in 1964 establishing principles and objectives of an energy policy.<sup>35</sup> They here agreed upon the necessity to create a common energy market and the need to define a common energy policy.<sup>36</sup> Francis McGowan, however, argues that member governments prevented the development towards a common energy policy, even with the changes in the energy markets and the rising concern related to maintaining secure energy supplies characterizing the period:

*Despite the renewed efforts of the Commission, and the new balance of the policy proposed, the member governments effectively rejected any EC management or oversight of the sector. While most governments pursued policies of benign neglect towards the energy sector on a day to day basis, they nonetheless sought to maintain ultimate control of the industry.<sup>37</sup>*

The Community's approach to energy policies was nevertheless about to change and the first step came in 1965, as representatives of the six member states signed the "Treaty Establishing a Single Council and a Single Commission of the European Communities". Two years later, the treaty, which came to be known as The Merger Treaty, was implemented and the executive bodies of the three Communities (ECSC, ECC and Euratom) were replaced by a single European Commission.<sup>38</sup> The merger was seen as a contribution to the progress towards European unity and the three Communities were hereafter referred to as the European Community. In the wake of this merger, McGowan claims that the aim towards developing a common energy policy took a new direction. The policy fields were reorganized and in the case of energy policy, a single administrative unit responsible for all energy sources was established.<sup>39</sup> The Single Commission was entrusted with producing proposals for all energy sources and a dedicated Directorate-General for Energy (DG Energy) was created. It brought together experts on all the different energy sources, and was to be the Commission's instrument in the effort of developing and implementing a common energy policy.<sup>40</sup>

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<sup>35</sup> Spaak, "An energy policy for the European Community", p.35.

<sup>36</sup> Council Protocol, Protokoll eines Abkommens betreffend die Energiefragen, 21. April 1964, O.J. 1099/64.

<sup>37</sup> McGowan, "Conflicting Objectives in European Energy Policy", p.123.

<sup>38</sup> Weil, "The Merger of the Institutions of the European Communities", p.57.

<sup>39</sup> Spaak, "An energy policy for the European Community", p.35.

<sup>40</sup> Cailleau, "Energy: from synergies to merger", p.479-480.



## 2.2 A Shift towards oil

The strong economic growth in Europe in the 1950s was highly linked to energy consumption. Between 1953 and 1964 the energy consumption per head of population increased with 56 per cent.<sup>41</sup> There were, however, more reasons for why oil gained such a strong market position within a very short period of time. The growth in oil consumption in the late 1950s and early 1960s had a steeper growth than the economic growth in the same period. This meant that oil was being favoured at the expense of other energy sources. In one way, this was unavoidable, since there were several sectors experiencing growth that had no alternatives to oil. Above all, this included road, water and air transport. But the shift from coal to oil was also taking place in general industrial use where low market prices made oil products favourable compared with coal. Coal prices had been rising since the end of the war and rapidly expanding sales and a huge escalation in the crude oil production contributed to low oil prices. In the period from 1959 to 1964 consumption of gas oil and fuel oil in general industrial and electricity generating sectors increased by more than 100 per cent.<sup>42</sup> Technological innovations and new modes of transport, like giant oil tankers and pipelines, were also contributing to lowering the oil price and increasing the supplies.<sup>43</sup>

A report published by the High Authority of the ECSC in 1967 presented statistics that showed the development in use of different energy sources in the period between 1950 and 1965 within the Community. The statistics looked at the primary sources of energy, meaning resources found in their natural form before any kind of conversion takes place. As revealed in Table 1, it distinguishes between these different energy groups: solid fuels (coal and lignite), liquid fuels (petroleum), natural gas/oil gas and hydro-power, geothermal heat, and nuclear energy (primary electricity). To compare the different resources with each other, the ton coal equivalent (t.c.e.), a unit representing the energy generated by burning one ton of coal, is used for all groups. The table presents the consumption of million tons coal equivalent.

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<sup>41</sup> Commission Brochure, *Europe and Energy*, Luxembourg 1967, p.9.

<sup>42</sup> Jensen, *Energy in Europe 1945-1980*, p.63.

<sup>43</sup> Commission Brochure, *The Community Energy Policy*, Brussels, 1972, p.4.

**Table 1 - Community consumption of primary energy in million t.c.e.** <sup>44</sup>

		<b>1950</b>	<b>1960</b>	<b>1965</b>
<b>Coal</b>	t.c.e.	213	245	224
	per cent	74	53	38
<b>Lignite</b>	t.c.e.	25	34	34
	per cent	9	7	6
<b>Petroleum</b>	t.c.e.	30	126	270
	per cent	10	28	45
<b>Natural gas</b>	t.c.e.	1	14	23
	per cent	-	3	4
<b>Primary electricity</b>	t.c.e.	20	42	45
	per cent	7	9	7

The statistics clearly shows how substantial the changes within the energy field were in this period. These are summarised in the report as it emphasises the following findings: a huge expansion in the market share of oil, rising from 10 per cent in 1950 to 45 per cent in 1965, a heavy slump in that of coal, decreasing from 74 per cent in 1950 to 38 per cent in 1965, advancement of natural gas, contributing for 4 per cent of the market share in 1965 and the emergence of nuclear energy. Although the report highlights the development in nuclear energy, it confirms how limited the importance of this source still was and states that it first became statistically observable in 1966, with a share of 0.4 per cent of the total energy consumption.<sup>45</sup>

### 2.3 Energy import dependency

Besides emphasising the shift towards oil, the report also highlights a second major feature of the trend characterising this period. Like mentioned earlier in this thesis, Europe changed from being an energy exporting economy to becoming an energy importing economy after the war. In Table 2, which was also presented in the report of the High Authority, this development clearly become visible. Again, the ton coal equivalent is used for all groups.

<sup>44</sup> Commission Brochure, Europe and Energy, Luxembourg, 1967, p.14.

<sup>45</sup> Commission Brochure, Europe and Energy, Luxembourg 1967, p.15.

**Table 2 – Energy requirements in the Community covered by indigenous and imported resources<sup>46</sup>**

	<b>Million t.c.e.</b>		
	<b>1950</b>	<b>1960</b>	<b>1965</b>
<b>Indigenous resources</b>			
Coal	219	236	201
Other sources	49	100	121
<b>Total</b>	<b>268</b>	<b>336</b>	<b>322</b>
<b>Net imports</b>			
Coal	-6 (1)	10	23
Petroleum	27	110	245
Other sources	0.5	5	6
<b>Total</b>	21	125	274
<b>Total needs</b>	<b>289</b>	<b>461</b>	<b>596</b>
(1) Net exports			

Table 2 shows how the increase in the consumption of oil also affected the level of dependency on energy imports. As earlier mentioned, Haghghi saw the Suez Canal Crisis as the point when Europeans realised their energy dependence. The nationalisation of the Suez Canal by the Egyptian President Gamal Abdel Nasser in 1956 provoked a conflict on the Sinai territories causing dramatic consequences for the oil supply to Europe over the next year. Transport routes from the Middle East delivering up to 2 million barrels per day of oil were either blocked or sabotaged. For Europe, which had been relying on the Middle East for 2/3 of its petroleum, these events had dramatic consequences for the economy. Especially the transport sector was hit hard by the crisis, causing a cut in the production for several car manufacturers and “car free” Sundays to overcome the shortage of gasoline.<sup>47</sup>

The risk related to high dependency had struck Europeans, but given the location of the largest oil resources in the world and the continuing rise in oil consumption, the situation seemed

<sup>46</sup> Ibid. p.16.

<sup>47</sup> Hamilton, ”Historical Oil Shocks”, p.11.

difficult to improve. The Commission published a document in 1969, where the allocation of oil resources was being emphasised:

*The total proven reserves of oil in the world were estimated in 1967 to be 56.7 thousand million tons. These reserves are distributed unevenly throughout the world: 60 per cent in the Middle East, 20 per cent in the American hemisphere, 9 per cent in the Far East, 8 per cent in Africa, and the remaining 3 per cent in the rest of the world. In the EEC intensive exploration in the last five years has yielded only 216 million tons.*<sup>48</sup>

This uneven distribution of resources was also visible when looking at the Community's most important areas of energy supply. Most of them were located in the middle east, which meant that Europe was depending on an area that was considered as highly political unstable.

## 2.4 OPEC and a shift in power

In 1960, the Organization of the Petroleum Exporting Countries (OPEC) was created by five of the most prominent oil producing countries in the world: Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The enormous growth in oil consumption in the 1950s had transformed the scale of the oil industry and created tensions regarding economic output and control over natural resources. As OPEC was created, almost the entire oil production was in the hands of a few private companies from the US and Europe. They had concession agreements with countries from which oil was produced, an agreement that gave them the right to look for oil and develop and market it if it was found. In return for this right, the companies had to pay a tax based on a 50/50 split of profit to the state. The level of production was to a large extent controlled by the companies and they were to some extent able to ensure that oil supply coincided with oil demand. In his book summarizing the first twenty-five years of OPEC, Ian Skeet emphasises how this situation, with western companies controlling resources and oil production in third countries, gradually created discontent among the countries possessing oil resources.

*The County, unsurprisingly, saw this ownership in terms of economic imperialism and increasingly, as each became more sophisticated in political outlook and development, found intolerable the relationship between its sovereignty and the limitations imposed by the concession system on its most important and valuable resource.*<sup>49</sup>

Europe and the western world became more and more dependent on oil imports, but although the demand was increasing, prices decreased in the late 1950s. Frequent discoveries of oil reserves and many sellers seeking the same buyers and competing for market shares caused a reduction in the posted price for oil, which affected the income for the oil exporting countries.

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<sup>48</sup> Commission Brochure, Energy in the EEC (I) (1969), p.2.

<sup>49</sup> Skeet, *Opec: Twenty-Five Years of Prices and Politics*, p.5.

The limitations on its own resources and frustration over what the governments viewed as an outdated example of imperialist domination occurring in a time of strong Arab nationalist enthusiasm culminated in the creation of OPEC.<sup>50</sup>

When the creation of OPEC was announced in September 1960, the reactions were modest. According to Skeet, the majority did not understand the intentions of the organisation, and the importance of the event seems to have been underestimated. OPEC's influence in its first years was not of great significance and its achievements were relative few. The most important accomplishment of the organisation was that it managed to involve the oil producing countries more in decisions concerning the posted price for oil. This had earlier been done irrespective by the companies and had created frustration among the countries as decreasing post prices affected their tax income. After the creation of OPEC the erosion of posted prices was successfully stopped and the companies assured that they would not set these again without consultation with OPEC or the countries.<sup>51</sup>

In the years following the creation of OPEC, no noteworthy threats to the energy security in Europe occurred. The price for oil was stabilised and the dependence on imported oil continued to increase. In 1967, the same year as the merger of the Community took place, however, concerns related to energy security were once again raised. Because of the Arab-Israeli War, the Six Day War, that broke out in June that year, the Arab oil producers called for an embargo on the United States, Britain and West Germany. The effort was considered as being a failure as the Arab states were unable to agree on overall production cutbacks, and the loss that occurred was quickly made up by higher production in the United States and increased output by Venezuela, Iran and Indonesia.<sup>52</sup>

OPEC was formally supposed to stand outside politics, a principle that was confirmed under the Six Day War as the organisation took no stance as far as the war was concerned. However, the war underlined OPEC's strong Arab content and the incorporation of further Arab states made it difficult for OPEC to isolate itself from deeply emotional issues like the Arab-Israel conflict. According to Skeet, the war also contributed to further nationalism among the Arab states, which came to have an important impact on the oil industry in the following years. This was demonstrated by the establishment of The Organisation for Arab Petroleum Exporting Countries (OAPEC) in January 1968. The organisation took form as an Arab forum that would

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<sup>50</sup> Skeet, *Opec: Twenty-Five Years of Prices and Politics*, p.5-17.

