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REPORT

on the macro-economic impact of the increase in the price of energy
(2006/2247(INI))

Committee on Economic and Monetary Affairs

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(*) Enhanced cooperation between committees - Rule 47 of the Rules of Procedure

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the macro-economic impact of the increase in the price of energy (2006/2247(INI))

The European Parliament,

– having regard to the Commission report 'European energy and transport: Scenarios on high oil and gas prices', published in September 2006**,**

- having regard to the Commission Communication, 'Action Plan for Energy Efficiency: Realising the Potential' (COM(2006)0545),

– having regard to the conclusions of the Göteborg European Council of 15 and 16 June 2001**,** and the Brussels European Councils of 23 and 24 March 2006 and 15 and 16 June 2006,

– having regard to the conclusions of the Hampton Court informal meeting of the EU Heads of State or Government on 27 October 2005, which marked the inception of the EU's new energy policy,

– having regard to its resolution of 26 February 2004 on the situation of the European economy, report on the broad guidelines for economic policies[1],

– having regard to its resolution of 23 March 2006 on security of energy supply in the European Union[2],

– having regard to its resolution of 1 June 2006 on Energy efficiency or doing more with less - Green Paper[3], in particularly in regard to its call for Commission and national energy efficiency action plans**,**

– having regard to the Stern Review: The Economics of Climate Change, published in October 2006,

– having regard to Rule 45 of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on International Trade and of the Committee on Industry, Research and Energy (A6-0001/2007),

A. whereas oil price increases have an effect for the EU as a net importer of oil, reducing the growth of gross domestic product (GDP), employment and investment, and increasing inflationary pressure and interest rates,

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1 OJ C 98 E, 23.4.2004, p. 162.
2 *Texts Adopted*, P6_TA(2006)0110.
3 *Texts Adopted*, P6_TA(2006)0243.

B. whereas while previous oil-price shocks were caused by major disruptions to the oil supply, the present oil-price increase is triggered mainly by a substantial growth of demand for oil in Asia and the United States and geopolitical instability in the oil-exporting regions,

C. whereas uncertainties concerning the balance between supply of and demand for oil have further increased oil prices and the volatility of the market,

D. whereas cheap oil prices have framed the world economy for more than 50 years, and whereas the prospect of long-standing high prices are already contributing to fundamental changes in the economy; whereas if no measures are taken, the proportion of Europe's dependency on energy imports **may** increase from 50 to 70 % between now and 2030, with 94% of oil imported;

E. whereas any measures taken by the EU to reduce its dependence on oil imports must address climate change; whereas the above-mentioned Stern Review reasserts that the EU's energy package will be a key element of combating climate change; and whereas the Stern Review also highlights the massive economic opportunities that could be gained by the EU if it took the lead in combating climate change,

1. Expresses its concern that in recent years, the development of oil prices has been characterised by major volatility and by an abrupt increase from a level of USD 12 per barrel before 2000, to USD 79 on 8 August 2006, curbing the trajectory of Europe's economic recovery; underlines, that the recent price increase is similar in real terms to changes that occurred in the previous phase of the mid-1970s to mid-1980s, but there are additional underlying circumstances and challenges;

2. Believes that these perceptions have also been reinforced by fears over future resource adequacy, with some analysts predicting an imminent physical resource constraint while others, mainly within the oil industry, present a reassuring picture of oil reserves; points out that perceptions over future scarcity affect long-term market prices;

3. Notes that it is becoming more and more difficult to find new oil sources and that each new barrel is more expensive in terms of exploration and production; further notes that huge investments in the oil sector are needed to enhance capacities for production and refining in order to cope with increased demand;

4. Notes the different nature of the present oil-price increase to those in the past, which were supply-side driven and transitory; whereas the present oil price increase has a substantial element caused by rapidly growing demand such as China but also by high consumption in the USA, alongside uncertainties in oil producing regions, and supply fall-outs caused by lack of investment in infrastructure; consequently the recent price increase has a substantially permanent component and it is amplified by financial market speculation;

5. Is concerned that the demand for oil is rising not only in the energy sector but also in other sectors, such as the petrochemical sector; believes that oil should not be used for power generation;

6. Notes the highly diverging estimates and opinions concerning the remaining oil reserves and the time when the oil peak will be reached; urges in this respect continuing improvements in the data transparency on energy statistics, especially in respect of oil stock levels; underlines, however that Europe will have to face even more the challenge of lasting high and volatile oil prices and the economic impacts connected to them, and that newly discovered resources have tended to be smaller and more expensive to develop, being increasingly offshore, and the costs of exploration, development and production will increase, making it more urgent to switch to alternative energy sources and to develop energy-saving and renewable technologies;

Recessive effects

7. Underlines the tangible effect of oil-price increases for the EU as a net importer of oil, reducing GDP growth, investment, and employment, and increasing inflationary pressure and interest rates;

8. Stresses that, depending on the differing degrees of oil dependency and production structures, the impact of oil price increases varies from one Member State to another and that the consequences are most strongly felt in countries that are highly dependent on oil imports, such as, on the one hand, the euro zone, in which GDP is estimated to have dropped by at least 0,5%, and, on the other, the new Members States, due to the greater energy-intensity of their economies;

9. Is worried about the upward pressure of higher energy prices on consumer prices, increasing the harmonised index of consumer prices inflation to 2,3% in the euro zone and the EU, points out the increase in industrial producer prices by 5,9% in July 2006 in the euro zone while secondary effects of the surge in oil prices on wages continue to be largely absent with moderate wage increases; expresses its concerns about the negative effects of the oil price increase on household demand due to reduced disposable income;

10. Expresses its concern about the social consequences of increased housing, heating and transport costs in particular with regard to the low-income, poor and vulnerable segments of the population, and urges Member States to adopt appropriate measures to ensure the affordability and access to these services in spite of the oil price increase, in order to ensure mobility and avoid social exclusion and pauperisation;

11. Notes that the ECB has already raised interest rates six times since December 2005, expresses its concerns about the increasing unpredictability for SMEs of the cost of loans and the negative impacts on investment and employment in the EU; regrets that inflationary pressure due to the rise in oil prices, combined with possible second-round effects, might ultimately make monetary tightening inevitable;

12. Stresses the risks to growth that an increase in interest rates would pose, in the context of a fragile recovery, and points to the risks associated with changes in the euro exchange rate and with oil prices, these being factors which played a part in the weak growth seen in 2005, owing to their impact on household purchasing power; calls for a reflection on the feasibility and opportunities for the euro zone of denominating oil and oil derivatives in euros instead of dollars;

13. Notes that uncertainty surrounding the future balance between demand and supply has created incentives for new players on financial markets, such as hedging or financial derivatives linked to oil or other energy prices; notes that it is recognised that in some cases these activities may have magnified trends unfavourably, but on the other hand they may contribute to adding liquidity to the market thus reducing volatility ; suggests that appropriate ways for increasing transparency of these activities should be sought in order to address concerns about their ongoing evolution;

The transport sector

14. Notes that impacts of the oil price increase differ considerably from one sector to another, with the transport sector, which accounts for 56 % of total oil consumption in the EU, together with the housing sector, being those most affected, while other sectors have successfully reduced oil dependency through improvements in energy efficiency and changes in the fuel mix; stresses that these two sectors (transport and housing) constitute the first call on household expenditure, and that the oil price rise is increasing purchasing power inequalities, to the detriment of the lowest-income households;

15. Calls for a comprehensive EU strategy to phase out fossil fuels in the transport sector, which would lead to a progressive reduction in EU dependency on oil and the progressive use of clean energies for transport;

16. Believes that transport fuel supplies could be expanded by facilitating the production of unconventional oil and liquid fuels based on natural gas or coal where this is economically reasonable; supports the development and production of alternative fuels, such as biofuels, hydrogen-fuel cell vehicles and hybrid vehicles; also supports efforts to find innovative solutions for the management of transport systems in general, including measures on vehicle energy efficiency;

Balance of trade; global imbalances

17. Points out the adverse effect of the oil-price increase on the balance of trade for oil-importing countries, redistributing wealth to the oil-exporting countries and turning them into major players in the context of global imbalances and the recycling of petrodollars, already resulting in the accumulation of substantial foreign assets;

