



Procedure file

| Basic information | | |
|--|--------------------------------|---------------------|
| INI - Own-initiative procedure | 2008/2212(INI) | Procedure completed |
| Facing oil challenges | | |
| Subject 3.60.02 Oil industry, motor fuels | | |

| Key players | | | |
|-------------------------------|---|---|------------|
| European Parliament | Committee responsible | Rapporteur | Appointed |
| | ITRE Industry, Research and Energy | | 25/09/2008 |
| | | PPE-DE REUL Herbert | |
| | Committee for opinion | Rapporteur for opinion | Appointed |
| | AFET Foreign Affairs | | 15/07/2008 |
| | | PSE PALECKIS Justas Vincas | |
| | REGI Regional Development | The committee decided not to give an opinion. | |
| European Parliament | IMCO Internal Market and Consumer Protection | | 07/07/2008 |
| | | PPE-DE BURKE Colm | |
| | ECON Economic and Monetary Affairs | | 24/09/2008 |
| Council of the European Union | Council configuration | Meeting | Date |
| | Economic and Financial Affairs ECOFIN | 2894 | 07/10/2008 |
| European Commission | Commission DG | Commissioner | |
| | Secretariat-General | BARROSO José Manuel | |

| Key events | | | |
|------------|--|---|---------|
| 12/06/2008 | Non-legislative basic document published | COM(2008)0384 | Summary |
| 23/09/2008 | Committee referral announced in Parliament | | |
| 07/10/2008 | Debate in Council | 2894 | |
| 21/01/2009 | Vote in committee | | Summary |
| 28/01/2009 | Committee report tabled for plenary | A6-0035/2009 | |
| 09/03/2009 | Debate in Parliament |  | |
| 11/03/2009 | Results of vote in Parliament |  | |
| 11/03/2009 | Decision by Parliament | T6-0118/2009 | Summary |
| 11/03/2009 | End of procedure in Parliament | | |

| Technical information |
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| Procedure reference | 2008/2212(INI) |
| Procedure type | INI - Own-initiative procedure |
| Procedure subtype | Initiative |
| Legal basis | Rules of Procedure EP 54-p4; Rules of Procedure EP 54 |
| Stage reached in procedure | Procedure completed |
| Committee dossier | ITRE/6/64698 |

Documentation gateway

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|---|------|-------------------------------|------------|----|---------|
| Non-legislative basic document | | COM(2008)0384 | 13/06/2008 | EC | Summary |
| Committee draft report | | PE416.294 | 25/11/2008 | EP | |
| Committee opinion | ECON | PE414.937 | 12/12/2008 | EP | |
| Committee opinion | IMCO | PE414.941 | 16/12/2008 | EP | |
| Amendments tabled in committee | | PE416.609 | 17/12/2008 | EP | |
| Committee opinion | AFET | PE414.203 | 20/01/2009 | EP | |
| Committee report tabled for plenary, single reading | | A6-0035/2009 | 28/01/2009 | EP | |
| Text adopted by Parliament, single reading | | T6-0118/2009 | 11/03/2009 | EP | Summary |
| Commission response to text adopted in plenary | | SP(2009)3060 | 04/06/2009 | EC | |

Facing oil challenges

PURPOSE: to face the challenge of higher oil prices.

BACKGROUND: in recent months, oil prices have experienced a sharp and abrupt increase, reaching their highest level, in real terms, since the end of the seventies. Consumer fuel prices have been increasing sharply in the EU following the crude oil price trend. The current surge in oil prices is largely the result of a major structural shift of oil supply and demand in the global economy: oil consumption in OECD countries is declining; demand growth in the rest of the world is led by emerging economies, in particular China and India; demand in many countries is underpinned by existing subsidies for fuels; oil production in the short term is unlikely to keep pace with sustained strong demand; the number and size of new oilfields is shrinking; the largest potential for further oil production expansion is concentrated in the Middle East and OPEC countries, where state-run companies dominate extraction and production; refinery bottlenecks and capacity constraints have also negatively influenced level of supply. The weakening of the dollar has also contributed to pressure on oil prices.