<sup>51</sup> *Ibid.* p.22,34.

<sup>52</sup> Duffield, *Fuels Paradise*, p.24-25.

complement OPEC.<sup>53</sup> It was supposed to coordinate Arab oil policies and should contribute to achieve success for Arab economic and foreign policy. The original members were Saudi Arabia, Kuwait and Libya, but already in 1974, its membership rose to ten. Although the organisation first and foremost was established to create close ties between its member states in economic activities in the petroleum sector, it also gradually gained influence in political activities which would affect the international oil market in the following years.<sup>54</sup>

## 2.5 First Guidelines for a Community energy policy

Following the merger and the administrative changes for energy policy within the EC as well as the development taking place in the Middle East, the Commission launched its first communication on the topic of energy policy in 1968. Communications are published by the Commission when it wishes to set out its own political thinking and are usually addressed to the Council. It has no legal effect and proposals depend on approval by the Council to be adopted.<sup>55</sup> The document was titled “First guidelines for a Community Energy Policy” and contained several proposals on how the Community should meet different challenges associated with energy policy. These proposals fell into three categories:

- A. The fixing of a general framework for action and a policy providing for measures to be taken in the event of partial interruption of supplies.
- B. Measures for the establishment of a common market.
- C. Measures towards a policy for obtaining cheap and secure supplies.<sup>56</sup>

The trend of measures concerning energy politics finding place on national level was, according to the Commission, leading to gradual disintegration of the Community’s energy economy, leading to among other things increasingly nationalist supply policies. The document stated that only by a Community energy policy which fully integrates the energy sector into the common market could this dangerous trend be changed. The proposed establishment of a common market for energy within the Community will not be analysed further in this thesis, as it will focus explicitly on proposals concerning energy security. The topic of energy security is indeed one of the major concerns raised by the Commission and the necessity of a Community energy policy is clearly expressed in the document.

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<sup>53</sup> Skeet, *Opec: Twenty-Five Years of Prices and Politics*, p.44-47.

<sup>54</sup> Gilani, “OAPEC and AFESD”, p.63-69.

<sup>55</sup> European Commission, “Glossary.”

<sup>56</sup> Commission Communication (1968, December), First guidelines for a Community energy policy, COM (68) 1040, p.9.

Security of supply was in fact described as the main concern of the Community and the importance of relatively stable prices being as low as possible was underlined. The Commission acknowledged that this was not an objective which could be attained absolutely, but the benefits of the Community aiming for it together were frequently stressed. A common approach would, according to the Commission, enable the Community to play its role as a major customer on the world energy market and make it possible to counterbalance the risks arising from the increasing dependence on imports within the Community. Two main elements were highlighted as essential for the Community's policy to meet the requirement of security of supply. These appear in the three categories already mentioned and included measures to be taken in case of partial interruption on energy supplies and long-term supervision of the sources of supply and the possibility of influencing them. The priorities of the Commission illustrate the risks associated with the Community's huge dependence on political unstable areas. The document clearly indicates that the Commission seemed to have had taken account of events like the Suez Canal Crisis in 1956 and the attempted embargo in 1967 in its work on developing a common energy policy.

To be able to implement a common policy in the field of energy, the Commission proposed a system enabling Community action to be taken within the field. These actions would only be using instruments which were considered as strictly necessary for the implementation and would first and foremost give the Community the function of supervision. Community intervention was only considered as a last resort and if necessary, it should first take the form of Community recommendations. As noted in the EEC Treaty (Article 189), recommendations were not to have any binding force and would initially give the Community the task of advisory.<sup>57</sup> The Commission emphasised, that the pursuit of a common energy policy could call for operations not provided for by the Treaties of the Community and argued that: "these activities should be undertaken by the Member States in so far as their intervention serves the ends of Community policy".<sup>58</sup> Because a Community energy policy would be a continuous creation, the importance of a flexible, selective and calculated use of the available instruments was emphasised. Pending on a treaty comprising adequate arrangements for a common energy policy, it would vary if specific proposals submitted by the Commission would be feasible based on the Treaties in force or whether they would have to depend on agreements between the Governments of the Member States.

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<sup>57</sup> Treaty Establishing the European Economic Community, art. 189, March 25, 1957.

<sup>58</sup> Commission Communication (1968, December), COM (68) 1040, p.9.

Although the document defined some basic principles of a common energy policy which were approved by the Council, they were slow to translate into concrete proposals. The guidelines were criticised for being too diffuse and the lack of a specific action plan might have weakened the impact of the communication. Legal adviser Bastiaan van der Esch problematized the achievements of the guidelines in a document he wrote to the DG Energy in 1972, claiming that several Member States demanded that their options would be kept open regarding possible formal proposals by the Commission. The consequence of the decision-making process launched by the initial guidelines, was according to van der Esch, that the Commission's power of initiative was paralysed, without making it any easier to achieve a successful outcome.<sup>59</sup> Even though the communication symbolized the beginning of the road towards a common policy for energy, the concrete effects of the proposals seems to have been limited.

## Conclusion

The 1950s and 1960s brought with it huge changes in the field of energy in Europe. As the Community was experiencing economic growth, the energy consumption rose sharply and the European countries became very dependent on relative few oil producing areas. Common for many of these areas was political instability and the risks connected to that. This was demonstrated by the Suez Canal Crisis in 1956, an event that put energy dependency on the agenda. However, it took more than another decade before security of supply was considered as the top priority of the Community's common approach to energy policy. This might be linked to the ineffective organisation of energy policy within the Community before the merger in 1967, which led to a single administrative unit responsible for all energy sources. The Commission communication "First Guidelines Towards a Community Energy Policy" published the year after was at least followed up by several publications by the Commission on energy politics and especially security of supply.

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<sup>59</sup> Cailleau, "Energy: from synergies to merger", p.482-484.





### 3. Long-term Objectives

The concern regarding energy dependency came to dominate the Community's approach to a common energy policy after the first guidelines were published by the Commission in 1968. In 1972, the Commission submitted a new communication to the Council, urging the development of a community energy policy. Considerable changes within the policy context of energy were stressed as the energy situation strengthened the need for further collaboration within the Community. The supply situation for the future was considered as notably more dramatic than what had been the case in the period from 1960-70. Considering the scope of these problems, the Commission stressed the importance of developing a common approach within the Community. Attempts to solve the supply problems at a national level were described as doomed in advance and according to the Commission the implementation of a Community energy policy, essentially being a supply policy, should rapidly be proceeded. The communication published in 1972 also raised concerns regarding the oil producing countries, where governments increased their influence on the energy sectors' activities in the beginning of the 1970s.<sup>60</sup> These developments came to affect the Community only one year later and created the basis on which a more extensive Community approach to energy policy was formed. The aim was to increase the Community's energy security in the long term and for the attainment of this, concrete objectives were proposed by the Commission. This chapter will investigate the realisation of the "Objectives for 1985", which were later replaced by "Objectives for 1990". This will illuminate the Commission's role of stressing a common approach to energy security. Developments within the Community's energy balance in the period from 1974 to 1985 will be analysed considering these Objectives as well as external dimensions that affected the energy situation in the Community.

#### 3.1 The first "Energy Crisis"

During the first years of the 1970s, several members of OPEC nationalised their oil industry, thus decreasing the influence from oil companies and increasing their own control and interests over production and output. Several agreements were made between the oil producing states and the companies and Yergin writes in his book *The Prize*, that the Teheran Agreement in 1971 marked a watershed, where the initiative passed from the companies to the exporting countries. The profits of the governments as well as the price for oil were raised and Yergin refers to one OPEC official who claimed that the Tehran Agreements was the real turning point

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<sup>60</sup> Commission Communication (1972, October) Necessary progress in community energy policy, COM (72) 1200, p.5-9.

for OPEC and that the organisation got muscles after this. This opinion was shared by the companies, and clarified by the chairman of Shell, David Barran, who claimed the buyer's market for oil to be over.<sup>61</sup> The increasing oil price in the following years reflected this shift and between the late 1960s and mid-1973, the price per barrel rose from \$1.80 to \$3. However, this increase was nothing compared to the emerging oil shock that would strike the global energy market in late 1973.

In the wake of Egypt and Syria declaring their aim of recapturing the territories occupied by Israel since the Six-Day war of 1967, the Arab oil producing countries threatened to reduce their production of oil until Israel withdrew from them.<sup>62</sup> The war came to be known as the Yom Kippur War, named after the day of its outbreak, namely the Jewish holiday Yom Kippur, which took place on the 6<sup>th</sup> of October in 1973. It was used by the OPEC countries to flex their growing power and within a few months, the price for oil reached a level that had previously been unthinkable. Skeet, however, underlines that this happening was not a direct component of the OPEC story.<sup>63</sup> The production cuts and the decision to embargo among others the US and the Netherlands were taken by several of the Arab Ministers of Petroleum and OAPEC became important for the management of this movement. Unlike the failed embargo in 1967, which was characterised by different orientations among the Arab countries, Iljaz Shafi Gilani argues that OAPEC managed to deal with the conflict among its members regarding the price of oil.<sup>64</sup>

According to Haghghi, however, the failed embargo attempt of 1967 was still in mind in the oil importing countries and she claims that the US did not take the threats seriously, expecting the use of the "oil weapon" to have no more effect than in 1967.<sup>65</sup> Unlike 1967, however, both Europe and the US had increased their dependency on Mideast oil and given OPEC crucial leverage. Following the US support for Israel, OPEC responded by raising the posted price for oil by some 70 per cent, from \$3 to \$5.12 per barrel. Two months later, OPEC raised their oil prices again, this time to \$11.65, which meant quadrupled prices compared to the levels before the outbreak of the war.<sup>66</sup>

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<sup>61</sup> Yergin, *The Prize*, p.582.

<sup>62</sup> Haghghi, *Energy Security*, p.53.