18. Welcomes the fact that the recycling of petroldollars by the oil exporters has benefited the euro zone with a positive impact on investment from abroad and increased demand for euro zone goods and services, which partly offsets the dampening effects of the oil-price increases;

Competition

19. Recalls the urgency to ensure fair energy prices in domestic energy markets; notes in this context that energy markets remain national to a large extent and are dominated by a few companies, both private and public, which frequently also own the infrastructure; calls on the Commission and the national competition authorities and regulators to pay special attention to energy companies;

20. Calls for the completion of the internal energy market by undertaking measures to overcome the prevailing divergencies concerning the powers of regulators, the lack of a European energy regulator to look at cross-border issues, the lack of a priority interconnection plan, grid rules, balancing and gas storage regimes;

21. Emphasises that unbundling the infrastructure from suppliers is essential for the proper functioning of national markets and the internal market, and for incentives to invest in infrastructure;

22. Notes, furthermore, that increased concentration in the internal market may aggravate existing distortions, thus requiring the improvement of Member States' and the EU's regulatory capabilities in order to guarantee consumer rights and compliance with EU energy efficiency objectives;

23. Calls on the Commission and the Member States to include a high level of energy efficiency among public procurement selection criteria; considers that in the context of the revision of the Community guidelines on State aid for environmental protection, steps should be taken further to encourage investment in energy efficiency and diversification measures;

Europe should act now

24. Stresses that if no measures are taken now, Europe's dependency on energy imports will increase from 50 to 71% in 2030, of which 94% will comprise oil imports, aggravating the negative impacts of the oil-price increase and volatility on Europe's economy;

25. Calls on the Commission to take account, when assessing State aid, of the need for investment in innovation generated by the energy context and to ensure that new aid does not result in distortions of competition ;

26. Points out the necessity for massive investment in energy infrastructure and supply over the coming years, calls for an in-depth Community-wide debate on different energy sources, taking into account all costs related to energy production, storage, distribution, transport, consumption and supply security as well as safety and waste aspects and its contribution to climate change, in particular in regard to CO_2 emissions; calls on the Commission to engage in impact assessments on different energy sources and portfolio mixes according to these parameters;

27. Recalls its resolution of 26 February 2004, which already stressed "the importance of reducing Europe's dependence on oil imports, which constitutes a heavy burden from the political and price volatility point of view", welcomed "technology platforms such as the European Partnership for a Hydrogen Economy", encouraged "further investment in the most cost-effective forms of renewable energy, which [would] reduce the volatility of the cost per unit of energy, increase the security of energy supply, be less harmful to the environment, and potentially trigger an industrial revolution similar to the IT-led industrial revolution in the US";

28. Underlines the fact that emerging and developing economies and those experiencing transformation are particularly negatively affected by the oil-price increase due to the high

energy intensity and low energy efficiency of their economies and stresses the importance of the sustainable development agenda in the EU's foreign, trade and development policy;

29. Points out the potential of the promising markets for renewable energy and energy efficiency increasing technologies; stresses the positive growth and employment rates of the renewable energy sector; and warns against the risk of losing market leadership in environmental technologies to the USA and to highly skilled emerging economies; points out that CO_2 building restoration programmes are highly significant with regard to energy savings;

30. Notes that European sources of oil still exist; believes that maximising the exploitation of indigenous sources should be seen as an important (albeit temporary) means of countering the declining volume of oil imported into Europe;

31. Points out the need to orientate energy infrastructure towards combined heat and power and decentralised energy production;

32. Calls on the Commission and the Council to elaborate a detailed plan to reduce the EU's dependence on oil imports and a shift towards clean energy, urges for the adoption of measures to improve energy efficiency; recalls that energy efficiency is usually by far the cheapest way to cut carbon dioxide emissions and enhance energy security;

33. Welcomes the Commission's Energy Efficiency Action Plan as a key contribution to saving energy and hence reducing energy dependency;

34. Emphasises the need for energy efficiency policies and actions to be properly addressed in the Structural and Cohesion Funds and the Competitiveness and Innovation Framework Programme[1]; welcomes the proposal in the Energy Efficiency Action Plan to leverage private financing through these instruments;

35. Calls for an integrated EU emergency mechanism for the security of supply with an increase of the minimum oil stock in the EU from 90 to 120 consumption days, and to develop a minimum gas stock of at least 90 days;

36. Suggests that the weekly publication (based on data in the public domain, as in the United States) of European stocks of oil and oil products, and of imports and exports, all broken down by type of product (crude oil, petrol, diesel, heating oil and others), would give a better picture of the pressures on the world market, show up the level of European consumption, reduce the tendency of market operators to gravitate towards American stocks, and thereby help reduce the volatility of oil prices.

37. Recalls its demand that multilateral banks and public financial institutions should create energy efficiency funds granting money for energy efficiency projects; takes the view that energy efficiency objectives should also be integrated into other sectoral policies, especially fiscal, transport and cohesion policy; believes that innovative financing schemes and contractual tools, such as micro-credit and joint ventures between private

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[1] Decision No 1639/2006/EC of the European Parliament and of the Council of 24,10.2006 extablishing a Competitiveness and Innovation Framework Programme (2007 to 2013) (OJ L 310, 9.11.2006, p. 15).

companies and municipalities, should be encouraged in order to involve actively local partners and decision makers;

38. Underlines the important role of the European Investment Bank (EIB) to promote investment in clean energy; welcomes the EIB's commitment to strengthen its contribution to infrastructure investments, including energy security and renewable energies and trans-European networks, and the doubling of the share of renewable projects from 7 to 15 %; stresses the urgency of a diversification of energy sources and the commitment of the EU to sustainable development and to its international commitment to fulfil the Kyoto Protocol; encourages the EIB to integrate the criteria relating to CO_2 emissions into its selection criteria and to adopt an even more ambitious target for renewable energy and energy efficiency projects;

Taxation

39. Notes the increase in tax revenues on energy due to recent oil price increases; underlines the importance of adequate fiscal policies including those in the housing sector, as a means of reducing economic dependence on fossil fuels, addressing climate change and creating incentives to increase investments in and discriminate in favour of energy-efficiency, renewable energy and environmentally friendly products; stresses that tax systems should also adopt the 'polluter pays' principle;

40. Stresses that the transport sector accounts for 56 % of total oil consumption in the EU and is most affected by the oil price increase; calls for a framework directive for energy efficiency in transport; encourages the harmonisation of passenger car legislation, including an EU-wide harmonised CO_2 based vehicle taxation with certification and labelling procedures and fiscal incentives to diversify energy sources; calls for a comprehensive strategy to phase out the use of fossil fuels in the transport sector, and to promote the market penetration of low CO_2 emissions, the use of the latest technology biofuels and/or bio-hydrogen-fuelled vehicles; stresses that the introduction of biofuels must not result in the release of the automotive industry from its obligation to manufacture more economical vehicles which produce fewer pollutants, ;

Common energy policy: energy diplomacy

41. Welcomes the dialogue and cooperation of the EU with oil exporting countries to decrease uncertainties on both the demand and supply side, to facilitate investment and economic and energy diversification decisions on both sides, and to create a climate of trust and reliability;

42. Notes that energy policy, and in particular security of energy supply, must become an integral part of the EU's common foreign, trade development and security policies and calls for a common strategy to secure and diversify supplies and transit routes**,** assuring solidarity within the EU; suggests that partnerships and cooperation agreements with oil-producing regions be used to create a stable but open regulatory framework in supply countries, to foster investments in exploitation and transport infrastructure and to secure long-term supplies;

43. Stresses the importance of including in the new energy diplomacy of the EU, a

constructive dialogue with countries that are oil exporters, countries that are part of the transit route and all major consumers of energy, and, notably, emerging and developing economies on energy efficiency and energy conservation, with the aim of setting minimum efficiency standards for global goods, to develop solidarity in energy policy, and to fight against environmental pollution and climate change;

44. Recalls the crucial importance of ensuring security and sustainability in EU energy supply; stresses the twin role that adequate market regulation and energy diplomacy should play in creating a stable framework for the supply of energy;

