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## Energy Market under Stress

An Interview about national and international energy problems with Dr Hans-Joachim Burchard, of BP Benzin und Petroleum AG, Hamburg.

*Dr Burchard, attention has been focused in recent years on the danger of an energy gap opening up. What is your view of this problem?*

I believe that there are two questions to be distinguished: one is the physical availability of energy, the other concerns the technical-economic and political conditions under which this physically available energy can be drawn upon. The reserves of energy in the world are without any doubt so large that there can be no cause for panic. That holds good for all energy and fuel sources, for coal as well as for oil and natural gas. Moreover, there are new sources of energy being developed, such as various stages of nuclear power and nuclear fusion energy. So, as far as the availability of energy is concerned, no gaps are to be foreseen.

Whether the energy on hand can be made available on economically acceptable terms is another question. I should make

a distinction here between the three stages of production, processing and utilisation of energy. As regards the production of energy one must realise that in the case of oil, for instance, we must advance ever deeper into areas where producing costs are getting higher and more money must therefore be invested. There are also political factors at work which have economic repercussions. The mounting dues payable to oil producing countries add to the cost of the oil, with the effect that exploitation of certain deposits not worth using in the past has now become a commercial possibility: I am thinking here of the North Sea and Alaska. And it will not be so very long before we start drawing on tarsands and shale oil.

### Processing and Use

*What is the outlook for energy transformation and utilisation?*

The transformation of energy also poses a financial problem

because investments are needed in the refinery sector for processing crude oil into petroleum products and converting process energy into electricity, and the cost of such investments is—to no small degree due to inflationary tendencies—rising all the time. There arises a second problem because environmental requirements do not only constitute a cost factor but cause difficulties with permits and give rise to démarches by the public.

Obstacles mainly connected with environmental control are also encountered on an increasing scale in regard to the use of energy. When the environmental demands on the sources of energy to be used go beyond practical limits, the resulting cost increases can become virtually unacceptable. The utilisation of physically available energy is thus essentially a question of earning adequate returns. That is why we have moved from the supply surplus which we have had for a long

time into a situation of covert relative scarcity. This will persist in future, but does not indicate the existence of a gap or a crisis.

*The mineral oil supply problem has been played up especially in the United States. People are aware that, on the one hand, the production potential for mineral oils is not unlimited and, on the other, consumption has risen to an extraordinary extent. Do these problems also apply to Europe?*

### Problems in the USA

I must say first that the present difficulties in the USA are not only the outcome of faster growth of energy consumption but, in the main, of a mistaken energy policy. President Nixon identified the errors of energy policy, and more particularly of price policy, quite clearly: the price of natural gas was held down artificially, which was especially problematic because natural gas covers as much as one third of US energy requirements. Nobody was willing to invest money in the natural gas business, with the result that when a number of natural gas sources were exhausted, a supply shortage appeared all of a sudden and could not be made good at short notice. Besides, a number of coal pits were closed for environmental and safety reasons, which made it impossible to raise production as originally planned. In consequence the Americans had to draw on oil to cover the emerging energy gap, and this is why the USA which used to rely largely on domestic deposits of oil even though it was not wholly self-sufficient, is now more active in the world market and naturally especially in the regions which are crucial for supplying Western Europe and Japan — i.e. the Near East and North Africa.

*Must we expect more severe competition for the Near East and North African oil between the USA and Europe?*

That will depend on how quickly the Americans manage to correct the mistakes in their energy policy. The present situation is that the Americans are and remain buyers of oil products because the problem of the crude oil and processing capacity limits cannot be solved so quickly: Rotterdam, Europe's big store from which the Federal Republic of Germany for instance draws large tonnages of crude, is practically empty. The Americans are buying all the oil they can lay hands on. However, it will probably not take too long to cope with this short-term aspect.