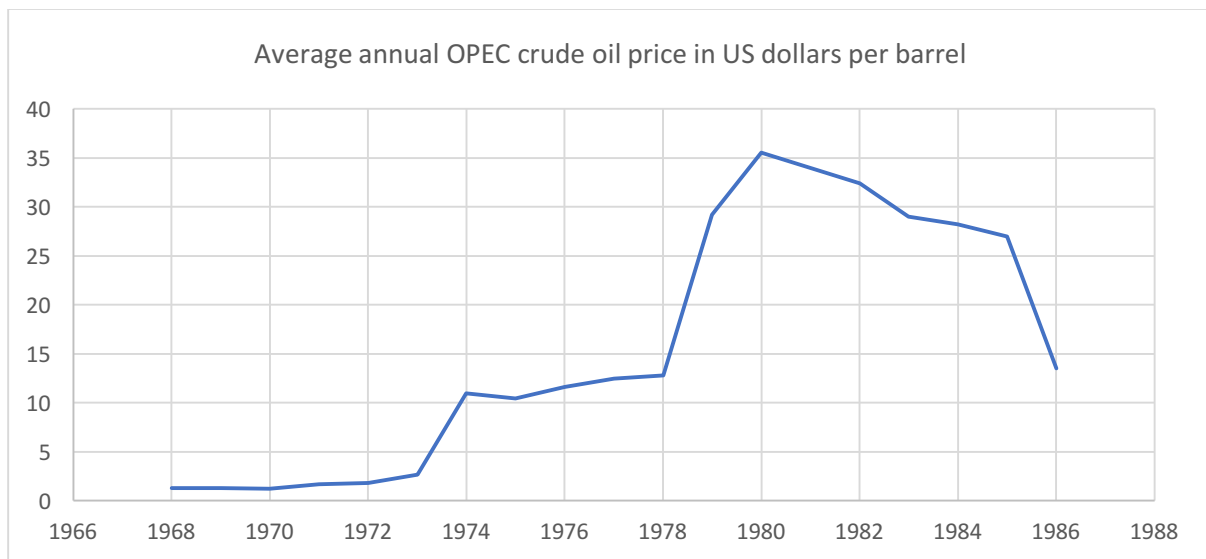
<sup>63</sup> Skeet, *Opec: Twenty-Five Years of Prices and Politics*, p.100.

<sup>64</sup> Gilani, "OAPEC and AFESD", p.63-69.

<sup>65</sup> Haghghi, *Energy Security*, p.53-54.

<sup>66</sup> Duffield, *Fuels Paradise*, p.25.

**Diagram 1 - OPEC crude oil price 1968-1986<sup>67</sup>**



Europe's problem with energy dependence obtained a peak of attention after these events. Suddenly the prices were at a level which had recently been unthinkable, and European consumers were affected by a variety of measures introduced by their countries in the fear of oil shortage in the European markets. These measures included restrictions in the sale of gasoline and the use of motor vehicles, restrictions on non-essential uses of electricity and limitations in the heating of buildings.<sup>68</sup> Looking at this situation in light of Ullmans' conception of national security, which included threats to the quality of life for the inhabitants, the importance of energy security seems to be obvious. The Arab countries' decision on using oil as a political weapon had more than ever before drawn attention to Europe's vulnerable oil dependency. The price shock was followed by the most comprehensive initiatives yet to be promoted by the Commission. In June 1974, the Commission released a communication to the Council entailing proposals for a "New Energy Policy Strategy for the Community". This document came to be the beginning of a more concrete approach to energy policy by the Commission, mainly targeting the challenge of supply security.

### 3.2 A new energy supply structure to meet the future

In the fall of 1972, the Commission published a communication titled "Energy Policy: Problems and Resources 1975-1985". Two main hypotheses were examined to account for the uncertainties affecting the supply situation for oil. One for that of a stable market with surplus available, and one of a market where supply tightens, leading prices to rise considerably. The

<sup>67</sup> Statista, "Average annual OPEC crude oil price from 1960-2017".

<sup>68</sup> Haghighi, *Energy Security*, p.54.

second hypothesis could occur if production for example would be deliberately restricted, but the Commission underlined that such a development would not be in the interests of either the consuming or the producing countries. Energy exporters could according to the Commission risk losing a large part of their market as a sharp increase in oil prices could make large consumers change to other sources of energy.<sup>69</sup>

Less than two years later, however, the Commission acknowledged that the second of these hypotheses had to be the view of the future, on which a Community energy policy could be based on. This perspective indicates that the energy crisis of 1973 contributed to amplify the Commission's realisation of the seriousness of the Community's energy dependence and the vulnerability associated with it. A hypothesis, that according to the Commission might have seemed unlikely in 1972, but because of the sharp rise in oil prices, it seemed to have become the correct hypothesis as the aforementioned New Energy Policy Strategy was presented in 1974. Because of this realisation, the communication that presented this new strategy, stressed the need for security even more than what had been the case in the previous communications. This should, according to the Commission be done by: "seeking to create a structure in which no one decision centre can have such an importance for supply that it can compromise the overall stability of deliveries, in quantity or in price".<sup>70</sup> This statement confirms that the Arab embargo had been more successful than the one in 1967 and underlines the reflections that followed the Tehran Agreements in 1971, claiming that OPEC got muscles after this event and that the buyer's market for oil was now over.<sup>71</sup>

The new strategy stressed the need of improving the Community's high dependence on external energy sources, and envisaged an energy supply structure relying mainly on nuclear energy and on gas as a reasonable aim for the end of the century. Nuclear energy was highlighted as the clearly best solution for large-scale production of electricity and the Commission predicted that this source could ensure at least 50 per cent of total energy requirements around the year 2000. "Its ready availability, adaptability, and ease of transport and storage, and the fact that it safeguards the environment" were used as arguments to underline the potential of this energy source. According to the Commission, nuclear energy could in fact offer a high degree of security of supply, even though the Community itself only had limited resources of uranium. A

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<sup>69</sup> Commission Communication (1972, October), Energy Policy: Problems and Resources 1975-85, COM (72) 1201, p.24-28.

<sup>70</sup> Commission Communication (1974, June) Towards a new energy policy strategy for the European Community, COM (74) 550 final/2 (June 1974), p.4.

<sup>71</sup> Yergin, *The Prize*, p.582.

policy of diversifying sources of supply and establishing stable relationships with the producers of uranium could, however, more than for most of the other energy sources, rapidly increase that security. For gas, the Commission predicted that it could cover nearly 30 per cent of energy consumption within the century. The gas would be obtained from different primary sources and would include natural gas produced in the Community, as well as imported gas from non-member countries. If the Community were to follow these long-term objectives and base its energy economy on nuclear power and gas, the Commission argued that the Community would be left with a very limited dependence on coal and oil towards the end of the century.<sup>72</sup>

### 3.3 Objectives for 1985

In the aim towards the long-term objective of an energy policy depending mainly on nuclear energy and gas, concrete Objectives for 1985 were proposed as a first step. The proposal, presented by the Commission, focused both on targets regarding the demand side and the supply side for energy. For example, more efficient use of energy should be achieved by implementing a deliberate policy, something that could reduce the annual increase in requirements.<sup>73</sup> The objective of reducing the growth rate of internal energy consumption from 5 per cent to 3.5 per cent was proposed.<sup>74</sup> Furthermore, the consumption of electricity should be encouraged, increasing the total share of energy used in this form from 25 to 35 per cent. This should create a possible market for nuclear energy, but the Commission underlined that the effect of this measure would depend on the development of nuclear energy and reduction of petroleum products in power stations. On the supply side, the Commission urged to expand nuclear facilities, to increase the consumption of solid fuels and of gas and to limit the oil consumption to specific uses, like for example motor fuel. The arrival of new sources of crude oil was also emphasised as a positive outcome for the future, were especially oil from the North Sea would reduce the dependence on the present suppliers significantly.<sup>75</sup>

The Objectives proposed for 1985 were aiming to decrease the degree of Community dependence on imported energy from 63 per cent in 1973 to 40 per cent in 1985. This implied a reduction in the share of oil in the overall consumption from 60 per cent to 40 per cent and to limit the degree of dependence on outside oil sources from 98 per cent to 75 per cent. To reduce the total consumption of oil, the Commission considered the replacement of oil in power

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<sup>72</sup> Commission Communication (1974, June), COM (74) 550 final/2, p.5-6.

<sup>73</sup> Ibid., p.9.

<sup>74</sup> Commission Communication (1974, November), Community Energy Policy – Objectives for 1985, COM (74) 1960, p.6.

<sup>75</sup> Commission Communication (1974, June), COM (74) 550 final/2, p.9-10.

stations by nuclear energy and solid fuels as the most important measure. This meant that the current production of solid fuels had to be maintained while imports should increase. The long-term objective of developing nuclear energy and gas to cover most of the Community's energy demand towards the end of the century was also reflected in the Objectives. These two energy sources were considered to ensure the most important changes for the energy consumption in the Community.<sup>76</sup>

A revised proposal of the Objectives for 1985 was presented in a new communication published in November 1974 and is displayed in Table 4. It shows the estimated levels of consumption in 1973 and the initial forecasts for 1985. The influence of the different energy sources is illustrated by tonne of oil equivalents as well as percentage share of the total consumption. Proposing to rise the market share of nuclear energy and gas respectively from 1.4 per cent to 16 per cent and from 11.6 per cent to 20-23 per cent, the table clearly states the importance imposed to these two energy sources.

**Table 3 - Total primary energy needs in the Community<sup>77</sup>**

	1973 Estimates		1985 Initial forecasts		1985 Objectives	
	Mill. toe	%	Mill. toe	%	Mill. toe	%
Solid fuels	227	22.6	175	10	250	17
Oil	617	61.4	1160	64	600-650	41-44
Natural gas	117	11.6	265	15	340-290	23-20
Hydroelectric and geothermic power	30	3.0	40	2	43	3
Nuclear energy	14	1.4	160	9	242	16
Total	1005	100	1800	100	1475	100

The importance imposed to nuclear energy and gas was also underlined in the Commission's estimation of the investments necessary to attain the 1985 Objectives. Overall they were estimated to reach 300 000 million 1973 dollars of which the development of nuclear energy would require \$120 000 million and gas \$110 000 million in 1973 dollars. Compared to the previous Community level of investment in the energy sector the level would have to be raised

<sup>76</sup> Commission Communication (1974, June), COM (74) 550 final/2, p.9-10.