45. Calls on the Commission to investigate measures to reduce the impact of peak oil on the citizens of the EU, including analysis of policy proposals such as an oil depletion protocol, which would help ease the transition towards the elimination of the use of fossil fuels;

46. Welcomes the role played by the EU Emission Trading Scheme in providing incentives to reduce energy consumption; calls for the scheme to be extended to include the aviation sector; and calls for the Commission to play its part in building a global emissions trading scheme;

47. Recognises that sustained higher energy prices will put pressure on production processes that rely on raw materials from a variety of geographically distant locations; calls on the Commission to provide a full analysis of the implications of higher energy prices and peak oil for trade flows as part of its work on trade and competitiveness;

48. Stresses the importance of fostering a well-functioning world market in oil and gas, in particular through WTO rules and guidelines; considers that such an approach would make it possible to make an important contribution to energy efficiency and thus reduce upward pressure on energy prices;

49. Stresses the necessity for more active involvement of the World Trade Organisation in energy policy and the need to work towards an agreement between the European Union and the members of the Organisation of Petroleum Exporting Countries with a view to keeping under control the increase in energy prices;

50. Calls for the establishment of a genuine Euro-Mediterranean energy market to be accorded a central role; notes with interest the desire expressed by the Commission, on the occasion of the conference on external energy policy held on 20 and 21 November 2006, to ensure North Africa and the Middle East occupy an important position in its external energy policy, and hopes that these statements will be followed up by concrete action;

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51. Instructs its President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENT

"The state of California is suing the world's six largest automakers, demanding that they pay for environmental damage caused by emissions from their vehicles."
US president Bush wants to "help break America's dependence on foreign sources of energy, intending to replace more than 75% of their oil imports from the Middle East by 2025" "through new technology developing cleaner, cheaper, and more reliable alternative energy sources."

It sounds like fiction. Nonetheless these messages are real.
What is happening?

While before 2000 crude oil prices were at a major low of between 10 and 12 US$ per barrel, they have over the past 6 years hiked up to 79 US$ per barrel in August 2006, things have eased since but there is no evidence that the price increase will come to a halt.

At a price of 50 euros (60 US$) per barrel the EU pays 250 billion euro per year in oil imports which represents 2, 3% of GDP. If no measures are taken, by 2030 70% instead of the current 50% of Europe's energy will be imported with 94% of imported oil. With this level of dependence, each increase of 10 euros per barrel would represent an additional volume of imports of around 40 billion euros per year.

Difference to previous oil price shocks:

While the three previous oil price shocks were mainly caused by major disruptions to oil supply, this time we are facing a substantial growth of demand for oil caused by the tremendous growth in Asia but also by an increase in demand for oil in the USA causing prices to explode. Asia and America together accounted for nearly 70% and China alone for about 30 % of the increase in world demand of oil.

A further reason for the price increase is the accumulation of uncertainties such as

- Sabotage in Iraq, in Nigeria and threats to the oil infrastructure of other Middle Eastern producers
- Supply problems due to hurricanes like Katerina in the USA
- the closing of the biggest US oil fields due to corrosion of the pipelines

The moment of Peak Oil?

A number of scientists and environmental organisations warn that the moment of peak oil has been reached or is imminent.
Oil companies assure us that there are ample reserves left.
However reserves of conventional oil are mainly in regions of great political instability and the reserves of unconventional oil -for which there is a need for mining, digging deeper or off-shore production - will however require major investment and be more costly.
The rapporteur draws the conclusion that the moment of peak oil may not have come yet

however the moment of "peak cheap oil" seems to have been reached.

Even though oil prices have declined once again most recently, considering these developments it has to be expected that the oil price will remain volatile and increase in the future. It is against this background that the issue of economic impacts of the oil price increases has to be considered.

I. ECONOMIC IMPACTS

- Growth

Based on differing degrees of oil dependency and on different production structures, the impacts may thus vary from one EU country to another. The consequences are most strongly felt in countries which are highly dependent on oil imports and more energy-intensive countries because energy is used less efficiently.

The Euro-zone countries are particularly affected because of their high dependency on oil imports and are estimated to suffer most in the short term. GDP is assessed to have dropped by at least 0.5%.

The new Member States of the EU are also particularly negatively affected due to the higher degree of energy intensity of their economies.

Apart from the price level, uncertainty about future price levels and the constant volatility of oil prices are in themselves negative factors.

On the other hand, oil price increases result in accumulation of petrodollars by oil exporting countries reinvested in long term financial assets contributing to low long term interest rates supporting growth. In fact, oil-exporting countries increasingly invest their extra oil revenues in euro-denominated assets and increased demand for euro-area goods and services.

- Inflation

Increases in oil prices can affect inflation directly and through second-round effects.

Direct effects are the immediate effect on the consumer prices of energy. The energy component of the HICP accounts for about 8.6% of the HICP consumption basket and contributes close to one percentage point to headline inflation in the euro area.

Second-round effects refer to the possibility that, in addition to direct effects, an oil shock may have an impact on inflation if it influences wage bargaining and price-setting behaviours.

For the euro area as a whole, there are currently no signs of a pick-up in wage inflation but actual wage inflation is showing a downward trend since the beginning of the year.

This indicates a demand problem in the euro zone, which is amplified due to a decrease in disposable income by the price increases for oil and other energy sources and by the beginning price increases on industrial products and transport costs.

As regards price-setting, there has been a notable increase in industrial producer prices by 5,9% in July 2009 in the euro area, indicating that companies pass on their loss in profits to consumers.

Due to volatility and lower growth expectations, investment is dampened. Representatives of SMEs raised their concern about the fact that the ECB has already raised interest rates five times since December 2005 and that further increases will lead to an unpredictability for SMEs on the costs of loans and will further suppress investments.

- Balance of trade and exchange rates

An oil price increase also changes the balance of trade between countries. Net oil-importing countries normally experience deterioration in their balance of payments, putting downward pressure on exchange rates. It is expected that without a change in central bank and government monetary policies, the dollar may tend to rise as oil-producing countries' demand for dollar-denominated international reserve assets grow.

An appreciated dollar might also have positive impacts on the competitiveness of the European economy and trade. On the other hand since the fall in the value of the dollar against the euro dampened the impact of recent oil-price increases in the euro zone, any change in the value of the dollar would significantly affect the impact of higher nominal oil prices on the European and global economy.

Furthermore the increase in oil prices also leads to a redistribution of wealth to the oil exporting countries, turning them into major players in the context of global imbalances and the recycling of petrodollars already resulting in the accumulation of substantial foreign assets. Exports of European goods and services to oil exporting countries increased which managed to smoothen the negative impacts of the oil price increases.

- Competition

Domestic energy markets must improve their competitiveness in particular to bring down prices. Energy markets are dominated by a few national companies both private and public and show many differences between the Member States which prevents the development of truly competitive European markets.

II. EUROPE SHOULD FINALLY ACT

If no measures are taken, by 2030 Europe's dependency on energy imports will increase from currently 50% to 71% with 94% of oil imported, aggravating the negative impacts of the oil price increase and volatility on Europe's economy.

Though immediate economic consequences are negative, the recent development in oil prices may also represent new chances and opportunities and, not least because they will help in a shift away from fossil fuels which so far has not be achieved through limited environmental measures.

The energy crisis clearly illuminates the potential of the promising market of the emerging and developing countries for renewable energy and energy efficiency increasing technologies, and highlights the positive growth and employment rates of renewable energy sector. Europe should finally seize its chance and not loose market leadership in environmental technologies to the USA.

- Substitution opportunities for renewable energies

The Commission assessed that investments of around one trillion euros will be needed over the next 20 years to meet expected energy demand and replace ageing infrastructure. These investments can be spent on the traditional energy sources and the exploitation of the last reserves of oil over the coming 20 years or to take a new direction.

III. SUGGESTIONS BY THE RAPPORTEUR

1. A Community-wide debate on different energy sources, taking into account all costs related to energy production, storage, distribution, transport, consumption and supply security as well as safety and waste aspects and its contribution to climate change in particularly in regard to CO_2 emissions should be started.

2. The Commission should urgently engage in an impact assessment on different energy sources and portfolio mixes according to these parameters.