A second, somewhat longer-term aspect relates to the supply of crude oil. The fact has to be faced, I believe, that the Americans will be in the world market for large tonnages of crude for a longer period, simply because they can draw here on available sources of energy, e.g. in Saudi Arabia, where outputs only need stepping up. Elsewhere new sources would have to be tapped first. The situation will of course ease when it becomes relatively more advantageous from the cost angle to uncover new deposits. Incidentally, one must not regard the position as solely one of competition between the USA and Europe: Japan must always be taken into account as a major energy importer.

### Oil Policy of the OPEC Countries

*Attempts by the OPEC countries to embark on a policy of tightening supplies with the object of keeping prices high have of late been in evidence. Must we not conclude from this and other developments that with rising energy consumption min-*

*eral oil supplies will become ever tighter and dearer?*

I believe that we have to make a distinction between two aims of the OPEC — which after all is an organisation comprising countries with quite dissimilar interests. One is that the OPEC members have joined together in order to secure bigger revenues for themselves. This is certainly legitimate from their point of view: given the dependence of a number of OPEC countries on one particular commodity one can understand that these countries try to take advantage of the market situation and to secure higher revenues. That this policy has the effect of driving up prices is beyond doubt.

A second aim, following from the first one, is the desire of some countries for "participation", at first at a rate of 25 p.c., and an option to raise this share by 1983 to 51 p.c. Certain other countries have chosen a somewhat different way: Iran, for instance, has concluded a long-term supply agreement which provides that deliveries are to increase year after year; and Libya is attempting a half-baked experiment with expropriation but wants to continue deliveries.

I see no danger of the wish for greater participation leading to shortages: there are certainly no grounds for speaking generally of output curtailment by the OPEC countries. Some OPEC countries are bound to be interested in raising their production for the simple reason that they need the revenue from increasing outputs for their development plans: I may mention Iran as a prototype. Other countries have such large oil reserves that in the short run they were able to boost their output tremendously — e.g. Saudi Arabia in consequence of the US demand. There are also countries which are well aware of

the limitations of their crude oil reserves: the question for them—e.g. Kuwait and also Libya—is whether their aim should in all circumstances be to increase their output, though this involves a correspondingly earlier exhaustion of their reserves, or to spread production over a longer period.

Bearing in mind that petroleum is currently being produced in 60 different countries and that large additional oil reserves exist outside the OPEC—e.g. in Alaska, under the North Sea and in South America (Peru, Ecuador)—I cannot envisage a supply problem arising. On the contrary, the Federal Republic of Germany has over recent years attained greater flexibility of supplies: we are receiving supplies from 20 countries, and considering that Libya, for instance, two years ago accounted for over 40 p.c. of all German crude but last year for 27 p.c. only and is supplying less than 20 p.c. in the current year without anybody noticing it, I must say that it should be perfectly possible to cope with partial curtailment of oil production in Libya or Kuwait.

#### **Impact of Government Energy Policy**

*The government's energy policy—e.g. the raising of the Mineral Oil Tax in the Federal Republic—also has an impact on the price trend. How do you assess these measures, especially in the context of the world-wide developments in the energy sector?*

Oil products are subject to exceedingly high fiscal charges. In the case of a company like BP in Germany the share of taxes amounts to about a third of total turnover. The recent tax increase has several aspects which make me take a sceptical view of it. For one thing, the Mineral Oil Tax is a tax on con-

sumption and fully reflected by the prices. I do not know whether it is very sensible to raise the Mineral Oil Tax right now and thus lift the final-product prices further. Past experience has been that oil product demand is rather inelastic to price changes.

There is another reason why I am against putting up the Mineral Oil Tax: when representatives of the industrial nations appeal to the oil producing countries in their negotiations with the OPEC to exercise restraint because the cost of energy is of importance for the industrialised economies, the reply is: "your governments are taking much more than we do." I wonder whether it is a good idea to raise the Mineral Oil Tax just when the triangular relations between oil producing states, petroleum companies and consuming countries are being put on an entirely new basis.