<sup>77</sup> Commission Communication (1974, November), COM (74) 1960 final, p.5.

from some 1.5 per cent of the Community product in the period 1965-75 to probably between 2 and 2.5 per cent for the period 1975-85. However, despite huge costs of investment, the Commission underlined how the investments would lead to future profitability. Not only would these investments facilitate security of supply, but the New Strategy would also make the cost of supplies progressively cheaper. In the communication presenting it, the vulnerability of depending on external imports of energy was frequently stressed and underlined by the following statement: “..a large drop in the price of imported energy could alter the situation, but can one reasonably expect a reduction in the cost of imported energy if no competitive alternative (i.e. Community energy) is offered?”<sup>78</sup>

### 3.4 Setback and a slow start for the Objectives

In December 1974, the Objectives for 1985 were discussed in the Council, which made a resolution based on the Commission’s communication. The resolution approved the objective of reducing Community dependence as it acknowledged the risks associated with the Community’s high degree of dependence on energy sources imported from third countries. The continuation of this was described as jeopardizing the economic balance of the Community and to reduce this dependence as much as possible was therefore stated as necessary in the resolution. The objectives approved by the Council were, however, far less ambitious than the objectives proposed in the Commission’s communication. Where the communication argued to aim for an objective of reducing Community dependence on imported energy to 40 per cent, the resolution only approved the objective of reducing the dependence to 50 per cent and if possible to 40 per cent by 1985.<sup>79</sup> This setback for the ambitious objectives set out by the Commission illustrated that the underlying framework for the strategy was relatively weak. In his analysis on the Community’s reaction to the 1973 Oil Crisis, McGowan highlights the fact that the objectives were non-binding and that a Community energy policy was limited as long as Member States aimed at retaining sovereign control over this area of policy.<sup>80</sup> This view is shared by Georges Brondel and Noel Morton in their analysis of the new energy strategy, as they underline the essential position of the member states and their will to cooperate with each other:

*..even when the broad lines of Community energy policy are approved by the Council of Ministers and enshrined in a Council Resolution, they are, for the most part, exhortatory rather than binding on the Member States. The*

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<sup>78</sup> Commission Communication (1974, June), COM (74) 550 final/2, p.15.

<sup>79</sup> Council Resolution, Concerning Community energy policy objectives for 1985, 1974 O. J. C 153/2.

<sup>80</sup> McGowan, ”Putting Energy Insecurity into Historical Context”, p.502.



*objectives of the energy policy are achieved not by Community fiat but by requesting the cooperation of the Member States.*<sup>81</sup>

Despite the fact, that the objectives approved by the Council were less ambitious than the proposed ones, the resolution demonstrated the common will of decreasing the Community's dependency on imported energy. A Council resolution from September 1974 had already decided that the Commission should report every six months on which the Council would periodically discuss the progress made in the realization of the Community objectives.<sup>82</sup> This decision permitted the Commission a place in energy-making in the attainment of the Objectives for 1985. Despite its lack of enforcement, the Council resolution on the Objectives confirmed the Commission's role as an agenda setter for a common approach to energy policy. This finding is also confirmed by McGowan as he summarises the Council's approval of the Commission's proposals: "While only indicative, the policy was significant as a Community statement on how member states should direct their energy programmes".<sup>83</sup> Although the Resolution had proved the shortcomings of the Commission within the policy field of energy, the basic principle of decreasing supply dependency had gained some support.

### 3.5 Slow start towards the Objectives

The first report on the achievements of the Objectives for 1985 was published by the Commission in January 1976 and was based on the current energy forecasts drawn up by the member states in the fall of 1975. At that time, the demand for energy was estimated to be below the Objective for 1985. However, the Commission underlined that most of the downward adjustments were a result from the increasingly pessimistic trend of economic assumptions. If the economic growth should return to the hypothesis made when the Objectives were approved in 1974, the level of energy consumption for 1985 would according to the Commission exceed that contained in the targets. One of the concerns highlighted in the report, was the stagnation in demand for electricity, which also was considered to be a consequence of the economic situation. The Commission addressed the risk that some member states could revise and scale down their nuclear programmes because of this, which was reflected by the current forecasts pointing to a shortfall compared to the Objectives.<sup>84</sup>

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<sup>81</sup> Brondel & Morton, "The European Community – An Energy Perspective", p.343.

<sup>82</sup> Council Resolution, Concerning a new energy policy strategy for the Community, O.J. C 153/1.

<sup>83</sup> McGowan, "Conflicting Objectives in European Energy Policy", p.125.

<sup>84</sup> Commission Communication (1976, January), Report on the achievement of the community energy policy for 1985, COM (76) 9, p.8-15 (Appendix 2).

Nine months after the first analysis on the progress towards the 1985 objectives, the Commission expressed even greater concerns about the preliminary developments in a communication to the Council. The ambitious target of reducing the dependency on imported energy from 60 per cent to 40 per cent was according to the Commission now beyond the Community's reach and the minimum target of 50 per cent was already in doubt. Several reasons were considered as decisive for the modest progress, but especially slow development for the nuclear programmes and problems sustaining domestic coal production were emphasised as crucial for the first years of the long-term objectives.<sup>85</sup>

These concerns were again stressed by the Commission in the second report on the achievements of the objectives for 1985 published in July 1977. In this report, the Commission stated that the Community's energy policy was still unclear and that there was a lack of a true Community approach. According to the Commission, the temptation to seek national solutions to the difficulties caused by developments on the world energy market, remained great and the adoption of Community measures which could help to achieve the objectives were reported to be narrowed by considerable difficulties. These complications were considered as the weaknesses of the Community's energy policy, and reflects the arguments put out by McGowan and Brondel & Morton, highlighting the importance of the member states and the lack of Community power within the policy field.<sup>86</sup>

Just like the Commission had expressed in 1976, the report from July 1977 also underlined that the development of nuclear energy was still behind schedule for the attainment of the Objectives for 1985. Only three years after this energy source was presented as the most promising solution to improve the Community's energy security, the situation was in fact described as worrying. In addition to the lower growth in the demand for electricity, as had already been highlighted by the Commission, the report also emphasised that increasing public doubts was affecting the development of nuclear programmes. To compensate for the delays to nuclear programmes, the Commission stressed the need of further reliance on coal and natural gas as it urged the need for more production as well as imports of these resources.<sup>87</sup>

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<sup>85</sup> Commission Communication (1976, September), Community energy policy, COM (76) 508 final, p.1-2.

<sup>86</sup> Commission Communication (1977, July), On the achievements of community energy policy objectives for 1985, COM (77) 395 final, p.4-9.

<sup>87</sup> Ibid.

### 3.6 Financing programmes by the Community

In the New Energy Policy Strategy from 1974, the Commission had stressed the need for huge investments in the energy sector if the Objectives for 1985 were to be reached. Three years later, however, investment forecasts by the member states were lower than what the Commission expected to be sufficient for reaching the Objectives. If the target of decreasing the Community dependence to a minimum of 50 per cent was to be reached, the Commission estimated that the investment would have to reach levels up to 20 per cent more than those forecasted.<sup>88</sup> However, in light of the acknowledged necessity to increase investments within the energy field, the Commission had presented a communication proposing Community action already in 1975. In the communication titled “Financing of the Energy Policy by the Community”, the Commission proposed that the Community’s role in the financing of energy investments had to be increased. This would help attaining the 1985 Objectives and give proper attention to the difficulties of reducing the Community’s dependence on imported energy. Community financing would also make it easier to overcome financial or structural obstacles which could prevent the achievement of the Objectives in certain industries or member states.<sup>89</sup>

The proposals were followed up by two Council Decisions adopting research programmes that should run for four-year periods and be implemented by the Commission. Improvement of energy conservation and development of renewable sources in the form of solar and geothermal energy were among the priorities of the first program decided in 1975.<sup>90</sup> The second program was adopted in 1977 and included targets for improving nuclear safety, while development of solar and geothermal energy should be continued.<sup>91</sup> The gradual focus on renewable sources of energy also appeared in the reports on the achievements of the Objectives for 1985. While these sources only had been predicted to play a small role towards the end of the century by the Commission in 1974, they now seemed to be gaining more attention.<sup>92</sup> The Commission emphasised in its communication from January 1976, that one should take into account the contribution of new energy sources like solar and geothermal energy.<sup>93</sup> Although the development of these sources was considered to be modest up to 1985, the emphasis was repeated by the Commission in July 1977 as it underlined the importance of research into new

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<sup>88</sup> Commission Communication (1977, June), First reflections on the development and the protection of energy investment in the Community, COM (77) 184, p.1-3.

<sup>89</sup> Commission Communication (1975, June), Financing of The Energy Policy by the Community, COM (75) 245, p.13.

<sup>90</sup> Council Decision No. 75/511/Euratom, 1975 O. J. L 231/1.

<sup>91</sup> Council Decision No. 77/488/EEC, Euratom, 1977 O. J. L 200/4.

<sup>92</sup> Commission Communication (1974, June), COM (74) 550 final/2, p.6.

<sup>93</sup> Commission Communication (1977, January), COM(76) 9, p.13.

energy sources. In this communication, the development of these sources was in fact considered to be vital for the future.<sup>94</sup>

Another measure introduced to decrease the Community's dependency on external sources of energy was the adoption of the Euratom loan scheme in March 1977.<sup>95</sup> The Commission was hereby empowered to issue loans for the financing of nuclear energy projects. This could imply that 2-3 per cent of the total financial requirements for energy investments forecasted for the period 1976-1985 could be channelled through the Community. According to the Commission, loan finance for investment in the energy sector could now both increase in volume and be available on more attractive terms than the individual enterprises would have been able to obtain on the international capital market. In a communication from June 1977, the Commission underlined the importance of Community loans and argued for the need of similar instruments for energy investments also outside the nuclear sector.<sup>96</sup>

### 3.7 Decreasing energy consumption and the second "Energy Crisis"

In November 1978, the third report on the attainment towards the 1985 Objectives was published by the Commission, reviewing the period 1973-1977 as fairly satisfactory omitting the economic context. Although the economic activity had increased by 7 per cent over the period, the energy consumption had decreased, which is displayed in Diagram 2. The proportion of oil in overall consumption had fallen from 59 to 54 per cent and the dependency on imported energy from 63 to 56 per cent. Still, given the link between energy consumption and economic growth, it must be taken into account that because of the economic development in the current period, the level of energy consumption was lower than the forecasts made for 1985. Because of this, it was now expected that the consumption and energy production levels initially forecasted for 1985, would be reached only towards 1990. Because of this development, the forecasts for the 1985 target of reducing dependency to below 50 per cent were somewhat positive, although the output of energy sources within the Community remained lower than proposed in the Objectives. To assure that the 1974 Strategy, designed to minimise the dependency on imported energy, would also be followed after 1985, the Commission highlighted the necessity to set new targets for 1990.<sup>97</sup>

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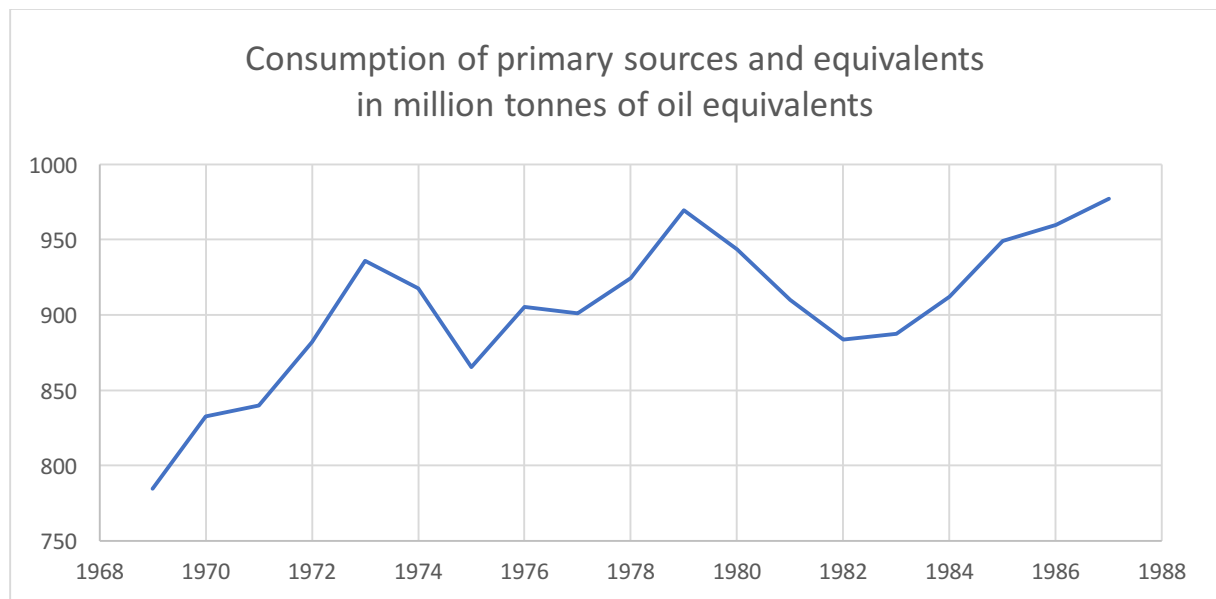
<sup>94</sup> Commission Communication (1977, July), COM (77) 395 final, Annex 1 p. 2-6.