3. The Commission should propose a detailed plan to reduce the EU's dependence on oil imports and a shift towards clean energy should be elaborated, measures to improve energy-efficiency are urged for.

4. Multilateral banks and public financial institutions should create Energy Efficiency Funds granting money for energy efficiency projects.

5. Energy efficiency objectives should also be integrated in other sectoral policies, especially fiscal policy, transport and cohesion policy. Innovative financing schemes and contractual tools, such as micro-credit and joint ventures between private companies and municipalities, must be proposed in order to involve actively local partners and decision-makers.

6. The EIB should step up its efforts concerning renewable energy, energy efficiency and energy supply; considering the urgency of a diversification of energy sources and the commitment of the EU to sustainable development and to its international commitment to fulfil the Kyoto protocol the EIB should integrate the criteria of CO_2 emissions into their selection criteria and to adopt an even more ambitious target for renewable energy and energy efficiency projects.

7. Fiscal policies should create incentives to increase investment in and discriminate in favour of energy-efficiency and renewable energies and environmentally friendly products.

8. Tax systems should also incorporate the 'polluter pays' principle.

9. Since the transport sector accounts for 56% of total oil consumption in the EU and is most affected by the oil price increase, a framework directive for energy efficiency in transport should be adopted and implemented.

10. Move towards a harmonisation of passenger car legislation, including an EU-wide harmonised CO_2 based vehicle taxation with certification and labelling procedures and fiscal incentives to diversify energy sources.

11. A comprehensive strategy to phase out fossil fuel use in transport sector, to promote market penetration of low CO2 emission, the use of the latest technology bio fuels and/or bio hydrogen-fuelled vehicles.

IV. ENERGY DIALOGUE AND DIPLOMACY

Furthermore with the increase of the oil prices the incorporation of the principle of sustainable development in all its policies including its trade and development policies could give a push to European industry and innovations in the field of renewable energy and energy efficient technologies and products and can in the future be a motor for growth and jobs in Europe and worldwide.

Last but not least the rapporteur welcomes the dialogue and cooperation of the EU with oil exporting countries.
This is of vital importance to decrease uncertainties both on the demand and on the supply side, to facilitate investment and economic and energy diversification decisions on both sides and to create a climate of trust and reliability.

12. Energy policy must be connected with foreign, development and security policies

The rapporteur is of the opinion that the new energy diplomacy of the EU must aim at a constructive dialogue with countries that are oil exporters, countries which are part of the transit route and all major consumers of energy and notably emerging economies on security of energy supply, efficiency and energy conservation with the aim of developing more solidarity in energy policy:

- solidarity with the EU;
- solidarity with the developing countries;
- solidarity with all those fighting against environmental pollution and climate change.

Furthermore with the increase of the oil prices the incorporation of the principle of sustainable development in all its policies including its trade and development policies could give a push to European industry and innovations in the field of renewable energy and energy efficient

technologies and products and can be a motor for growth and jobs in Europe and worldwide which has a future.

18.12.2006

OPINION OF THE COMMITTEE ON INTERNATIONAL TRADE

for the Committee on Economic and Monetary Affairs

on macro-economic impact of the increase in the price of energy
(2006/2247(INI))

Draftsperson: Godelieve Quisthoudt-Rowohl

SUGGESTIONS

The Committee on International Trade calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Recalls that competition on the worldwide market in oil and gas is increasing, especially through the growing demand from major emerging countries; calls on the Commission to give a high priority to the introduction of greater security of supply; stresses the mutually supportive roles that adequate market regulation and energy diplomacy should play in creating a stable framework for the supply of energy; insists on the importance of diversification of sources, suppliers and transit routes, as well as the enhancement of EU energy self-sufficiency;

2. Welcomes the Commission's Energy Efficiency Action Plan, as a key contribution to saving energy and hence reducing energy dependency;

3. Emphasises that higher energy prices will be a constant feature in the future as the world reaches the point of maximum oil production (peak oil), after which oil supplies will begin their inevitable long-term decline;

4. Believes that the impact of peak oil will have major consequences for international trade flows, as it becomes increasingly less economic to rely on goods which require long distance transportation, particularly by air;

5. Calls on the Commission to investigate measures to reduce the impact of peak oil on the citizens of the EU, including analysis of policy proposals such as an Oil Depletion Protocol, which would help ease the transition towards a non-fossil fuel future;

6. Welcomes the Commission's intention to use bilateral and multilateral trade policy to promote the use of energy-efficient technologies to reduce the growth in worldwide energy demand and believes that a global system for trading CO_2 emission permits would also contribute to this objective, as would measures to provide further incentives for efficient use of fuel by the airline industry;

7. Draws attention to the fact that oil is important not only for transport but also for most manufacturing industry; therefore considers that, at each stage of the production chain, all possible steps should be taken to ensure the most efficient possible use of fossil fuels so as to minimise the environmental impact and reduce pressure on scarce resources;

8. Calls on the EU Member States to formulate a joint energy strategy in order to assist the emergence of a stable and sound world energy market and offer the best prospect of putting an end to the alarming developments in relation to energy supply methods at world level;

9. Stresses that, far from impeding economic development, the Kyoto Protocol anticipates the need for changes in investment strategies as an inevitable result of the increasing cost of fossil fuels; notes that, moreover, it provides an international framework within which the exchange of new production methods, new technologies and best practice, particularly in emerging and less-developed countries, should be encouraged;

10. Stresses that emerging and developing economies are particularly adversely affected by the oil price increase, due to the high energy intensity and low energy efficiency of their economies, and stresses the importance of the sustainable development agenda in the EU's foreign, trade and development policy;

11. Considers that energy-efficient and environmentally-friendly technology can offer European firms a significant competitive advantage; stresses that, in order to maintain this advantage, adequate funds need to be invested in research and development while European standards need to be promoted in international fora; calls on the Commission to promote trading partners' awareness of this scope for mutual benefit;

12. Emphasises the need for energy efficiency policies and actions to be properly addressed by the Structural and Cohesion Funds and the Competitiveness and Innovation Framework Programme; welcomes the Energy Efficiency Action Plan's proposal to leverage private financing via these instruments;

13. Welcomes the role played by the EU Emissions Trading Scheme in providing incentives to reduce energy consumption; calls for this scheme to be extended to include the aviation sector; and calls for the Commission to play its part in building a global emissions trading scheme;

14. Recognises that sustained higher energy prices will put pressure on production processes which rely on raw materials from a variety of geographically far-flung locations; calls on the Commission to provide a full analysis of the implications of higher energy prices and peak oil for trade flows as part of its work on trade and competitiveness;

15. Stresses that the uncontrolled increase in energy prices is affecting the less affluent,

destabilising household incomes and undermining social cohesion, particularly in those countries with specific geographical, regional or climatological characteristics, such as mountain and island areas;

16. Stresses the importance of fostering a well-functioning world market in oil and gas, in particular through WTO rules and guidelines; considers that such an approach would make it possible to make an important contribution to energy efficiency and thus reduce upward pressure on energy prices;

17. Is concerned about the ongoing negotiations on the liberalisation of energy services in the framework of GATS which, in the name of greater energy security, attempt to reduce governments' right to regulate and to pursue priorities such as reducing reliance on imported energy and shifting to sustainable sources; is convinced that democratic control over energy policy has become a global imperative for addressing unparalleled threats to security, the economy, society and the environment; therefore calls on the Commission to refrain from making any requests and any offer to other countries to liberalise energy service sectors;

18. Stresses the necessity for more active involvement of the World Trade Organisation in energy matters and the need to work towards an agreement between the European Union and the members of the Organisation of Petroleum Exporting Countries with a view to keeping under control the increase in energy prices;

19. Insists that security of energy supply must become an integral part of the EU's common foreign and security policy; stresses the importance of cross-border cooperation in the field of energy and calls on the Commission to develop energy policy cooperation within the European neighbourhood policy;

20. Calls for the establishment of a genuine Euro-Mediterranean energy market to be accorded a central role; notes with interest the desire expressed by the Commission, on the occasion of the conference on external energy policy held on 20 and 21 November 2006, to ensure North Africa and the Middle East occupy an important position in its external energy policy, and hopes that these statements are followed up by concrete action;

21. Considers the European Union initiative for the creation of an international mechanism to prevent profiteering on the petroleum exchanges to be a useful measure;

22. Stresses the importance of including, in European Union agreements with energy-producing third countries, provisions concerning measures to control the excessive and unjustified increase in the price of energy raw materials.