Estimates indicate that the current high oil prices will have long-term impacts, reducing growth and increasing inflation in the EU economy. Through higher input and transport costs, high fuel prices increase food prices. These high price levels are squeezing the purchasing power of all EU citizens, with the most severe impact on the lowest income families, and putting a strain on business. Energy intensive sectors, as well as transport and agriculture, and in particular fisheries, are most affected and face a difficult adjustment process. Globally, higher oil prices imply a sizeable income transfer from oil-consuming to oil-producing countries, and this from the EU to a small number of third countries.

CONTENT: according to the Commission, the response of the EU to recent increases in oil prices should be based on the assumption that prices are likely to remain high in the medium to long term. This implies the need for structural adjustment, which needs to be accelerated to produce its positive effects as soon as possible. At the same time, the short term effects on some vulnerable groups should be mitigated, helping them to adjust to the new market situation. Great care should be exercised over proposals to offset oil price increases by tax cuts. The most likely effect would be to transfer revenue from consumers to the oil supplying countries, aggravating global imbalances. This could be followed by further price increases and would distort the functioning of the single market, undermining EU efforts to improve energy efficiency.

The major policy response must be to make the EU more efficient in the use of energy, and less dependent on fossil fuels. Increased oil prices should spur the EU to implement its integrated energy and climate change policies. Despite near term difficulties being experienced by certain sectors of the EU population in meeting rising energy bills, solutions can only come from completing shifts in energy demand and encouraging energy efficiency throughout the economy. Short-term palliative measures that Member States may take should be well targeted and should not lead to distorting effects on the internal market.

Against this background, the Commission recommends to the European Council to:

- confirm its determination to adopt legally binding measures to give effect to its 2020 targets for renewables, biofuels and greenhouse gas reductions by the end of 2008, which are essential to improve substantially energy efficiency and the diversification to the EU energy supply;

- step up the drive for energy efficiency in business and in private households so that quicker and greater savings can be achieved in line with agreed objectives;
- note that the forthcoming strategic energy review on security of supply and external energy policy, will also report on the functioning of the oil and petroleum markets. In addition to a proposal to improve the transparency of emergency oil stocks the Commission will also report on the feasibility of requiring greater transparency on commercial oil stocks;
- note that the Commission is examining options for revising the energy taxation directive and will shortly propose to amend the Eurovignette Directive as part of the wider drive to support greater energy efficiency;
- note the Commission's intention to report on the possible use of tax incentives, including reduced VAT rates to encourage energy savings;
- support the organisation of a high level meeting on oil markets between main oil producing and consuming countries and strengthen existing regional and bilateral dialogues in order to achieve better market access and transparency;
- agree that Member States could provide targeted support when justified to vulnerable households;
- agree that Member States could make available targeted financial support for the most affected entities provided this aid is used to support industrial redeployment, retraining or restructuring measures.. Furthermore, any measures taken to alleviate the immediate impact of high oil prices must be proportionate and accelerate longer term adjustment to a low carbon economy;
- agree on the need to restructure the fisheries sector while taking care of the economic and social repercussions. The Commission will shortly make proposals for urgent measures to help ensure the survival of those segments of the European fleet that are most vulnerable;
- agree to assist net oil importing developing countries to mitigate the short term impact of high oil prices, to improve their energy efficiency and to develop alternatives to fossil fuels, as part of the EU's and Member States' overall development policy and assistance programmes.

Facing oil challenges

The Committee on Industry, Research and Energy adopted an own-initiative report by Herbert REUL (EPP-ED, DE) on possible solutions to the challenges in relation to oil supply.

MEPs stress that increasing attention will have to be paid at European level to the diversification of energy supply routes and sources, energy savings and energy efficiency, in order to guarantee the security of energy supply in the coming decades. Oil is a finite resource so it is becoming ever more urgent to develop a coherent and comprehensive Community energy policy in order to ensure security of supply at a time when the European Union is becoming increasingly dependent on imports.

Exploitation of existing resources: the report stresses that all measures that could reduce demand for fossil energy sources should be vigorously pursued and supported, in this regard, the Commission's proposal for the short-term measures to be taken if necessary to mitigate future oil price spikes. The Commission is called upon, in dialogue with the oil companies and producer countries, to seek ways in which steady investment can be secured despite fluctuating prices and profits.