<sup>95</sup> Council Decision No. 77/271/Euratom, 1977 O. J. L 88/11.

<sup>96</sup> Commission Communication (1977, June), COM (77) 184, p.1-3.

<sup>97</sup> Commission Communication (1978, November), Energy Objectives for 1990 and Programmes of the Member States, COM (78) 613 final, p.1-4.

**Diagram 2 - Energy consumption in the Community<sup>98</sup>**



Before the Commission managed to propose specific proposals for the 1990 Objectives, however, external developments placed the Community's energy dependence at the centre of attention again. In late 1978, the Community was again struck by another energy crisis causing a rapid growth of the oil price. As in 1973, the Middle East was in the centre of attention, but unlike the first oil crisis, it was not a war or the use of oil as a political weapon which caused this one. It was in fact triggered when Iranian oil workers went on a strike in October 1978. Even though Iran was one of the largest oil producers in the world and its production dropped from 6 million to 500 000 barrels per day towards the end of the year, the total loss to the market was only marginal. Other states increased their output to compensate for the decline and according to Duffield, the responses of consumers was as much the root of the crisis as the development in Iran: "... many oil companies, independent refiners, and governments responded by building up their stocks as quickly as possible. As a result, the net shortfall amounted to as much as 5 MBD, which was comparable in size to the previous oil shock".<sup>99</sup> The shortfall caused a massive price hike, which is displayed in Diagram 1. It was considered even greater than that of 1973 as the oil price more than tripled from \$13 to a temporary high of \$41 per barrel between October 1978 and November 1979.<sup>100</sup>

<sup>98</sup> Numbers from *Eurostat Energy Statistics Yearbook*: 1970-1974 p.3, 1970-1975 p.3, 1978 p.23, 1979 p.17, 1980 p.3, 1981 p.3, 1982 p.3, 1983 p.5, 1984 p.5, 1986 p.6 and Commission Working Document, *The Energy Situation in the Community – Situation 1977, Outlook 1978* p.11.

<sup>99</sup> Duffield, *Fuels Paradise*, p.26-27

<sup>100</sup> *Ibid.* p.27.

### 3.8 Renewing the Objectives for 1985

The recent development was of course one of the topics as the Commission published the specific proposals for the 1990 Objectives to the Council in the summer of 1979. Again, the vulnerability of the Community's energy supply had appeared and the Commission underlined the wisdom of the New Energy Policy Strategy from 1974, namely to decrease the Community dependence on external imports. The target of limiting this to 50 per cent was repeated, while an additional objective of restricting the level of net imports of oil to 470 million tonnes was added. This was the same as the level reached in 1978. In addition to this, the ratio between the growth of energy consumption and economic growth should be reduced below 0.7. Focusing on many of the same measurements that already were emphasised as important, the 1990 Objectives should be a continuation of the 1985 Objectives. Hence, it drew attention on increasing the share of nuclear energy, solid fuels and the exploitation of Community oil and gas. The proposal also reflected the increased focus on renewable energy sources as it encouraged for search and utilization of these.<sup>101</sup>

Regarding the 1985 Objectives, the Commission acknowledged that the time was running out and that only limited influence could be exerted on the situation of 1985. Thus, most of the policy orientations and investment decisions would determine the Community's attainment of the 1990 objectives. The most positive development highlighted in the report was the adoption of energy-saving programmes in the member states.<sup>102</sup> This tendency could be related to the Community's adoption of a regulation for granting financial support for projects in the field of energy-saving in 1978. The four-year programme provided the Commission a role to decide which projects that should be supported and confirmed the Community's will to reduce the growth rate of internal energy consumption.<sup>103</sup> Because of a promising trend in the policies of energy-savings, the Commission estimated that a ratio between economic growth and energy consumption below 0.7 by 1990 would not be unreasonable. Further commitment to energy-saving programmes was highlighted as one of the most important priorities in reaching the 1990 objectives. Again, however, nuclear energy and the necessity of accelerating the nuclear programmes was stressed as well as a greater increase in the use of coal.<sup>104</sup>

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<sup>101</sup> Commission Communication (1979, June), Energy objectives of the Community for 1990 and convergence of policies of member states, COM (79) 316 final, p.18-19.

<sup>102</sup> Ibid, p.14.

<sup>103</sup> Council Regulation No. 1303/78, 1978 O.J. L 158/6.

<sup>104</sup> Commission Communication (1979, June), COM (79) 316 final, p.3-16.

Since the Commission presented the New Energy Policy Strategy for the Community in 1974, the development of nuclear energy had been highlighted as the key factor of solving the Community's energy insecurity. When the 1985 Objectives were presented in 1974, the aim of ensuring that 50 per cent of the electricity production should be nuclear-based by the mid 1980s was proposed.<sup>105</sup> The fact that the proportion of nuclear electricity only rose from 6 per cent to 11 per cent between 1973 and 1979, indicates how poor these proposals had been adopted. Considering the high expectations as the 1985 Objectives was proposed, the commitment to nuclear energy had been marginal and demonstrated the limitations of the Commission to realise its visions. By 1979, nuclear energy contributed some 3.2 per cent to the Community's energy needs and public opposition was increasingly mentioned as an obstacle to its development. However, the Commission continued to highlight that nuclear energy, alongside coal, was the main alternative to oil imports in the long term.

### 3.9 Less energy dependence, more energy production

The first years of the 1980s were in general characterised by a falling energy consumption in the Community and in 1981, the Community reached the 1985 objective of less than 50 per cent dependence on external sources of energy supply. This was the lowest level attained since 1965. The share of oil was down to 51 per cent of the primary energy consumption, which illustrated a great progress towards the 1990 objective of 40 per cent. At the same time as the demand for oil fell, the Community's domestic oil production increased by 11.3 per cent in 1981. Exploitation of new fields in the British and Danish sectors of the North Sea brought the Community's net oil import requirements to drop from 487 million tonnes in 1979 to 358 million tonnes in 1981.<sup>106</sup>

Unlike the poor achievements in the field of nuclear energy in the 1970s, the beginning of the 1980s were successful, also for this energy source, which is displayed in Diagram 3. In 1981, nuclear stations provided some 16.7 per cent of total Community electricity supplies. Still, the share was far from the aim of 50 per cent by 1985, but the improvement compared to the share of 11 per cent in 1979 was very positive.<sup>107</sup> In a report evaluating the Euratom Loan Facility, the importance of this instrument for the acceleration of the nuclear sector was highlighted: "During the period 1977 to 1987, the Euratom loans co-financed the construction of nine

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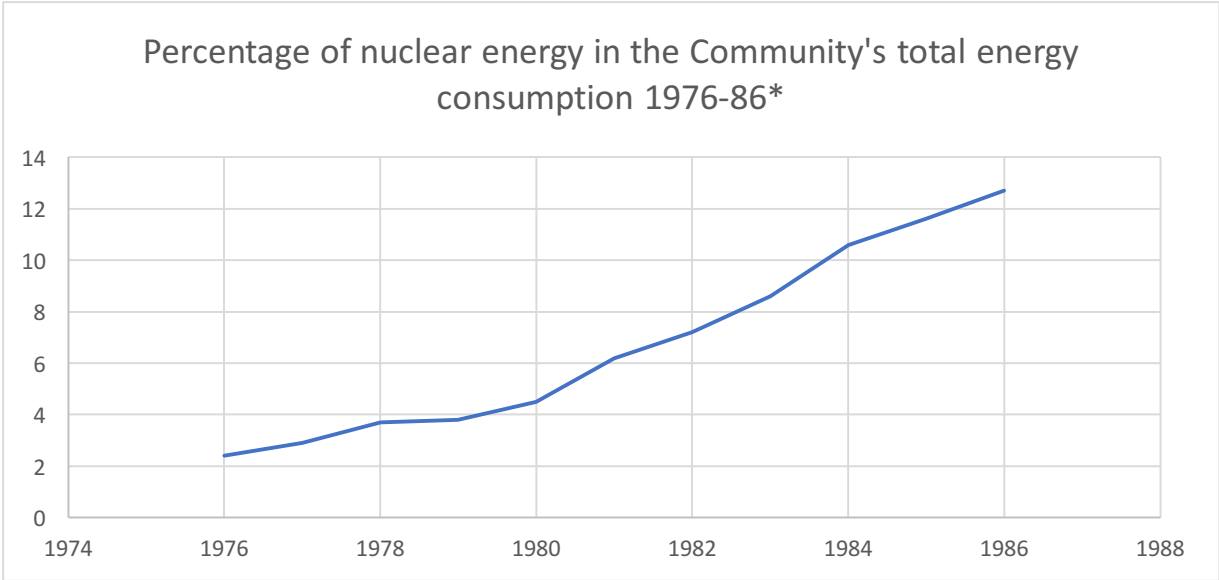
<sup>105</sup> Commission Communication (1974, June), COM (74) 550 final/2, p.20.

<sup>106</sup> Commission Communication (1982, June), Review of Member States' energy policy programmes and progress towards 1990 objectives, COM (82) 326 final, p.3.

<sup>107</sup> Ibid. p.3.

nuclear power plants; a uranium enrichment plant; and, a uranium reprocessing facility”.<sup>108</sup> The number of loans and loan amounts approved over this ten-year-period was highest in the first years of the 1980s, and might, like the report argues, have been decisive for the increase of nuclear energy in these years.

**Diagram 3- Share of Nuclear energy in the Community<sup>109</sup>**



1) Lacking data from 1985.