PROCEDURE

Title	Macro-economic impact of the increase in the price of energy
Procedure number	2006/2247(INI)
Committee responsible	ECON
Opinion by Date announced in plenary	INTA 26.10.2006
Draftswoman Date appointed	Godelieve Quisthoudt-Rowohl 12.9.2006
Discussed in committee	22.11.2006
Date adopted	18.12.2006
Result of final vote	+: 15 –: 0 0: 8
Members present for the final vote	Kader Arif, Jean-Pierre Audy, Enrique Barón Crespo, Daniel Caspary, Françoise Castex, Christofer Fjellner, Alain Lipietz, Caroline Lucas, Erika Mann, Helmuth Markov, David Martin, Georgios Papastamkos, Tokia Saïfi, Robert Sturdy, Gianluca Susta, Johan Van Hecke, Zbigniew Zaleski
Substitute(s) present for the final vote	Panagiotis Beglitis, Harlem Désir, Elisa Ferreira, Małgorzata Handzlik, Jens Holm, Jörg Leichtfried

12.12.2006

OPINION OF THE COMMITTEE ON INDUSTRY, RESEARCH AND ENERGY(*)

for the Committee on Economic and Monetary Affairs

on the macro-economic impact of the increase in the price of energy
(2006/2247(INI))

Draftsman(*): Giles Chichester

(*) Enhanced cooperation between committees - Rule 47 of the Rules of Procedure

SUGGESTIONS

The Committee on Industry, Research and Energy calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Notes that oil prices increased by more than 370% between 2001 and 2006, not because of a shortage of oil, but because of increased uncertainty about expected supply risks due to high geo-political tensions, the possibility of terrorist attacks and natural disasters in oil producing regions, as well as growing demand from developing countries like China and India; notes further that daily world crude oil consumption has risen to approximately 85 million barrels in 2006, that the global spare production capacity is only approximately 1.5 million barrels per day, almost all of which is in Saudi Arabia, and that markets *have been* concerned that the spare production capacity *would be* insufficient and inadequate to cover potential supply disruptions and geopolitical risks;

2. Believes that these perceptions have also been reinforced by fears over future resource adequacy, with some analysts predicting an imminent physical resource constraint while others, mainly within the oil industry, present a reassuring picture of oil reserves; points out that perceptions over future scarcity affect long-term market prices;

3. Notes that it is becoming more and more difficult to find new oil sources and that each new barrel is more expensive in terms of exploration and production; further notes that huge investments in the oil sector are needed to enhance capacities for production and refining in order to cope with increased demand;

4. Notes that, due to the rapid rise in the demand for oil in third countries, particularly in non-OECD countries, there will be increased demand from third countries competing for the oil needed by EU Member States;

5. Stresses the importance of oil to the EU economy and considers the levels of dependence on oil and imported oil to be of great concern, particularly in view of the Member States' efforts to reduce dependency since the mid-1970s and the apparently unavoidable rise in consumption in the transport sector; notes further that transport is almost fully dependent on oil (98%) and uses 70% of the oil consumed in the EU and that its consumption will continue to increase in the future;

6. Notes that European sources of oil still exist; believes that maximising the exploitation of indigenous sources should be seen as an important (albeit temporary) means of countering the declining volume of oil imported into Europe;

7. Emphasises that structural high oil prices have an overall recessionary effect in EU Member States which are highly dependent on oil; recalls that this trend will trigger upward pressure on interest rates, which in turn will jeopardise the achievements of the Lisbon Strategy; therefore stresses that the negative macroeconomic impact of oil price increases makes it all the more urgent to switch to alternative energy sources and to develop energy-saving technologies and renewable sources of energy;

8. Considers that any measures taken by the EU to reduce its dependence on oil imports must address climate change; emphasises in this context that the Stern Review Report on the Economics of Climate Change reasserts that the EU's "energy package" will be a key element in combating climate change and further emphasises that massive economic advantages can be obtained by the EU if it takes the lead in combating climate change;

9. Emphasises that improving the EU's energy security and reducing its vulnerability to high oil prices and supply disruptions requires calls for particular attention to be paid to expanding and diversifying oil supplies, improving efficiency, increasing the share of renewable energy sources, especially in the transport and heating sectors, and researching and developing alternative fuels and technologies;

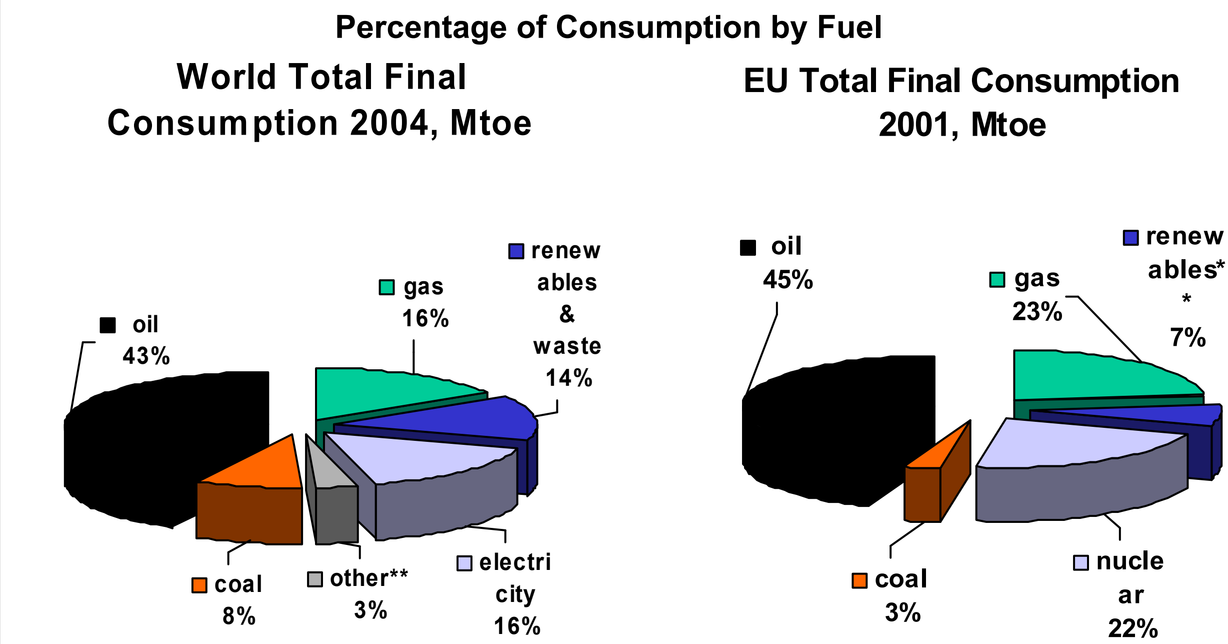
10. Calls for a comprehensive EU strategy to phase out fossil fuels in the transport sector, which would lead to a progressive reduction in EU dependency on oil and the progressive use of clean energies for transport;

11. Believes that transport fuel supplies could be expanded by facilitating the production of unconventional oil and liquid fuels based on natural gas or coal where this is economically reasonable; supports the development and production of alternative fuels, such as biofuels, hydrogen/fuel cell vehicles and hybrid vehicles; also supports efforts to find innovative solutions for the management of transport systems in general, including measures on vehicle energy efficiency;

12. Is concerned that the demand for oil is rising not only in the energy sector but also in other sectors, such as the petrochemical sector; believes that oil should not be used for power generation;