#### **Energy Concept of the Federal Government**

*The German Federal Ministry of Economics is at present working on a comprehensive energy concept. What are in your view the basic conditions which this concept must satisfy?*

First of all, unlike the previous energy policy which focused on the points where difficulties arose, the energy concept must be an overall concept for all energy carriers. That is quite a crucial condition, I think. And the individual energy carriers, their potentialities and expectations must be balanced. Secondly, such a concept should contain certain guidelines about the share of total energy consumption to be covered by the various energy carriers. Such orientation data are wanted for coal in particular, but I believe that the other energy carriers need them as well for their investment policy. I am not plead-

ing for state planning but merely for an appraisal of the relative weight of the individual energy carriers.

Thirdly, the energy market should remain a liberal market. That was the point at issue in the controversy on energy policy in the European Community's Council of Ministers in Brussels at the end of May. The concept presented there envisaged a very far-reaching regulation of the market: the Federal Government fortunately did not agree to it. In my experience it is precisely in times of supply impediments and covert bottlenecks that a liberal market can cope better with energy difficulties than a dirigist one. There has been enough evidence in the past to prove this point. It does not mean that a government should not reserve the possibility of taking dirigist measures in an emergency. In principle, however, I advocate a liberal market.

Furthermore, the energy policy must be such as to enable the enterprises to earn a return sufficient to finance necessary investments. In the past 18 months the earnings position has not been of a kind to encourage investment activity. Responsible for this, however, was not the energy policy but the competitive situation in combination with three rather mild winters.

#### **What about the environmental problem?**

To go by my experience, the need for assured energy supplies at the right time must be balanced against the—certainly justified—demand for protection of the environment. When regulations for the protection of the environment begin to delay the extension of refineries and power stations which may cause gaps in supplies, a choice must be made between the priorities of energy policy and protection of the environment.

*What need is there for a common European Community approach?*

**Common EC Energy Approach**

The Europe of the Nine will as soon as possible have to make up its mind on an energy concept. There are two groups of problems to be solved, centering respectively on the supply problem and the market order. The Commission and France have tended to seek some order in the internal market before starting on negotiations with the other consuming regions or the supply regions. The Federal Government and some other members were right, I think, to arrange their priorities in the opposite order. Whether there is an absolute need for a market order is a moot point, especially after the experience gained with the agricultural market.

The supply problems, on the other hand, are particularly pressing. Care must be taken to avoid a competitive race between the three big consuming regions. To this end it would be desirable for the EC to get together with the USA and Japan with a view to better coordination of their procedures. The EC should also strive to im-

prove its relations with the oil producing countries. Furthermore, the European states should harmonise their approach to future negotiations. Finally, it would be opportune to deal with certain questions bearing on the safeguarding of immediate supplies such as whether exploration could be promoted jointly in areas which have been ignored hitherto because they involved higher costs.

**International Oil Agreement**

*Can you conceive of cooperation between consuming and producing countries in the framework of an international oil agreement on the lines of other commodity agreements making for long-term market stabilisation?*

I do not think that an international commodity agreement is a practical proposition for oil. An international oil agreement would probably be too ambitious a project because too many parties with too disparate interests would be involved on either side. You need only look at the 60 countries in which oil is produced: their interests are so different — they could hardly be more different! And the ideas of the three consuming regions — leaving the eastern bloc aside — are also too far apart.

*Could the supply position in Germany be eased by long-term deliveries of oil and natural gas by the USSR as the Soviet party chief Brezhnev suggested during his visit to Bonn?*

I do not believe that natural gas deliveries from the USSR will be of revolutionary importance. They are certainly a positive factor, but they will not make such a change to the low share which natural gas is contributing to energy supplies in the Federal Republic and Europe as to allow one to speak of a major factor. And for oil I see even less of an opportunity because the requirements in the USSR are also on the upgrade and the producing areas in Siberia are rather remote: the costs of production and transport would probably be very high.

*What is your view of the long-term chances of using nuclear energy to cope with an energy shortage?*

I think that it would be impossible to meet all the world's energy requirements later this century if we could not draw on nuclear energy. On the other hand, great efforts will still be needed to generate and distribute this source of energy cheaply and without hazard.

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