As a result of several national programmes for use of coal and nuclear energy in power stations, the forecasts for the energy development in the occurring period were also positive. However, the Commission acknowledged that the economic recession in the years following the Second Oil Crisis had been decisive for the reduction of the Community’s energy demand. The oil price had remained high and the risk related to changes in the price was underlined. A fall in the oil price could, according to the Commission, create uncertainty among consumers and investors about the benefits of the transition to alternative energy sources and the commitments to energy-savings, and thus slow down the process.<sup>110</sup> Looking back at the achievements since 1973 in a communication published in May 1985, however, the Commission underlined that successful

<sup>108</sup> Wilkinson, Mathis and Lewis, *Ex-Post Evaluation of the Euratom Loan Facility*, p.17.  
<sup>109</sup> Numbers from Eurostat, *Eurostat Energy Statistics Yearbook*: 1980 p.7, 1981 p.3, 1982 p.3, 1983 p.5, 1984 p.5, 1986 p.4 and Commission Communication (1979, March), *Energy Situation in the Community and in the World*, COM (79) 142 final, p.13.  
<sup>110</sup> Commission Communication (1982, June), COM (82) 326 final, p.12-18.



policy measures within the energy field and changes in the pattern of energy use, had also contributed to that the Community now was in a position to reach the 1990 Objectives.<sup>111</sup>

In its analysis on the progress towards the Objectives and on the importance of Community-level activities, the Commission argued that the Objectives had underlined the direction which national policies should take. Although the energy situation of the member states varied, the Objectives had represented a consensus on energy priorities, after being adopted by the Council in 1974 and in 1980. With the latest review of the member states' energy programmes in mind, the Commission conclude that this approach had been successful:

*Through co-ordinated efforts it has been made possible to reduce oil consumption, increase energy efficiency and improve security of supplies. Furthermore, the regular monitoring of progress by the Commission and the Council has strengthened national efforts, enabled governments to better understand the energy problems of their partners, and helped to create an atmosphere of mutual understanding and co-operation within the Community.<sup>112</sup>*

This view was confirmed by the Council in a press release from November 1984 as it expressed the importance of common energy objectives and of the Commission's monitoring role.<sup>113</sup> Many of the principles presented in the New Energy Policy Strategy from 1974, which were to be reached by aiming for the Objectives, seemed to have been adopted by the mid-1980s. In the years between 1973 and 1983, the consumption in the Community fell by over 6 per cent, although the GDP grew by over 18 per cent in the same period. This underlined that the aim of weakening the link between economic growth and increase in energy consumption, particularly highlighted in the 1990 Objectives, had been successful. This was an important achievement in the progress towards improving the energy security of the Community, which was the main element of the strategy from 1974. In 1983, imported oil accounted for only 32 per cent of the total energy needs in the Community, compared to 62 per cent ten years earlier. Summarising the developments leading to this, the Commission highlighted the production of North Sea oil, increase in the consumption of natural gas, more than a fourfold increase in nuclear electricity production and increased use of solid fuels in the electricity sector during the period.<sup>114</sup>

## Conclusion

The period from 1974 to 1985 was characterised by frequent proposals and reports by the Commission on the energy situation in the Community. As the New Energy Policy Strategy

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<sup>111</sup> Commission Communication (1985, May), New Community Energy Objectives, COM (85) 245 final, p.6-8.

<sup>112</sup> Ibid. p.11.

<sup>113</sup> Council Press Release, 10441/84 (Presse 190) 966th meeting of the Council, 13.November 1984.

<sup>114</sup> Commission Communication (1985, May), COM (85) 245 final, p.7-8.

was presented in 1974, the Commission underlined the need of a long-term strategy to improve the energy security in the Community. The approval of the 1985 Objectives by the Council the same year confirmed a common will of decreasing the Community's supply dependence. However, the objectives approved were far less ambitious than those presented by the Commission, which illustrated that the underlying framework for the strategy was weak. The fact that the objectives were non-binding, limited the Commission's influence and it had to settle with the role of primarily being an agenda-setter in the attainment of them. Despite narrow influence, the Commission managed to mobilise some important measures with relevance for the 1985 Objectives and which improved the energy security in the Community. Financial initiatives promoted by the Commission seems to have been effective in especially the development of nuclear energy, but also for improvements in the field of energy-saving.

Even though improved energy conservation might have contributed to decrease the energy consumption within the Community in the period, the external situation seems to have been of greater significance. When the 1985 objective of less than 50 per cent dependency on external sources was reached in 1981, the oil price was more than three times higher than the record high price of 1973. The inland consumption had also decreased, which also must be assumed to largely be a consequence of the economic situation that characterised the ten-year period. Although the Commission repeatedly stressed more commitment from the Member States in the attainment of the objectives, it found them to represent a consensus of the different energy policies. According to itself, its role with monitoring the progress had strengthened national efforts and the Community had accomplished to reduce its oil consumption, increase energy efficiency and improve security of supplies.



#### 4. Short-term security: Stockpiling

The importance of oil was highlighted after the Suez Canal Crisis in 1956 and the vulnerability of oil importing economies became obvious. It is vital for every modern industry to have a continuous flow of energy, and the ever increasing influence of oil in the Community made it sensitive to external disruptions.<sup>115</sup> This observation was made by the Oil Committee of the Organisation for Economic Co-operation and Development (OECD) in a report in the wake of the Suez Canal Crisis, as it drew attention to the long-time consequences of it.<sup>116</sup> The importance of oil was highlighted and it proposed new initiatives to minimise the effects of a potential crisis of similar art in the future. Collaboration between its member states was stressed and one of the measures proposed was to build up larger reserves of oil in Europe than had been held before.<sup>117</sup>

The following decades were characterised by several agreements on emergency management strategies. These were meant to increase the energy security by preventing a reduction in the oil supply, which could damage both the economy and the quality of life in a country. Edward N. Krapels argues that there are a limited number of ways to deal with an import loss and summarises these to be: “(1) [increase supplies from foreign producers]; (2) restrain domestic demand; (3) increase domestic production or switch to other fuels; or (4) draw down stocks”.<sup>118</sup> How effective these different measures are, would according to Krapels vary and depend on the scope and duration of the disruption. Stock drawdowns can for example be effective in case of a very short disruption, while demand restraint is likely to be a better solution in case of a very long disruption. These two measures were according to Haghghi also considered to be the most feasible and efficient measures in light of the supply situation in the Community. The problem is, however, that the level and duration of future disruptions is hard to estimate, which particularly applies to disruptions caused by political reasons. This makes it difficult to plan and coordinate measures if a disruption appears.

The following chapter will look into the occurrence of a Community stockpiling policy and how the Commission took initiatives to improve the internal energy security within the Community in case of sudden and temporary supply disruptions of oil.

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<sup>115</sup> Krapels, *Oil Crisis Management*, p.ix.

<sup>116</sup> When the report was published in 1958, the organization was named the Organisation for European Economic Co-operation (OEEC), but after the organisation expanded in 1961, the name was replaced.

<sup>117</sup> Haghghi, *Energy Security*, p.45.

<sup>118</sup> Krapels, *Oil Crisis Management*, p.6-7.

#### 4.1 1968 Council Directive on stockpiling

The previously mentioned OECD report after the Suez Canal Crisis, was followed by an OECD stockpiling programme that was monitored by its Oil Committee.<sup>119</sup> The Oil Committee came to provide a framework for the OECD members in which energy matters were studied and discussed and where efforts to cooperate and co-ordinate within this field were made. All the Member States of the Community were members of the OECD and according to Louis Turner, the OECD was far more concerned with oil matters than the Commission at that time.<sup>120</sup> However, since the Commission was involved in the work of the Oil Committee, A. C. Evans writes that the stockpiling policy of the OECD was soon adopted by the Community.<sup>121</sup>

The Community's engagement in stockpiling first emerged in 1964 as the EEC Council adopted a protocol where Member States agreed to strive for a common policy on energy, which among others should include a common policy on oil stocks.<sup>122</sup> When the "First Guidelines Towards a Community Energy Policy" was presented by the Commission in 1968, it contained a proposal for a stockpiling policy for crude oil, oil products and nuclear fuels as a measure to meet possible supply difficulties.<sup>123</sup> Although the First Guidelines were criticised for being diffuse and for having limited importance for a common Community approach to energy policy, the proposal for a common stockpiling policy was adopted.

Shortly after it was published, a Council Directive (68/414/EEC) imposed an obligation on the Member States to maintain minimum stocks of crude oil. According to the Directive, Member States had to adopt laws, regulations or administrative provisions in order to maintain their level of petroleum products to a level of at least 65 days' average daily internal consumption at all time. In case of domestic production of oil, a 15 per cent reduction of the said consumption could be given. At the end of each quarter, a statistical summary of the existing stocks and the number of days they represent should be submitted to the Commission. Member States were allowed to establish stocks within the territory of another Member State under agreements between themselves. Such an agreement should require that the Member State where the stocks were held would not be able to oppose their transfer to the other Member State. The Directive did not, however, clarify exactly when the reserve stocks should be drawn on as it only specified it to be when: "difficulties arise with regard to Community oil supplies, the Commission shall,

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<sup>119</sup> UNSPECIFIED, *OECD : History, Aims, Structure*, p.33.

<sup>120</sup> Turner, "The Politics of the Energy Crisis", p.410.

<sup>121</sup> Evans, "The International Energy Agency", p.440.

<sup>122</sup> Council Protocol, Protokoll eines Abkommens betreffend die Energiefragen, 21. April 1964, O.J. 1099/64.

<sup>123</sup> Commission Communication (1968, December), COM (68) 1040, p.11.

at the request of any Member State or on its own initiative, arrange a consultation between the Member States”.<sup>124</sup> Even though it did not define what was meant by “difficulties”, Haghghi assumes it to be the physical shortage of oil in the Community compared to demand.<sup>125</sup>

In his review of European energy policy, McGowan argues that the adoption of the Commission’s proposal was a consequence of the Six Day War in 1967. According to him, the Council Directive had demonstrated the growing concern about security of supply within the Community.<sup>126</sup> This observation is also made by Haghghi, as she also underlines the influence of the unsuccessful embargo attempt by the Arab states in 1967. The vulnerability of the Community’s supply security and the risks of temporary disruptions had gained increasing attention, which led to the obligation on holding stockpiles. From the perspective of internal security, Haghghi emphasised this undertaking as one of the most important ones within the Community. By obliging Member States to put some energy aside, the energy security within the Community was improved as this method provided a valuable guarantee against short to medium term oil supply disruptions.<sup>127</sup> The importance of this argument is also highlighted in the Council Directive as it stated the following:

*Imported crude oil and petroleum products are of increasing importance in providing the Community with supplies of energy; whereas any difficulty, even temporary, having the effect of reducing supplies of such products imported from third States could cause serious disturbances in the economic activity of the Community; whereas the Community must therefore be in a position to offset or at least to diminish any harmful effects in such a case.*<sup>128</sup>

This vulnerability was only strengthened in the following years, something that led to further development of the Community’s stockpiling policy.

## 4.2 1973-74 Oil Crisis

Considerable increase in the dependency on imported oil from third countries and the need to upgrade Directive 68/414/EEC was stressed in a communication from the Commission in December 1971. The minimum level of keeping stocks similar to 65 days consumption was now emphasised as being insufficient to enabling necessary measures in case of supply disruptions. Therefore, the Commission proposed to rise the minimum level to 90 days.<sup>129</sup> Nearly a year later, in October 1972, the Commission again highlighted changes in the energy

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<sup>124</sup> Council Directive No. 68/414/EEC, 1968 O.J. L 308/14.