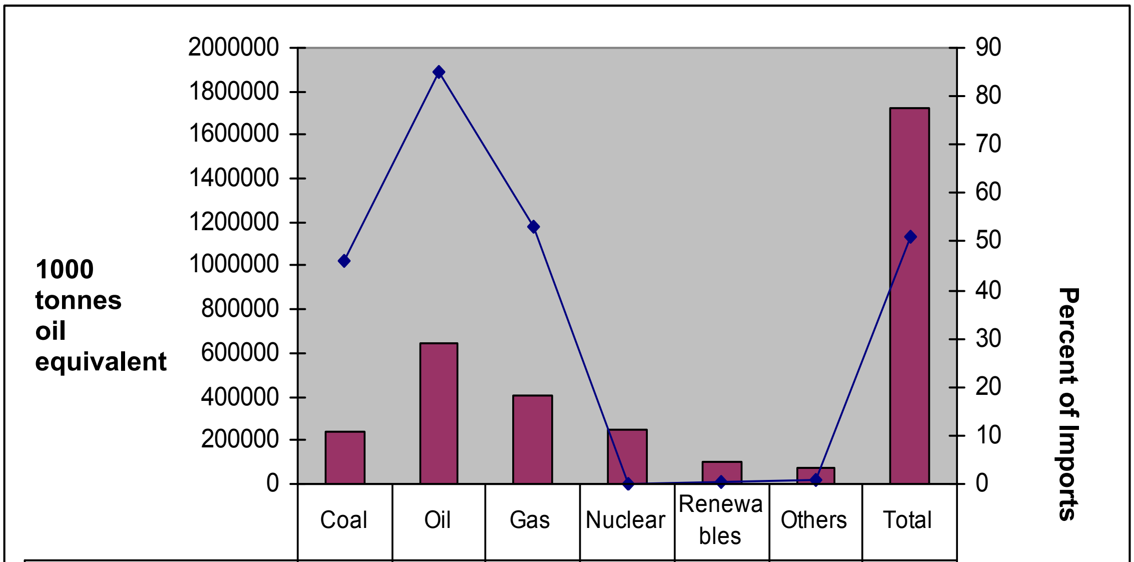
13. Suggests that the weekly publication (based on public-domain data, as in the USA) of European stocks of oil and oil products, and of imports and exports, all broken down by type of product (crude oil, petrol, diesel, heating oil and others), would give a better picture of the pressures on the world market, show up the level of European consumption, reduce the tendency of market operators to gravitate towards American stocks, and thereby help reduce the volatility of the oil price.

Background materials



Source: IEA, Key World Energy Statistics 2006 Edition/Eurostat

Import Dependency by Fuel Type



	Coal	Oil	Gas	Nuclear	Renewables	Others	Total
Gross Inland Consumption	240512	645791	408132	251163	101891	77091	1724580
Net Imports as % of consumption	46	85	53	0	0,29	0,8	51

Fuel type

Source: Eurostat 2003

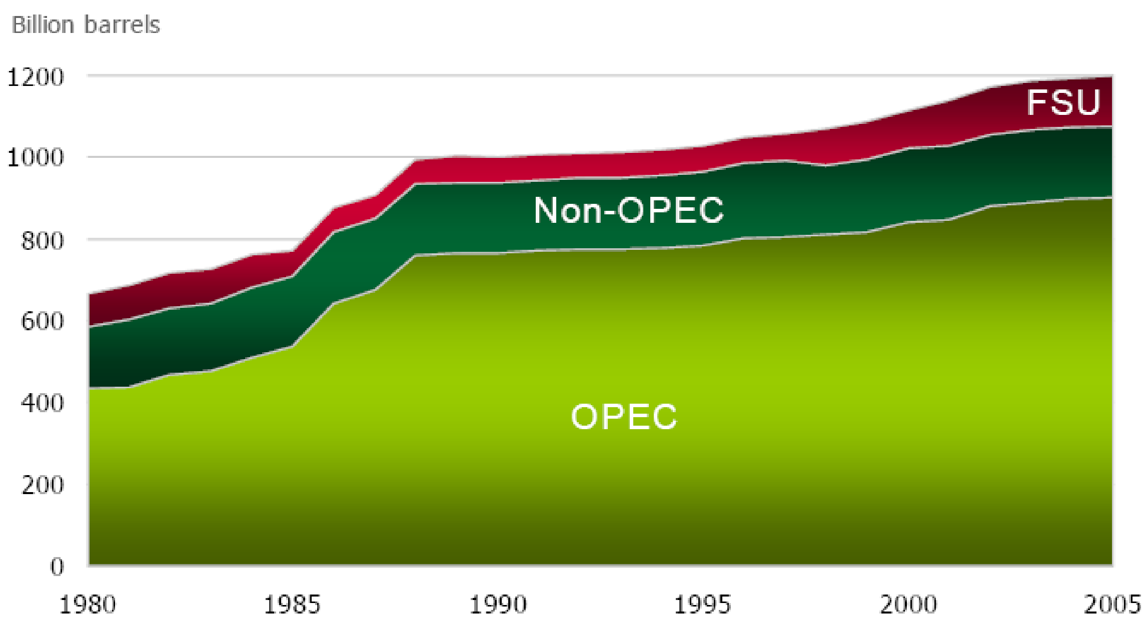
World Oil Producers and Importers

WORLD OIL PRODUCERS 2005		
	Mt	% world total
Saudi Arabia	519	13,20%
Russia	470	12,00%
United States	307	7,80%
Iran	205	5,20%
Mexico	188	4,80%
China	183	4,70%
Venezuela	162	4,10%
Canada	143	3,60%
Norway	139	3,50%
Nigeria	133	3,40%
Rest of World	1474	37,70%
World	**3923**	**100%**

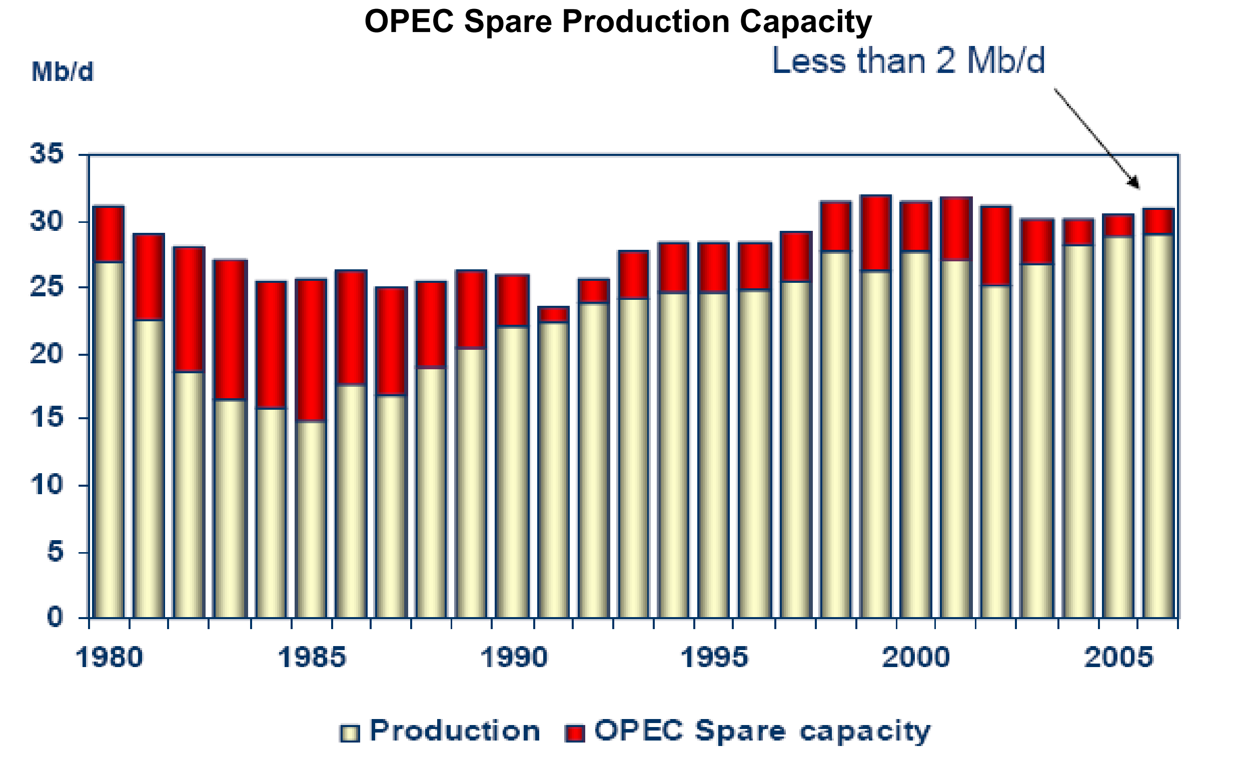
WORLD OIL IMPORTERS 2004		
	Mt	% world total
United States	577	25,8%
Japan	206	9,2%
China	123	5,5%
Korea	114	5,1%
Germany	110	4,9%
India	96	4,3%
Italy	93	4,2%
France	85	3,8%
UK	63	2,8%
Netherlands	60	2,7%
Rest of World	708	31,7%
World	**2235**	**100,0%**

