

Energy: European Union's oil supply, situation and prospects, cost and prices

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PURPOSE: to present a Commission Communication on the European Union's oil supply. **CONTENT:** Oil prices in 2000 reached historical levels since the Cold War. This increase in oil prices since early 1999 has triggered a debate over the three components of the prices paid by European consumers: the price of crude oil, refining and distribution margins and the taxation of oil products. Against this background, the vulnerability of the European Union (EU) to the increased oil price recalls the need for a policy of reduction in the energy intensity of our economies. A stable and predictable level of fuel prices could give rise to both economic and environmental benefits. Medium and long terms prospects that have to be taken into account include the environment and security of supply. While there exists EU legislation in the field, possible actions to address the oil crisis could be in the following areas: - relations with producer countries; - competition policy in the oil sector downstream (refining - distribution); - use of tax instruments; - achieving a balance between modes of transport; - making Europe's economy less oil-intensive. Furthermore, proposed elements of an EU strategy to counter its over dependence on oil as a form of energy include the following: - the Commission intends to present a plan at the European Council in Gothenburg to save energy and diversify sources with targets for 2010; - the future of and relationships between the different sources of energy are the subject of a Green Paper on security of supply due to be adopted by the Commission by the end of the year; - special efforts are required to redress the balance in favour of rail and short sea shipping by a substantial improvement in the economic effectiveness; - the EU must set up an ongoing dialogue with producer countries, especially OPEC, to make for maximum market transparency and help establish stable prices; - as regards market transparency, producer countries and market and industry players should be encouraged to improve pricing indicators, based notably on a global index reflecting the whole market; - the temptation must be resisted to offset rises by cutting taxes; - the Commission will look at the possibility of linking the alignment of fuel taxes with the higher rates (structural component) with a Community mechanism to help stabilise VAT revenue in the event of major fluctuations in oil prices; - greater cooperation is needed to rehabilitate production and transport installations in Russia and to capitalise on the prospects opened up by oil and gas from the Caspian Sea basin, in particular under the INOGATE programme; - the Commission will actively develop, in cooperation with the Member States, the scrutiny of the competition rules in the sector of oil product distribution; - the Commission intends to facilitate the exchange of experience on the appropriate means of alleviating the effects of the oil price increase for those who are most dependent on it and to reduce the risk of social exclusion in line with the conclusions of the Lisbon summit; - finally, the Commission will look at ways of increasing strategic oil stocks by bringing their use into the Community framework. To combat speculation, ways need to be found, like on the money markets, of limiting price volatility.