<sup>125</sup> Haghghi, *Energy Security*, p.135-136.

<sup>126</sup> McGowan, ”Conflicting Objectives in European Energy Policy”, p.124.

<sup>127</sup> Haghghi, *Energy Security*, p.128

<sup>128</sup> Council Directive No. 68/414/EEC, 1968 O.J. L 308/14.

<sup>129</sup> Commission Communication (1971, December), Geänderter Vorschlag einer Richtlinie des Rates zur Änderung der Richtlinie des Rates (Nr.68/414/EWG), COM (71) 1540 final, p.1-2.

policy context and the necessity of measurements. The Teheran agreement in 1971, which Yergin saw as the turning point for OPEC, was also by the Commission, referred to as evidence for the changing attitude of the energy-exporting countries. Though the developments in OPEC had affirmed the importance of the basic arguments in the First Guidelines, they had also underlined the need to update and amplify them. OECD had already made recommendations to introduce new arrangements for oil-stockpiling and the communication also stressed the need to improve the existing OECD procedure and the co-operation on stock building.<sup>130</sup> This should include harmonisation of the stock building policies of the Member States at Community level and study of potential challenges in a subsequent raising of the minimum level of reserve stocks from 65 to 90 days.<sup>131</sup>

In November 1972, the OECD decided to introduce new arrangements, a decision which was followed by the Community in the form of a Council Directive (72/425/EEC) one month later. The Directive expanded the Community's stockpiling policy and increased the minimum level of stocks to 90 days, the level proposed by the Commission one year earlier.<sup>132</sup> This Directive was followed by a new Directive in 1973 (73/238/EEC) which decided for the creation of a consulting framework at Community level. An Oil Supply Group that consisted of delegates from the Member States should be given the responsibility for implementing the measures to be taken if difficulties aroused and stocks had to be drawn on. This framework should ensure the coordination of national measures.<sup>133</sup>

Despite slow implementation of the Community's stockpiling policy, it seems to have been broad agreement that the Directives of 1968 and 1972/73 were of the most helpful achievements within the energy field as the Energy Crisis emerged in 1973. According to Ulf Lantzke, the actual achievements to develop common policies among the industrialised countries had been few although both the Community and the OECD had made different efforts. Lantzke underlines that although the target of 90 days had not been met by most of the member countries and that the upbuilding of stockpiles had been slow, the stockpiles did help somewhat during the crisis. According to him, they offered an emergency buffer which allowed Europe to survive for a considerable period without the risk of economic collapse.<sup>134</sup> Turner shares this view as

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<sup>130</sup> Evans, "The International Energy Agency", p.440

<sup>131</sup> Commission Communication (1972, October), COM (72) 1200, p.5 and 17.

<sup>132</sup> Council Directive No. 72/425/EEC, 1972 O.J. L 291/154.

<sup>133</sup> Council Directive No. 73/238/EEC, 1973 O.J. L 228/1.

<sup>134</sup> Lantzke, "The OECD and Its International Energy Agency", p.217-219.

he considers the stockpiling obligations to be the only hard actions made in the Commission's attempts to improve the Community's energy problems in the late 1960s.<sup>135</sup>

Although the stockpiling policy seemed to have given the Community a buffer against sudden disruptions in the oil supply, statistics indicate that they were generally not used to compensate for supply deficits. Importing countries were hit differently by the Crisis, and although the Netherlands was the only country from the Community that was embargoed, the import rates were affected in all Member States. The official argument used by OAPEC for blacklisting the Netherlands had been for taking a pro-Israeli stance in the Yom Kippur War, but Turner stresses the obvious link to Europe's largest oil port, Rotterdam, located in the Netherlands. According to him, West Germany, Britain and the Scandinavian countries were particularly dependent on refined products and crude from here, and in this way OAPEC could put pressure on Europe without directly targeting one of the major Community Members.<sup>136</sup>

A report by the Commission on the behaviour of the Oil Companies in the Community during the Crisis, illustrated how the different Member States and their total crude-oil import were affected. The Commission compared the level of imports in the period October 1973 to March 1974 with the same months in 1972 and 1973. The difference in per cent is displayed in Table 5 and illustrates how the crude oil imports decreased, but also how they increased in some countries.

**Table 4 - Crude oil imports from non-member countries in 1973/74 compared with 1972/73<sup>137</sup>**

Difference in per cent								
Month	West-Germany	France	Italy	Netherlands	Belgium	Great Britain	Denmark	Community (a)
Oct.	+21.0	+18.2	+2.6	+1.6	-14.3	+33.6	+5.8	+13.5
Nov.	+1.9	+7.3	-7.6	+5.1	+3.9	+2.7	-25.3	+1.3
Dec.	-3.3	+3.5	+3.6	-37.4	+11.5	-2.5	-36.1	-3.8
Jan.	-5.8	-7.3	+13.6	-17.0	+9.8	+9.8	-7.4	-0,8
Feb.	-14,6	+9.0	+6.6	-21.4	-7.3	+13.1	-22.4	-0,6
Mar.	-11.4	-15.1	-4.8	-9.7	-68.5	+7.9	+3.3	+10,7
For the whole period	-2.3	+1.8	+2.0	-12.6	-13.0	+10.6	-13.2	-0,2

1) Excluding Ireland, where no monthly figures are available

<sup>135</sup> Turner, "The Politics of the Energy Crisis", p.405.

<sup>136</sup> Turner, "The Politics of the Energy Crisis", p.409.

<sup>137</sup> Commission Communication (1975, December), Report by the Commission on the behavior of the oil companies in the Community during the period from October 1973 to March 1974, COM (75) 675, p.60.



It is underlined in the report, on which Table 5 is based, that the statistics have not taken account of increased consumption and that one should therefore consider that this would have been to expect in view of the economic expansion over the period. The table shows that the Netherlands, Belgium and Denmark were the countries most affected by decreasing crude oil imports, while the most populous countries experienced lower disruptions. In December 1973 for example, Dutch oil imports decreased from 1.5 million to 810 000 barrels per day. This was reflected in the countries' stockpile as it decreased by 334 000 barrels per day in the same month. This finding is displayed in Table 6 and appears in Krapel's analysis of the 1973-74 Oil Crisis. Table 6 shows changes in the crude oil stocks at the end of months during the Oil Crisis, and compares the changes in the total level of stocks in thousands of barrels per day. Several of the Community's Member States are left out, but the table gives an interesting perspective of the reactions in the Member States displayed. Even though there were months with high crude-stock drawdowns, Krapels stresses the fact that these drawdowns were followed by substantial increase in the stock reserves shortly after. He underlines that except France, the oil-stocks were actually higher in March 1974 compared to March 1973. In his conclusion on how stockpiles were used during the crises, he summarises his findings of stocks being higher at the end of the crisis to indicate a pattern: "Thus it is clear that although crude stocks were used in particular months to smooth over import disruptions, the supply disruption did not cause governments or companies to run down crude stocks regularly".<sup>138</sup>

**Table 5 - Changes in Month-End Stocks of Crude Oil, October 1973-March 1974<sup>139</sup>**

(in thousands of barrels per day)						
Country	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Germany	+18	-27	-43	+11	+51	+164
France	-130	+92	-242	-4	+121	-141
Italy	+63	-58	+31	-10	-10	-10
Netherlands	+69	+200	-334	+100	-87	+50

Looking back on the Oil Crisis one could suggest that the scope of the crisis was not really that serious, but Krapels argues that the uncertainty about its duration and the future level of supply

<sup>138</sup> Krapels, *Oil Crisis Management*, p.31-35.

<sup>139</sup> *Ibid*, p.31

was the dominant factor. The Member States responded in a context of uncertainty, which resulted in a series of uncoordinated responses. Even though the Council Directive from earlier that year had stressed the necessity of cooperation and coordination, the Crisis was first and foremost faced by unsynchronised national measures. The implementation of Directive 73/238/EEC was supposed to take place no later than 30 June 1974, and the Crisis certainly seems to have occurred too early for it to have had any effect. It clearly appears in Table 6 how drawdowns in one month were usually built up in the next month. According to Krapels, this observation appears as the only common element in the countries' responses to the crisis and shows their protective attitude regarding their stockpiles.<sup>140</sup>

### 4.3 More like national arrangements than a Community policy

The Directives that followed the Six Day War of 1967 proved that the Community had started to react to the increasing energy insecurity that it was facing, but the implementation of them was slow. A report published by the Commission in November 1974 stated that there were several difficulties in the adaption of them. Nevertheless, the average level of stocks within the Community had increased from 71 to 86 days between April and October in 1973.<sup>141</sup> By September 1975, Belgium, Germany, Ireland, Italy and the Netherlands had all failed to implement the Directive of keeping a minimum level of oil stocks to 90 days. As a response to this, the Commission initiated a procedure contained in Article 226 (formerly Article 169) of the EEC Treaty. Arguing that only France, Luxembourg, Denmark and the United Kingdom had so far enacted the necessary measures to increase the level of stocks to 90 days, the Commission started proceedings against the rest.<sup>142</sup> Article 226 gives the Commission the right to deliver its opinion if it considers that a Member State has failed to fulfil an obligation. If the concerned State does not comply with the opinion, the matter might be brought before the Court of Justice.<sup>143</sup> After the initiated procedure by the Commission, all five states, however, agreed to take necessary actions for the implementation.<sup>144</sup>

The Community had failed to respond united to the Oil Crisis and although Directive 73/238 was supposed to coordinate national measures, the implementation of it did not seem to have

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<sup>140</sup> Ibid, p.33

<sup>141</sup> Commission Document (1974, November), Report from the Commission to the Council on the implementation of Directive 72/425, SEC (74) 4324, p.3.

<sup>142</sup> Commission Communication (1975, November), Report on the state of implementation of Council Directive 68/414/EEC amended by Council Directive 72/425/EEC, COM (75) 606 Final, Annex II

<sup>143</sup> Consolidated versions of the Treaty on European Union and of the Treaty establishing the European Community art. 226, 2002 O.J. C 325/01.

<sup>144</sup> Evans, "The International Energy Agency", p.440.

had any obvious effect yet. Evans questions the empowerment of the Community's stockpiling policy, as Directive 73/238 gave national authorities the responsibility to initiate and control potential distribution of the reserve stocks. The Commission's task was only to convene a group of delegates from the Member States and although the Parliament suggested that the implementing powers should be entrusted the Community, these were rejected. According to Evans, this made the Community stockpiling policy look like no more than attempts to establish a minimum standard of national arrangements for tackling supply shortages throughout the Community. The distribution of power, favouring the Member States, could explain why the Community had failed to execute any measures dealing with emergency allocation of supplies. Evans argues that these characteristics suggested reluctance among the Member States to have their freedom of manoeuvre in this area restricted by Community regulations: "In fact, the member states apparently preferred the more sensitive problems in this area to be tackled through the intergovernmental framework of the OECD rather than through the Community".<sup>145</sup> As a result of the Oil Crisis and the apparent unwillingness of Member States to develop the stockpiling policy within the Community framework, a new Agency within the framework of OECD emerged.