Source: IEA, Key World Energy Statistics 2006 Edition

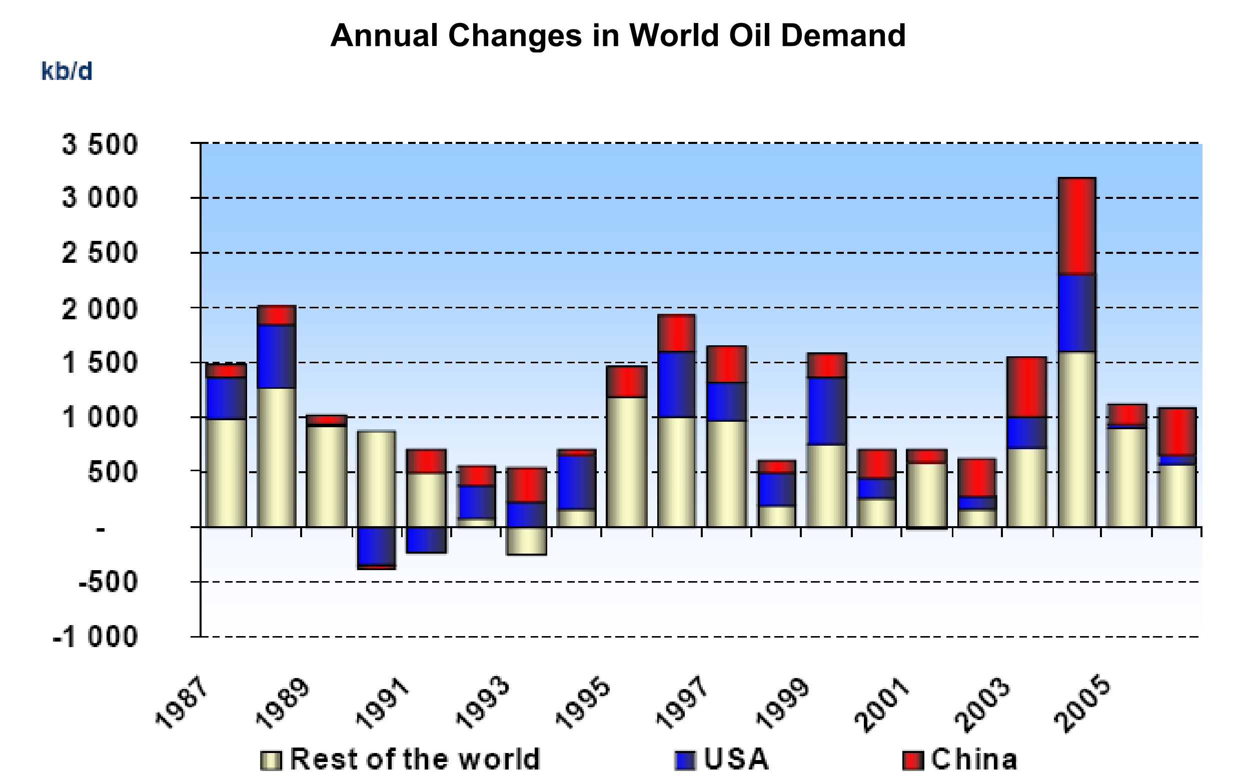
World Oil Reserves



Source: BP Statistical Review of World Energy June 2006 (© BP 2006)

