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Energy Commissioner

Declaration on high oil prices

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Speech at the European Parliament

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Mr President, Honourable Members of Parliament, chairman of the Council

The price of crude oil surpassed another all-time record last week with a peak at \$139/barrel. Over the last three years, prices in US\$ have more than tripled. With a 37% share in EU energy consumption coming from oil it is easy to understand the actual and potential impact on our economies and citizens. With a constant decrease in our own production since the late nineties, and a continuing increase in imports, our oil dependency is bound to remain high.

This has a direct effect on our citizens and businesses. Increased oil prices create inflation and that impact can be noticed already. The contribution of energy to the increase in the price index in the fourth quarter of 2007 averaged 0.8% in the euro area. This means direct, tangible impacts on households, and on several economic sectors, not least those who cannot pass on the price of energy to the final consumer.

The increase of prices of motor and heating fuels for households between April 2007 and April 2008 exceeded by far the overall growth of consumer prices. The prices of transport fuels rose on average by 12.7% as opposed to the inflation average of 3.6%. Our most vulnerable citizens are again amongst the most severely affected.

You may remember that back in September 2005, I was talking to you about rising oil prices and I presented a five-point plan. Since then we have been rolling out a whole series of new proposals to begin to reply to this challenge; on energy efficiency, CO2 and cars, fuel quality and renewable energy in particular. As a result of these policies, we can expect a gradual decrease in oil consumption in the EU over the coming years, and the beginning of the switch to cleaner more efficient, and often renewable transport.

Whilst more needs to be done, and certainly not to underestimate the problems resulting from high energy prices for our citizens, particularly the most vulnerable, as well as many businesses, this already provides a good basis on which to further develop the best possible policy response to this huge challenge.

Indeed, the fact that oil prices have continued to rise does not mean that our policies have failed. I am convinced that without our ambitious climate and energy goals the situation would be even more difficult. But it is clear from the latest trends that we need to further step up our efforts.

So let me now consider the long-term factors affecting the oil market. Put simply, we are leaving the era of cheap oil, and cheap energy in general. Global energy demand is growing and the International Energy Agency estimates that it could increase by more than 50% by 2030. In particular, emerging economies are consuming more and more energy.

On the other hand, it is far from clear whether there will be sufficient oil production to satisfy global demand – although experts say that geologically there are still enough resources underground for the next 40-50 years. As the IEA has stated, it is from certain whether the producing countries have the ability or willingness to step up production to meet seemingly inevitable and long-term continued increase in global oil energy demand.

So as I said, the era of cheap energy is over, and at a time when, in any event, we have an absolute obligation to future generations to move to clean, carbon free energy sources for heat, power and transport due to climate change. This is the challenge facing us.

This requires a long term view. But let me first address the short term steps to alleviating the impact on consumers:

The effects on the most vulnerable groups must be mitigated in the shorter term, where necessary through social measures. Support to the poorest households can be justified and needed, but needs to be targeted and should promote a transition to higher oil prices.

We should however be very cautious as regards changes in the oil taxation regime. Experience has shown that such measures, whilst in many ways attractive, in fact only make the longer term transition to dealing with high energy prices and saving carbon more difficult. It is far better to target help where it is most needed.

In terms of further developing the EU's long-term approach to meeting this challenge, our existing energy policies are viewed by many as a "world-leader". The Commission has always insisted that its recent climate and energy package had the combined objectives of sustainability, security of supply and competitiveness, a fact becoming clearer by the day. Let me recall in more detail the most important elements of these policies, already in place or under examination in this house:

- the draft directive guaranteeing 20% renewables in our final energy consumption by 2020 and the increased consumption of sustainable energy in the transport sector;
- the new rules to expand and strengthen the EU Emissions Trading System, ensuring that we meet our target of a 20% greenhouse gas reduction by 2020;
- the proposal for reducing CO2 in cars and the fuel quality Directive that will oblige oil suppliers to progressively reduce the CO2 in the products that they sell, and
- in my view, most importantly, the Energy Efficiency Action Plan, covering all economic sectors, at all levels, from the International Partnership for Energy Efficiency Cooperation, to the Covenant of Mayors at the local level, to specific measures like labelling of consumer goods or requirements for the energy efficiency of buildings. Practically all of these measures were already cost effective at 60\$ pr barrel of oil.

This represents a good start. But we need to do more. The Commission will therefore:

- continue the work at international level, notably constructive dialogue between the main oil producing and consuming countries, such as the Jeddah meeting convened next week-end by Saudi Arabia.
- scrutinize the functioning of the oil and petroleum markets in the European Union and make suggestions for possible further policy actions, for example with respect to transparency or oil stocks in the second Strategic Energy Review later this year;
- assist oil importing developing countries to mitigate short term impacts of high fuel and food prices and to bring about structural improvements in their energy efficiency performance and use of alternatives fuels; and
- lead efforts in an increased drive for Energy Efficiency. This will remain my highest priority for the remainder of this Commission. This means better legislation internally in the EU, but also to push for a more effective international energy efficiency partnership which was formally adopted last week at the G8 Energy Ministerial in Japan. The existing legislation on energy efficiency and the improvements that I will table over the coming months on buildings, labelling and minimum product standards are truly important, but have to be seen as only a start. The real challenge is the effective implementation of energy efficiency policies at national, regional and local level throughout the EU. The Commission can and must play a far greater role in assisting Member States in meeting this challenge.

Finally, I would like to briefly discuss the issue of biofuels. In the draft renewables Directive we translate the commitment of the European Council to ensure that 10% of EU transport is powered by renewable fuel by 2020 into practice. It should be noted that this 10% can be covered by biofuels, or electricity from renewable sources.

I am convinced that the EU can and must generate the biofuels that it uses in this respect in a sustainable and responsible manner, and not appreciably affecting

global food production levels. This can be done by using previous set-aside land in the EU, improving land yields in a sustainable way, investing in technology for second generation biofuels, and working together with developing countries to ensure that biofuels complement food production, not replace it. With such an approach, the development of alternative clean transport fuels must be part of the EU's response to the challenges of oil prices and climate change.

Conclusion

The European Union will need to continue its international efforts and its dialogue with its main partners. The G8 last week and the Jeddah Meeting on Oil Prices this week-end show that the issue tops the political agenda. We should use the credibility we are building and lead international action to exploit energy efficiency potentials and clean energy production around the globe, and to enable functioning, global commodity markets. However, action starts at home, and a renewed push for Renewable energy and Energy Efficiency is beneficial, not only for the climate, but now also for our economy.

There is an energy future for all of us. This future will most likely be organised around different patterns of production, consumption and behaviour. Like with climate change, action is needed now.