The Member States are called upon to provide financial support for investments in alternative energy sources such as renewable energy, and to prioritise consumer awareness measures promoting the purchase of energy-efficient goods and services in order to minimise long-term expense as well as to mitigate a future decrease in oil supply.

The report urges a more dynamic relationship between the European Union and the oil-producing countries involving a willingness to give as well as take on both sides and aiming towards a more stable and smoothed supply and pricing environment for oil, which would be in the interests of all parties concerned and the world economy at large.

Market transparency and pricing: MEPs are concerned about the volatility of oil prices and its impact on economic and financial stability, and therefore urge the Commission and the Member States to ensure the highest practicable level of transparency in energy markets, and to work towards greater transparency within the framework of their dialogues with producer countries.

The report highlights the need to prioritise the monitoring of competition in the processing and sale of oil and petroleum products and to increase the transparency of data on commercial oil stocks.

According to MEPs, the function of strategic reserves is to respond to physical bottlenecks arising from supply shortages. For this reason and for reasons of sustainable budgetary policy, they reject all attempts to counter oil price volatility by using these reserves.

MEPs stress the importance of actively working to make new alternative energy accessible to small businesses in order to make them less dependent on oil price fluctuations. They also stress that an effective emissions trading system and the adoption of a wide range of other energy saving measures should be important tools for stimulating the development of a wide-ranging, cutting-edge market for energy-efficient technologies and products.

Investments in oil extraction and processing: the report notes that, according to the IEA, annual investments amounting to US\$ 350 billion are necessary in the oil industry by 2020 in order to guarantee security of supply. In this context, MEPs call on the Commission and the Member States to provide incentives for investment, in particular within the European Union. They highlight the role of long-term investment security in this connection but reject the notion of public money being substituted for private investments and capital.

Transport routes: stressing the crucial importance of good neighbourly relations among transit states and between them and their neighbouring countries, MEPs urge the Member States and the Commission to step up their efforts in this connection and to work towards stabilisation, in particular in producer countries threatened by political instability, within the framework of the common foreign, trade and security policy.

Moreover, MEPs call on the Member States and the Commission to consider including oil infrastructure in the Trans-European Energy Network (TEN-E). In this context, the new oil infrastructure projects, such as the Odessa-Gdansk and Constanta-Trieste pipelines, should continue to be high-priority projects of European interest.

Transport and buildings: MEPs draw attention to the potential for energy savings in the buildings sector, which could reduce demand for fossil energy sources such as oil and gas. However, they express doubts regarding the medium and long-term suitability of first-generation biofuels as a substitute for oil and call for increased efforts in researching synthetic fuels.

MEPs call for measures to shift transport and mobility towards more sustainable modes that consume little or no oil, such as rail, waterborne

transport and intermodal mobility chains in urban areas (walking, cycling, public transport, vehicle sharing).

Relations with countries with rising oil consumption: the report stresses the vital importance of a coherent strategy as regards the EU's main external suppliers. MEPs consider that increased account must be taken of energy-policy matters in the Union's common external relations with countries whose energy consumption is rising sharply, and that the European Union must work towards cutting state subsidies for oil products.

According to MEPs, the continued reliance on national solutions must give way to new and close forms of political and economic cooperation between the EU, the US, Russia and China, which must also be given institutional form in the medium term.

Facing oil challenges

The European Parliament adopted by 471 votes to 190, with 16 abstentions, a resolution on possible solutions to the challenges in relation to oil supply, in response to the Commission Communication entitled 'Facing the challenge of higher oil prices'.

The text adopted in plenary had been tabled by the EPP-ED and PES groups, in accordance with Rule 45(2) of the Parliament's Rules of Procedure, in the form of a proposal for a resolution to replace the proposal for a resolution tabled by the Committee on Industry, Research and Energy.

The resolution notes that many oil resources, some of them easily extractable, are at present not fully accessible in many countries of the world. Yet, according to calculations, worldwide demand for oil will be more than a third higher in 2030 than it was in 2006. The European Union's dependence on oil imports will rise to 95% by 2030, whilst, at the same time, conventional oil reserves will be increasingly concentrated in the countries in the strategic ellipse, and growing competition in demand could create uncertainties in supply.