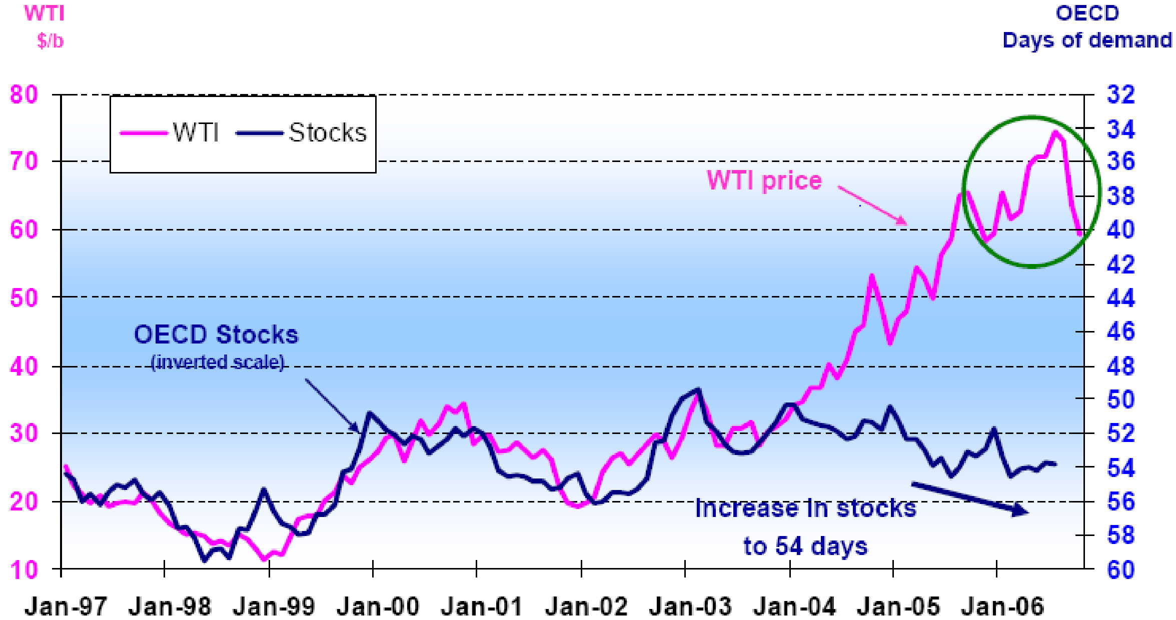


Source: IEA, Total estimate



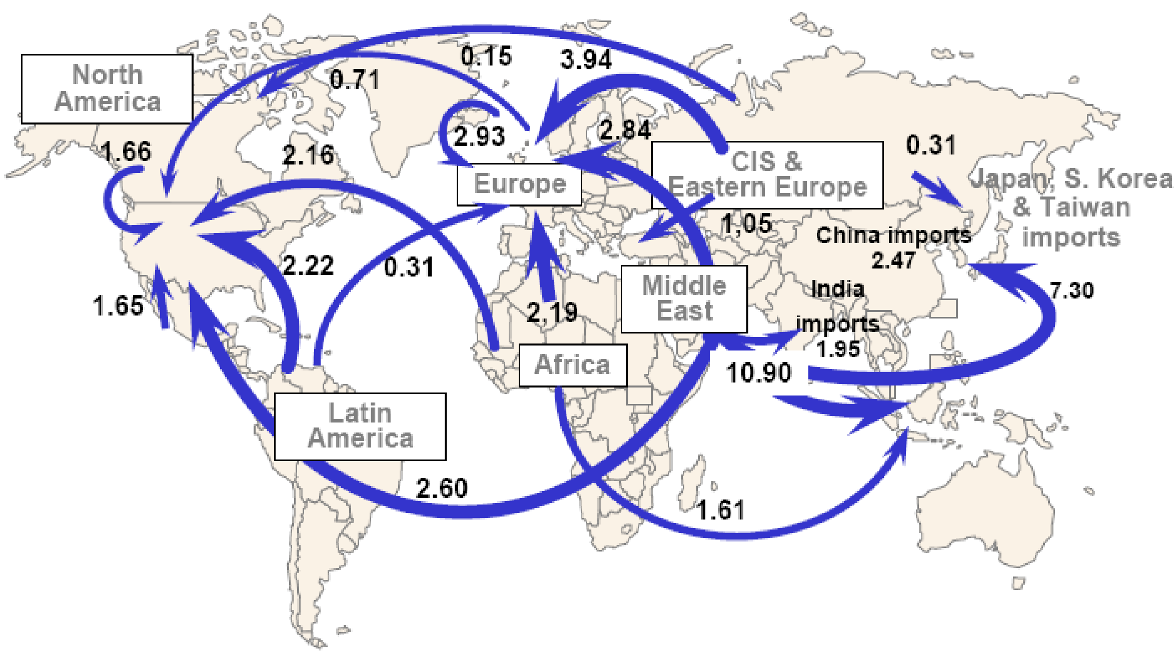
Source: IEA, September 2006

Oil prices are high not because of shortage, but because of a fear of shortage



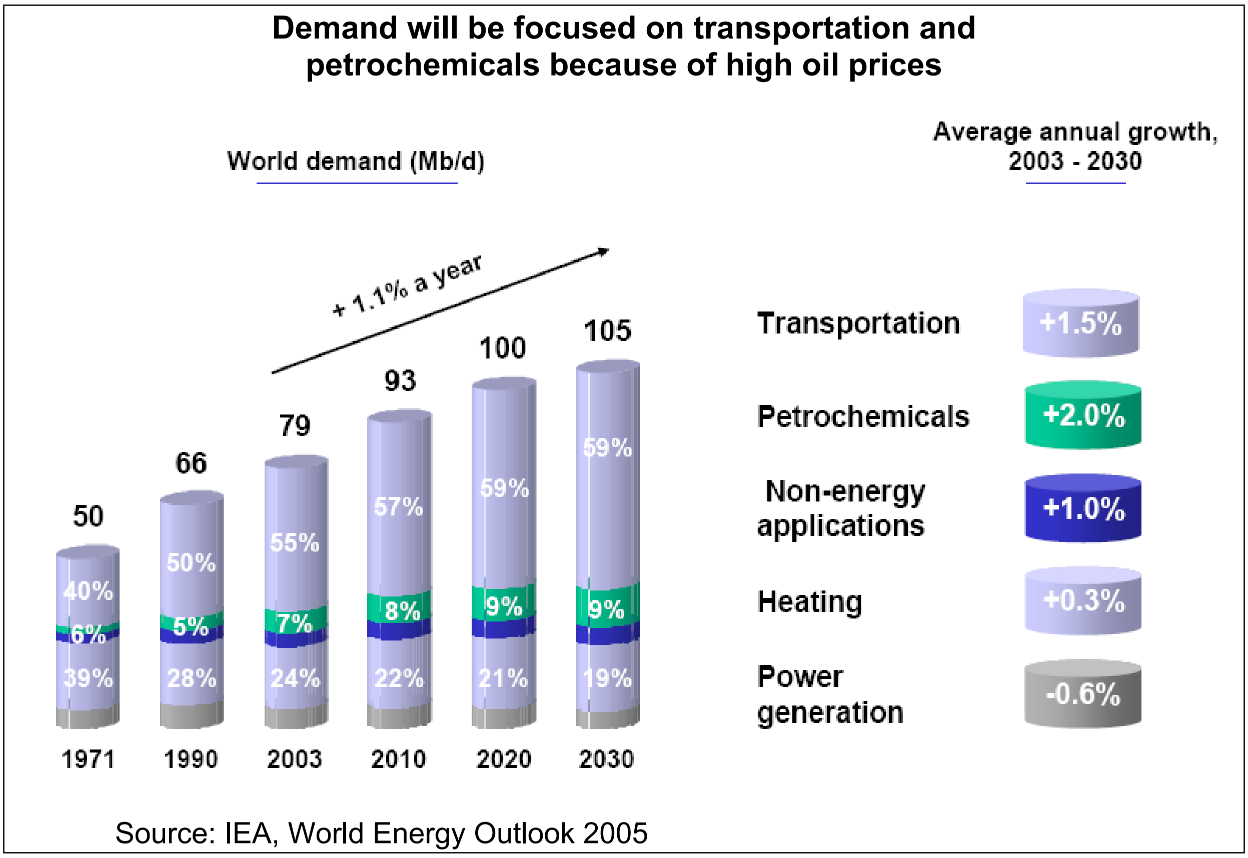
Source: IEA, September 2006

The Global Oil Market in 2005



Inter-regional crude oil flows: 35 Mb/d
(Mb/d: Millions of barrels per day)

Source: IEA, Total 2006


Demand will be focused on transportation and petrochemicals because of high oil prices
World demand (Mb/d)
Average annual growth, 2003 - 2030
+ 1.1% a year
50
66
79
93
100
105
40%
6%
39%
50%
5%
28%
55%
7%
24%
57%
8%
22%
59%
9%
21%
59%
9%
19%
1971
1990
2003
2010
2020
2030
Transportation
+1.5%
Petrochemicals
+2.0%
Non-energy applications
+1.0%
Heating
+0.3%
Power generation
-0.6%
Source: IEA, World Energy Outlook 2005

PROCEDURE

Title	Macro-economic impact of the increase in the price of energy
Procedure number	2006/2247(INI)
Committee responsible	ECON
Opinion by Date announced in plenary	ITRE 26.10.2006
Enhanced cooperation – date announced in plenary	26.10.2006
Drafts(wo)man Date appointed	Giles Chichester 12.9.2006
Previous drafts(wo)man	
Discussed in committee	20.3.2006 22.11.2006 11.12.2006
Date adopted	11.12.2006
Result of final vote	+: 21 –: 1 0: 0
Members present for the final vote	Jan Březina, Jorgo Chatzimarkakis, Giles Chichester, András Gyürk, Fiona Hall, Erna Hennicot-Schoepges, Ján Hudacký, Romana Jordan Cizelj, Pia Elda Locatelli, Angelika Niebler, Reino Paasilinna, Aldo Patriciello, Herbert Reul, Catherine Trautmann, Nikolaos Vakalis
Substitute(s) present for the final vote	Etelka Barsi-Pataky, Zdzisław Kazimierz Chmielewski, Vittorio Prodi, Lambert van Nistelrooij
Substitute(s) under Rule 178(2) present for the final vote	Sharon Bowles, Bill Newton Dunn, Sepp Kusstatscher
Comments (available in one language only)	

PROCEDURE

Title	Macro-economic impact of the increase in the price of energy
Procedure number	2006/2247(INI)
Committee responsible Date authorisation announced in plenary	ECON 26.10.2006
Committee(s) asked for opinion(s) Date announced in plenary	ITRE INTA 26.10.2006 26.10.2006
Not delivering opinion(s) Date of decision	
Enhanced cooperation Date announced in plenary	INTA 26.10.2006
Rapporteur(s) Date appointed	Manuel António dos Santos 15.11.2005
Previous rapporteur(s)	
Discussed in committee	23.1.2006 20.3.2006 28.11.2006
Date adopted	20.12.2006
Result of final vote	+ 34 - 0 0 1
Members present for the final vote	Zsolt László Becsey, Pervenche Berès, Sharon Bowles, Udo Bullmann, Elisa Ferreira, Jean-Paul Gauzès, Donata Gottardi, Sophia in 't Veld, Wolf Klinz, Andrea Losco, Astrid Lulling, Cristobal Montoro Romero, Joseph Muscat, John Purvis, Alexander Radwan, Bernhard Rapkay, Dariusz Rosati, Eoin Ryan, Antolín Sánchez Presedo, Manuel António dos Santos, Olle Schmidt, Margarita Starkevičiūtė, Sahra Wagenknecht, Lars Wohlin
Substitute(s) present for the final vote	Valdis Dombrovskis, Harald Ettl, Syed Kamall, Werner Langen, Klaus-Heiner Lehne, Alain Lipietz, Jules Maaten, Vladimír Maňka, Thomas Mann, Corien Wortmann-Kool
Substitute(s) under Rule 178(2) present for the final vote	Reinhard Rack
Date tabled	5.1.2007
Comments **(available in one language only)**	