European Parliament resolution on the macro-economic impact of the increase in the price of energy (2006/2247(INI)) (15.02.2007)

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 presidency 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 its resolution of 14 December 2006 on a European Strategy for sustainable, competitive and secure energy - Green Paper [(4)] ,

– having regard to the Commission's integrated energy and climate change package to cut emissions for the 21st century, published on 10 January 2007,

– 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 impact on 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,

B. whereas higher oil prices would undoubtedly drive up the prices of other fuels, exacerbating the adverse macro-economic impact of increasing oil prices,

C. 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,

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

E. whereas cheap oil prices have framed the world economy for more than 50 years, and whereas the prospect of long-standing high prices already contributes 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;

F. 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 the combating of climate change; 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 the fact 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, and that there are additional underlying circumstances and challenges;

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

3. Notes that it is becoming increasingly 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 compared to those that took place 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 United States, 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;

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 electricity 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 increasingly have to meet the challenge of lasting high and volatile oil prices and the economic impact connected to them, and that new resources are tending to be smaller and more expensive to develop and are increasingly offshore, and the costs of exploration, development and production will rise, 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, in that they reduce GDP growth, investment, and employment, and increase 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 oil price increases 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 increases, 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 impact 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 reflection about the feasibility of and opportunities for the denomination of oil and oil derivatives in the euro zone in euros rather than 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 the impact of the oil price increases differs 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 those two sectors (transport and housing) constitute the first call on household expenditure, and that the oil price rise increases 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 vehicles and 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 related to 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, in that it redistributes wealth to the oil-exporting countries and turns 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 petrol dollars 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 divergences as regards the powers of regulators, the absence of a European energy regulator to examine cross-border issues, the absence 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 dependence on energy imports will increase from 50 to 70 % by 2030, of which 94% will comprise oil imports, aggravating the negative impact of the oil price increases and volatility on Europe's economy;

25. Calls on the Commission, when assessing State aid, to take account 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 CO2 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 countries and those experiencing transformation are particularly negatively affected by oil price increases 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 United States and to highly skilled emerging economies; points out that CO2 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 increasing 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 that measures be adopted 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 Action Plan for Energy Efficiency as a key contribution to saving energy and hence reducing energy dependency;

34. Emphasises the need for energy efficiency policies and actions to be addressed properly in the Structural and Cohesion Funds and the Competitiveness and Innovation Framework Programme[(5)] ; welcomes the proposal in the Action Plan for Energy Efficiency 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; regrets, in this context, that the Commission did not propose increasing and sharing the emergency oil and gas stock within the framework of its integrated energy and climate change package of 10

January 2007;

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

38. Underlines the important role of the European Investment Bank (EIB) in promoting 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 investments in renewable energy 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 CO2 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 oil price increases; calls for a framework directive for energy efficiency in transport; stresses that a modal shift is an important means of diminishing oil usage; encourages the harmonisation of passenger car legislation, including an EU-wide harmonised CO2 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 CO2 emissions, the use of the latest technology biofuels 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 investment in exploitation and transport infrastructure and to secure long-term supply;

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 an 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 emission 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 EU and the members of the Organisation of Petroleum Exporting Countries with a

view to keeping the increase of energy prices under control;

50. Calls for the establishment of a genuine Euro-Mediterranean energy market to be given 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 that 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.

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(1) OJ C 98 E, 23.4.2004, p. 162.
(2) OJ C 292 E, 1.12.2006, p. 112.
(3) *Texts Adopted* , **P6_TA(2006)0243**.
(4) *Texts Adopted,* **P6_TA(2006)0603**.
(5) Decision No 1639/2006/EC of the European Parliament and of the Council of 24. October 2006 establishing a Competitiveness and Innovation Framework Programme (2007 to 2013) (OJ L 310, 9.11.2006, p. 15).