(1) Exploitation of existing resources: the resolution stresses that all measures that could reduce demand for fossil energy sources should be vigorously pursued and supported, in this context, the Commission's proposal for short-term measures to be taken if necessary to mitigate future oil price spikes. The Parliament also calls for intensification of efforts to make unconventional oil resources commercially viable, and in this way to contribute to diversification, provided that environmentally friendly extraction processes are developed and then used.

Member States are called upon to provide financial support for investments in alternative energy sources such as renewable energy, and to prioritise consumer awareness measures promoting the purchase of energy-efficient goods and services. MEPs consider that the use of oil and other carbon-intensive energy sources should be reduced, both through increased energy efficiency and by a shift to more carbon-neutral solutions, such as nuclear energy and energy derived from renewable sources.

The resolution calls for a more dynamic relationship between the European Union and the oil-producing countries aiming towards a more stable and steady supply and pricing environment for oil, which would be in the interests of all parties concerned and the world economy at large.

(2) Market transparency and pricing: the Parliament considers it vital to improve market transparency in order to stabilise oil prices. The Commission is called upon to submit corresponding proposals to Parliament and the Council.

The resolution stresses the need to prioritise the monitoring of competition in the processing and sale of oil and petroleum products and to increase the transparency of data on commercial oil stocks.

MEPs emphasise that differing technical specifications for oil products in the main importing countries lead to market fragmentation that may play a key part in pushing up prices in the event of supply shortages. The Commission is called upon to submit proposals outlining ways in which such constraints on market access can be removed.

According to the Parliament, the function of strategic reserves is to respond to physical bottlenecks arising from supply shortages. For this reason, it rejects all attempts to counter oil price volatility by using these reserves.

The resolution stresses the importance of actively working to make new alternative energy accessible to small businesses in order to make them less dependent on oil price fluctuations. Lastly, it stresses that an effective emissions trading system and the adoption of a wide range of other energy saving measures should be important tools for stimulating the development of a wide-ranging, cutting-edge market for energy-efficient technologies and products.

(3) Investments in oil extraction and processing: the resolution notes that, according to the IEA, annual investments amounting to USD 350 billion are necessary in the oil industry by 2020 in order to guarantee security of supply. In this context, MEPs call on the Commission and the Member States to provide incentives for investment in their corresponding policies, also and in particular within the European Union. They highlight the role of long-term investment security in this connection but reject the notion of public money being substituted for private investments and capital.

(4) Transport routes: stressing the crucial importance of good neighbourly relations among transit states and between them and their neighbouring countries, MEPs call on the Member States and the Commission to work towards stabilisation, in particular in producer countries threatened by political instability, within the framework of the common foreign, trade and security policy.

Moreover, MEPs call on the Member States and the Commission to consider including oil infrastructure in the trans-European energy networks (TEN-E). In this regard, new oil infrastructure projects such as the Odessa-Gdansk and Constanța-Trieste pipelines should continue to be high-priority projects of European interest.

Lastly, the Parliament is concerned at the growing piracy that threatens international shipping and at the threat to transport routes and strategic infrastructure posed by terrorism. It calls on the Commission and the Member States to step up the dialogue with key players.

(5) Transport and buildings: MEPs point to the potential for energy savings in the buildings sector, which could reduce demand for fossil energy sources such as oil and gas. However, they express doubts regarding the medium-and-long-term suitability of first-generation biofuels as a substitute for oil and call for increased efforts in researching synthetic fuels.

MEPs call for additional measures to shift transport and mobility towards more sustainable modes that consume little or no oil, such as rail, waterborne transport and intermodal mobility chains in urban areas (walking, cycling, public transport, vehicle sharing, etc.).

(6) Relations with countries with rising oil consumption: the Parliament considers that increased account must be taken of energy policy matters in the European Union's common external relations with countries whose energy consumption is rising sharply, and that the European Union must work towards cutting state subsidies for oil products. The Commission is called upon to include in its common foreign, trade and neighbourhood policy measures that can contribute towards progress being made worldwide in removing the link between economic growth and oil consumption.

According to MEPs, a continued reliance on national solutions must give way to new and close forms of political and economic cooperation between the European Union, the United States, Russia and China, which must also be given institutional form in the medium term.