#### 4.4 International Energy Agency and an International Energy Program

In February 1974, a conference was organised by the US in Washington D.C. with the target of preventing a possible dispute between the industrialised oil consuming countries. The initiatives taken at the conference resulted in the establishment of the International Energy Agency (IEA) in November the same year. All the Community Members, except France, signed the agreement on an International Energy Program (IEP) which contained common objectives. The main ones were "to promote secure oil supplies on reasonable and equitable terms" and to "take common effective measures to meet oil supply emergencies by developing an emergency self-sufficiency in oil supplies". This should be achieved within the framework of the OECD, which already had experience with energy affairs.<sup>146</sup> Since the Suez Canal Crisis the OECD had gained considerable experience with energy security issues, and Turner argues that the OECD oil committee was considered far more seriously than the Commission when it came to oil matters. According to Turner, the OECD had done most of the basic work on stockpiling policies, which had later been adopted by the Community. Additionally, he stresses the fact that the scope of energy supply disruptions was wider than the Community and that at least Scandinavia,

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<sup>145</sup> Ibid, p.441.

<sup>146</sup> Willenborg, Tönjes and Perlot, *Europe's oil defences*, p.28-29.

Switzerland and Austria should be considered as part of the European oil market. Problems related to high prices and limited supply would according to Turner also involve collaboration with the US and Japan, and it therefore seemed as no coincidence to him, that the OECD was considered as a more important forum for discussing oil issues than the Commission.<sup>147</sup>

The establishment of the IEA and the implementation of IEP changed the dynamics of international cooperation to temporary oil shortages as more concrete measures compared to the Community Decisions were introduced. These included a stockpiling requirement for self-sufficiency and was similar to that already adopted by the Community. At first, a minimum level of stocks equal to 60 days of consumption was required, but this was raised to 90 days in 1980. The IEP also contained measures to coordinate oil demand restraint which should be triggered if a reduction in the oil supplies was equal to 7 per cent of the consumption. This meant that all countries had to reduce their consumption of oil, even if only one country faced a reduction in supplies. Unlike the Community Directives, the IEP included a specified allocation system to divide available oil among the participating countries. Where the Community's stockpiling policy had only stressed the need to draw on stocks if difficulties aroused regarding Community oil supplies, the IEP was much more concrete. If the available oil supplies in a participating country were reduced by more than 7 per cent, this country would have an "allocation right" which obliged the other participating countries to supply additional oil to the respective country.<sup>148</sup>

Evans emphasises that the achievement of getting twenty states to accept a scheme of this kind underlined the recognition of the need to cooperate in tackling supply shortages like that experienced during the first Oil Crisis. The dedication towards the IEP at the expense of the Community in the field on stockholding policy, was nevertheless also a signal on the wish of some Member States to avoid further reaching common energy policy under framework of the Community. Like Evans, also Willenborg, Tönjes and Perlot argues that there existed a resistance on transferring considerable decision-making powers from national to European level: "Participating in the IEA and in the IEP offered the EU Member States an opportunity to escape the consequences of a 'unification policy with respect to energy'. Member States could limit themselves to a European Community policy that focused on coordination of national energy policy, as well as harmonization and unification in selected areas".<sup>149</sup>

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<sup>147</sup> Turner, "The Politics of the Energy Crisis", p.410-414.

<sup>148</sup> Willenborg, Tönjes and Perlot, *Europe's oil defences*, p.33-36.

<sup>149</sup> *Ibid.*, p.30.

Although the Community might have lost some influence because of the establishment of the IEA, it also acknowledged the positive aspects of having an agency with global dimensions in the field of energy security. In a communication highlighting oil supply from 1980, the Commission underlined the importance of coordinated measures in case of disruptions on the energy supply. This coordination should not only include the Community, but it was also regarded as necessary to include other countries. Especially the US and Japan were mentioned as important countries for this, which confirms Turners point of view, that energy security is not only something to solve within the Community.<sup>150</sup>

However, there were some weaknesses with the IEA agreement that would affect the implementation of its scheme and trigger new initiatives by the Community. One of the limitations found in the IEP was the fact that the oil supplies had to decrease by at least 7 per cent for the scheme to be activated. This meant that minor supply difficulties would not fall in under the IEA scheme and the situation could potentially cause the participating countries to compete for the limited supplies of oil available.<sup>151</sup> Exactly this scenario became reality in early 1979 under the second Oil Crisis. Rapid stock-building by oil consuming countries, as a response to the shutdown of Iranian oil production, which caused a price boom in the oil price. This was considered as the actual root of the crisis by Duffield and exemplified one of the weaknesses of the IEP.<sup>152</sup>

After the IEA was established, it became the centre for the coordination of stockpiling policy, but as a reaction to the fact that neither the IEP was without defects, the Community was seeking to introduce new measures on its own. In the communication from 1980 on oil supply, the Commission underlined the importance of coordinated measures of demand restraint and stock policy to regulate supply and demand of oil.<sup>153</sup> The emphasis on demand restraint emerged already in November 1977, as the Council adopted a proposal from the Commission in Decision 77/706/EEC. It focused on setting a Community target for reducing consumption of petroleum products in case of supply difficulties.

Just like earlier Decisions on stockpiling policy by the Community, the premise to implement it was not specified by specific numbers, but was to be interpreted in light of the phrase: “where difficulties arise in the supply of crude oil or petroleum products in one or more Member

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<sup>150</sup> Commission Communication (1980, November) Oil Supply, COM (80) 701 final, p.4.

<sup>151</sup> Evans, “The International Energy Agency”, p.443.

<sup>152</sup> Duffield, *Fuels Paradise*, p.26-27.

<sup>153</sup> Commission Communication (1980, November), COM (80) 701 final, p.4.

States”.<sup>154</sup> Although this lack of clarity has been referred to as a weakness for earlier Community actions on this field, it could now offer greater flexibility than the comparable measure in the IEA scheme. This was only to be implemented in case of a reduction in the oil supplies at least equal to 7 per cent in one or more participating countries. Based on its own initiative or on the request of the Member States, the Commission would be able to set a target to reduce the consumption of petroleum products by up to 10 per cent of normal consumption, for a maximum period of two months. This offered the Commission a more active role in the execution of energy security measures than what had been the case in the other Decisions on stockpiling policy. Haghghi also underlines that this initiative was designed to include France, which remained outside the IEP.<sup>155</sup> The importance of this is also highlighted by the Commission itself in a report from 1995 reviewing Community energy legislation. It states that the Decision harmonized with the IEP provisions and included all Member States. The Decision was therefore regarded as useful, as it allowed coordination of national measures to restrict oil consumption.<sup>156</sup>

## Conclusion

After the Suez Canal Crisis in 1956, initiatives on coordinating stockpiling policy emerged from several actors. The OECD was most concerned with oil matters in the first years, but after the First Guidelines Towards a Community Energy Policy was published by the Commission in 1968, several Council Decisions followed. The stockpiles of the Member States increased, but as it was not specified exactly when to implement and distribute reserve stocks, the response during the first Oil Crisis was characterised by being everything but coordinated. After the Crisis, the IEA was created under the OECD framework. Every Member State except France became members of the Agency and signed the energy program (IEP) intended to coordinate measures and thereby increase the energy security of the participating countries. This program contained a more detailed action plan compared with the Community’s, but had its limitations. This became evident under the oil crisis that emerged in 1978 as the program was not implemented due to the IEP trigger threshold of 7 per cent. Another limitation was the absence of France in the IEP. The Commission therefore continued to seek own measures, to complement the deficiencies in the IEP and to ensure coordination within the Community. This, to face sudden and short term disruptions on its oil supply in the best possible way.

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<sup>154</sup> Council Decision No. 77/706/EEC, 1977 O.J. L 292.

<sup>155</sup> Haghghi, *Energy Security*, p.137.

<sup>156</sup> Commission Communication (1995 July), A review of Community Energy Legislation, COM (95) 391 final, p.8-9.



## Conclusion

The rapid growth in the consumption of oil during the 1950s and 1960s increased the relevance of energy security within the Community. High dependence on oil imports from relative few countries, which of many were associated with political instability, led to a high degree of energy insecurity within the Community. The failed embargo in conjunction with the Six Day War in 1967, as well as reorganization of energy policy within the institutional framework of the Community, triggered efforts on developing a common energy policy. In 1968, the Commission published its first comprehensive proposal on how the Community should meet challenges associated with energy policy in the future. Security of supply was in fact described as the main concern in the communication which was titled “First Guidelines for a Community energy policy”. The Commission stressed measures to be taken in case of partial interruption on energy supplies and a long-term strategy involving supervision of the sources of supply, to assure necessary long-term level of security. Considering these proposals, this thesis has examined efforts by the Commission to promote measures relevant for the Community’s energy security in the years between 1968 and 1985. The Commission’s proposals on the development of a common short-term security policy for stockpiling has been analysed. The Commission’s efforts on the promotion and the attainment of concrete long-term security objectives has also been investigated.

Following the communication from 1968, some of the measures that had been proposed were adopted. This was made clear by several Council Decisions on a common stockpiling policy. Scholars have regarded these undertakings to be of the most important measures from the perspective of internal security within the Community. Nevertheless, as this thesis has shown, the response during the First Oil Crisis was characterised by being everything but coordinated, and the establishment of the IEA in the aftermath of the Crisis limited the Community’s influence on this field. Because France decided to abstain membership in the IEA and because the IEP had some limitations, the Commission continued to seek own measures to complement it. This way, the Commission managed to include all Member States, but despite the fact that the Commission’s measures also involved France, the IEA has to be characterised as the decisive actor in stockpiling policy after 1974.

Regarding the necessity of a long-term level of energy security, the First Oil Crisis came to trigger a more concrete approach. A New Energy Policy Strategy was outlined by the Commission in a communication published in 1974. This strategy highlighted the importance of long-term objectives to improve the energy security within the Community. The strategy



proposed, would seek to change the supply structure in the Community with the aim of reducing the dependency on foreign energy imports. An energy supply structure relying mainly on nuclear energy and on gas was stated as a reasonable aim for the end of the century. To attain this, concrete Objectives for 1985, containing targets for the different energy sources as well as for the total consumption of energy, were proposed. Even though the Council approved objectives for 1985, these were far less ambitious than those proposed by the Commission. This illustrated the weakness of the underlying framework for the Commission's strategy. Because the Objectives were non-binding, the Commission's influence remained limited. In the absence of legitimate power, it therefore had to settle with the role of primarily being an agenda setter in the attainment of the Objectives. The Commission published communications on the achievements of the Objectives frequently in the period, and proposed new measures which it assumed could improve the energy security within the Community. Especially some of the financial initiatives promoted by the Commission seems to have influenced the attainment of the Objectives in a positive way. These included programs on the development of nuclear energy, which gained momentum in the early 1980s, as well as programs on the improvement of energy-saving.

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